

Report on Loans and Financial Services Industry in India

For Aye Finance

November 2025

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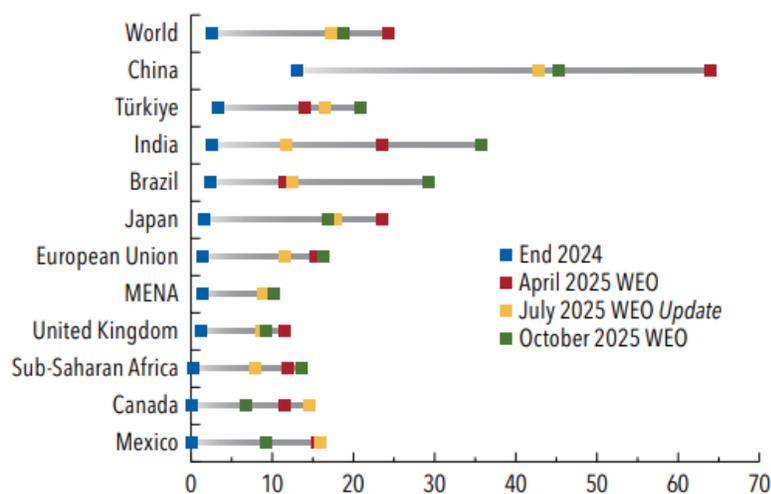
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1. Macroeconomic Scenario in India

1.1 Global economy is witnessing tightening of monetary conditions

As per the International Monetary Fund (IMF) (World Economic Outlook – October 2025), The global economy has demonstrated a remarkable ability to absorb shocks, as evidenced by its response to the significant trade policy changes implemented by the United States in April 2025, which imposed substantial tariffs on most of its trading partners. Despite the initial uncertainty and concerns about the potential impact on global growth, the effects have been relatively contained, thanks to the agility and adaptability of the private sector, which rapidly adjusted its supply chains and trade flows to mitigate the damage. The front-loading of imports in the first half of the year – as well as the swift reorganization of supply chains to redirect trade flows – has helped to minimize the disruption, while the negotiation of trade deals between various countries and the US has also contributed to the relatively modest decline in global growth prospects. Furthermore, the restraint shown by the rest of the world in keeping the trading system open has been crucial in preventing a more severe downturn, and as a result, global growth is now expected to reach 3.2% CY25 and 3.1% CY26, a relatively modest revision from previous projections. Overall, the global economy's ability to navigate this challenging period has been impressive, and while there are still risks and uncertainties ahead, the current outlook suggests that the worst-case scenarios have been avoided.

US Effective Tariff rates country wise



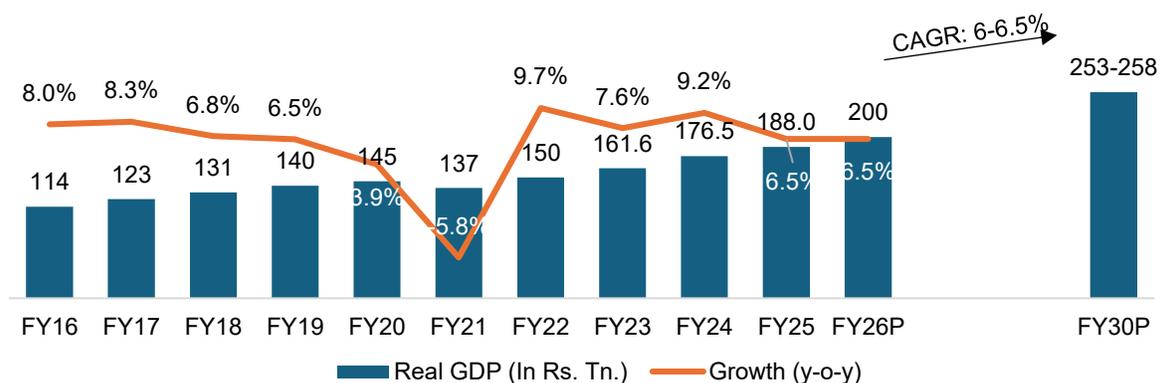
Source: IMF (World Economic Outlook – Oct 2025), Crisil Intelligence

The global economy is experiencing a slowdown, with the United States showing signs of weakening labour market and plunging net international migration flows, which could result in 1.0-1.6 million fewer immigrants than in 2024. China's GDP growth slowed to 4.2% in the second quarter, while the euro area's growth slowed to 0.5%, with declines in Germany, Italy, and Ireland. Japan's economy grew at an annualized rate of 2.2% in the second quarter, driven by solid capital spending and strong exports, but new export orders fell in July. In emerging markets, Brazil's economy showed strength in the first half of 2025, thanks to record agricultural output, but signs of moderation are appearing, while India's economy showed robust service sector expansion and Türkiye's economy showed resilient domestic demand. Mexico's economy is also facing challenges, with the US tariffs imposed in April affecting its exports and investment, and the country's GDP growth is expected to slow down in the coming quarters. Overall, the global economy is facing a fragile outlook, with external conditions becoming more challenging and domestic momentum slowing in some cases, and countries such as China, Japan, and emerging markets like Brazil, India, and Mexico are all experiencing a slowdown in their economic growth.

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

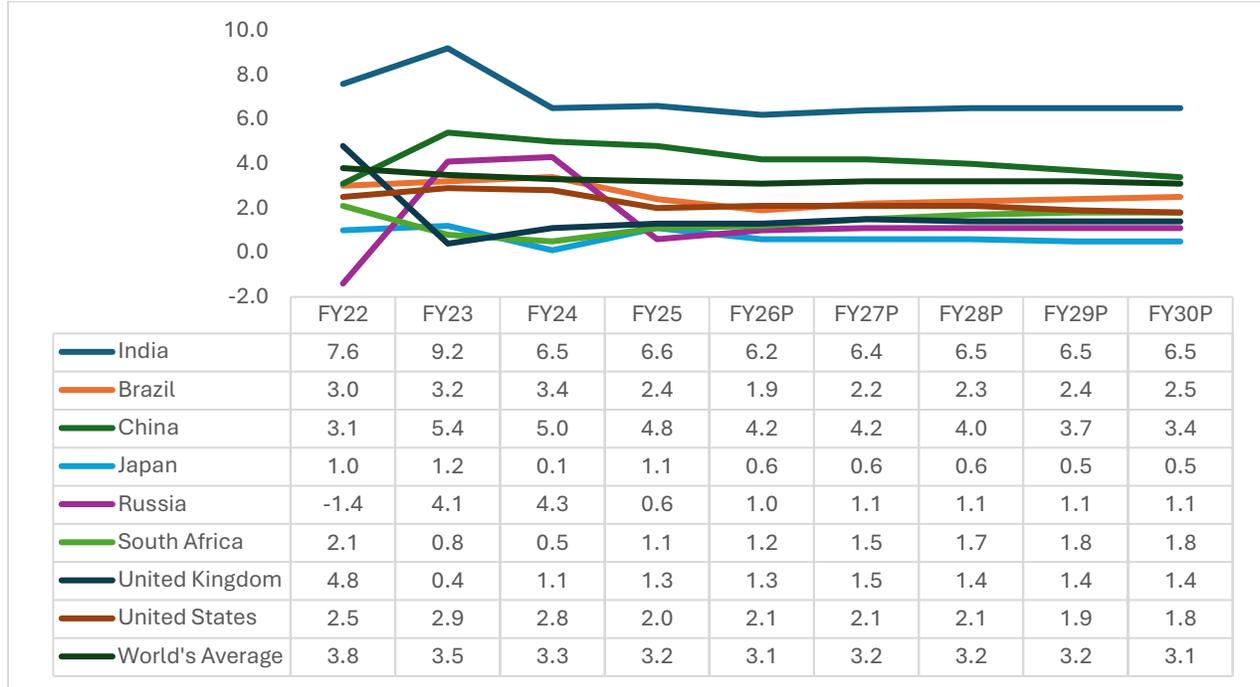
As per World Economic outlook October 2025, India's economic growth is expected to remain robust with a projected rate of 6.6% in 2025 and 6.2% in 2026. Notably, the forecast for 2025 has been revised upward compared to the July World Economic Outlook (WEO) Update, driven by the strong momentum from the first quarter which has more than offset the negative impact of the increased US tariffs on Indian imports. However, the growth projection for 2026 has been revised downward. Compared to the pre-tariff forecast, India's cumulative growth is expected to decline by 0.2% points indicating a modest impact from the trade tensions on the country's economic outlook. Overall, India's economy is expected to continue growing at a healthy pace, albeit with some moderation in the coming year.

India's economy expected to grow at 6.5% in Fiscal 2026



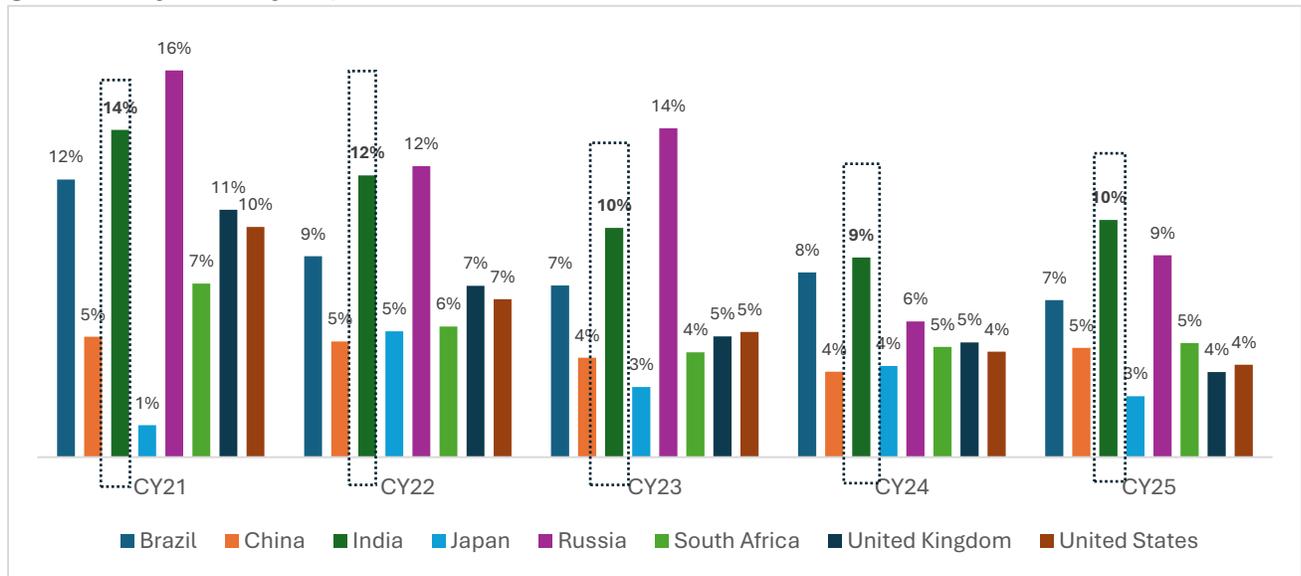
Note: E = Provisional Estimate, P = Projected; GDP growth till fiscal 2024 is actuals. GDP Estimates for fiscals 2024- 2025 is based on NSO Estimates and 2025-2026 is projected based on Crisil Intelligence estimates and that for fiscals 2026-2030 based on IMF estimates; Source: NSO, Crisil Intelligence, IMF (World Economic Outlook – October 2025 update)

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



Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Data represented is for calendar years, Figures for CY 2024 & 2025 as per WEO -Oct 2025, P: Projected; Source: IMF (World Economic Outlook – Oct 2025), Crisil Intelligence

India’s nominal GDP position is strengthening compared to other major economies (GDP growth, % year-on-year)



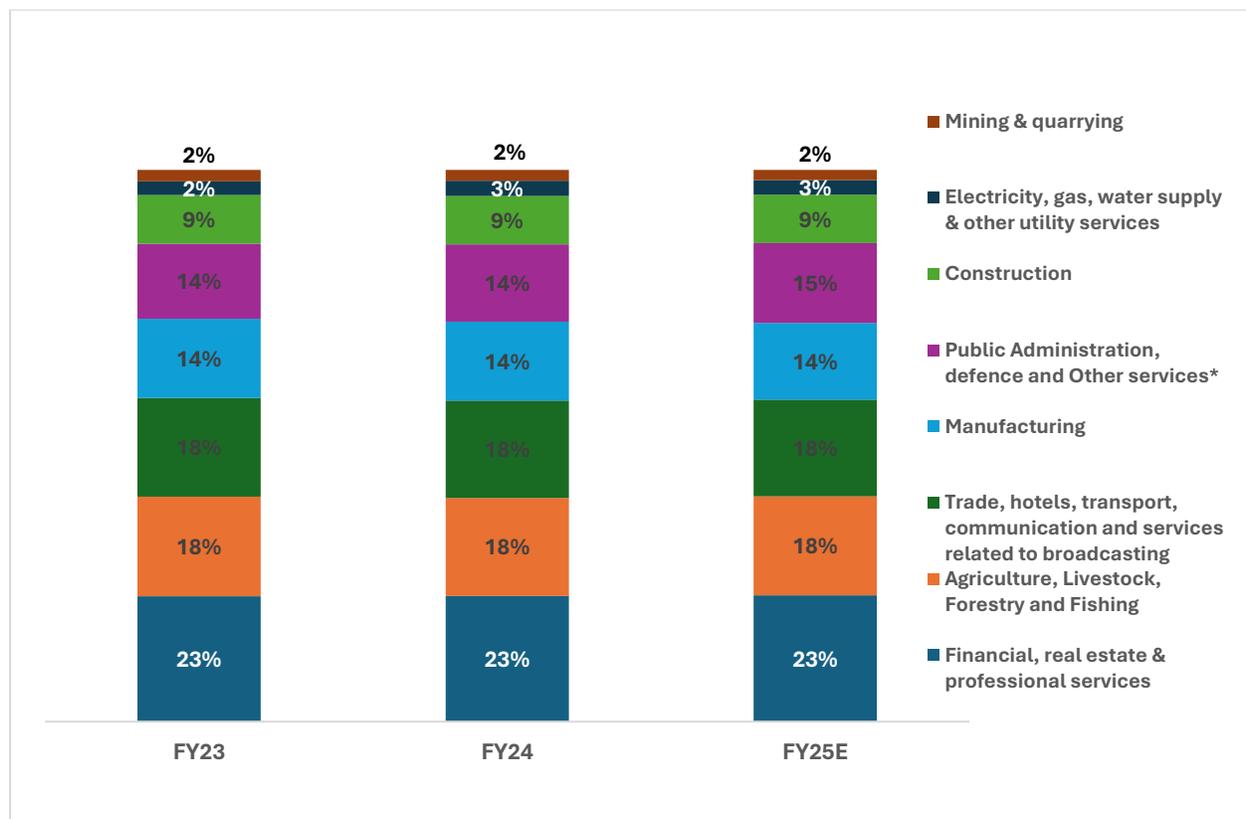
Note: All forecasts refer to IMF forecasts. GDP growth is based on current prices in national currency for each country. * Estimated GDP growth for CY25, IMF (World Economic Outlook – October 2025), Crisil Intelligence

India's nominal GDP has been growing at a rapid pace, with an average annual growth rate of around 10% over the past decade. This is one of the fastest growth rates among major economies followed by Russia and Brazil with an annual growth rate of 9% and 7% respectively. India's large and young population, of its citizens below the age of 35, provides a significant demographic dividend. This demographic advantage is expected to support India's economic growth in the coming decades. India has a rapidly growing digital economy, with a large and growing base of internet users, mobile phone penetration, and digital payments. This has created new opportunities for economic growth and job creation.

1.3 Contribution of different sectors to India's growth

Trend in Gross Value Added (GVA) at current prices by economic activity denotes that financial, real estate and professional services have consistently contributed the highest to the GVA and contributed an estimated 23% in fiscal 2025E. Total GVA at current prices witnessed a CAGR of 10% from FY23 to FY25E

Gross Value Added by Economic Activity



Note: *- Public Administration, Defence & Other Services category includes other services sector i.e. Education, Health, Recreation, and other personal services; Fiscal 2023 and Fiscal 2024 figs are First Revised Estimates and Fiscal 2025 figs. are Provisional Estimates as per NSO. Source: MOSPI, Crisil Intelligence

Indian Economy to be a major part of the world trade

India's rising competitiveness on the global stage is underscored by its consistent exports to the USA – which demonstrates its ability to deliver high-value products to a dynamic market, thereby showcasing its

preparedness to navigate the challenges posed by additional tariffs imposed by the USA on Indian imports. Notably, while exports to the USA decreased from July 2025 to August 2025, India's exports to other countries increased during the same period, highlighting the country's strategic diversification efforts. By upgrading product quality, aligning with global standards, strengthening supply chains, and tapping new markets, India is not only boosting its exports but also expanding its global footprint. This is evident in its growing trade relationships with key countries, including Germany, where merchandise exports grew by 11.73% in April-August 2025, driven by engineering goods, electrical and electronic equipment and pharmaceuticals. Similarly, India's trade with Korea has also witnessed significant growth, with merchandise exports rising by 9.69% in April-August 2025, driven by engineering goods, petroleum products, and chemicals, and supported by the India-Korea Comprehensive Economic Partnership Agreement (CEPA), which has facilitated reduced tariffs and improved market access for Indian businesses, thereby reinforcing India's position as a trusted trading partner in East Asia.

Repo Rate

RBI Maintains Status Quo on Repo Rate at 5.5%

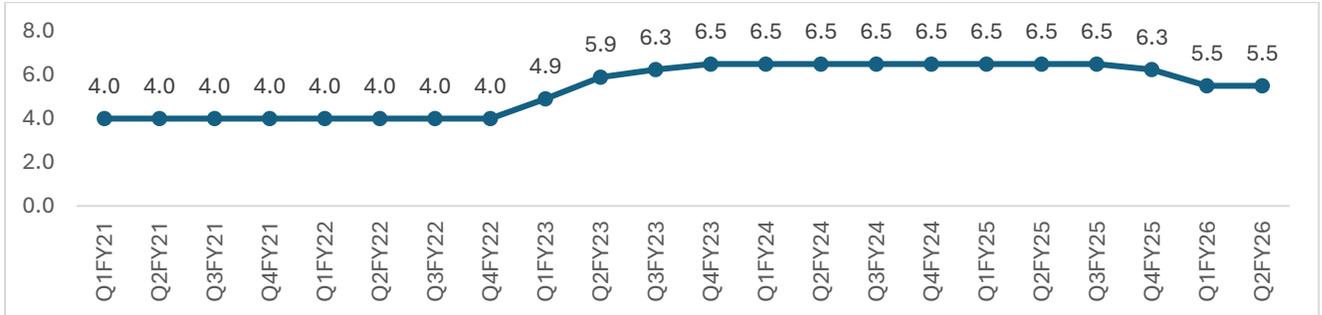
The Reserve Bank of India (RBI) initiated a monetary policy easing cycle in 2025, characterized by a series of calibrated rate cuts aimed at bolstering economic growth. The first rate cut of 25 basis points was implemented in February 2025, reducing the repo rate to 6.25%. This was followed by a subsequent 25 basis point reduction in April 2025, which was accompanied by a shift in the monetary policy stance from 'neutral' to 'accommodative'. The RBI further intensified its easing efforts in June 2025, implementing a 50-basis point rate cut that marked a significant escalation of its accommodative monetary policy posture.

The Reserve Bank of India's Monetary Policy Committee has decided to keep the repo rate unchanged at 5.5%, in the October 2025 MPC meet, with the policy stance maintained as 'neutral'. This decision is in line with market expectations as the risk of inflation remains lower due to a healthy monsoon and GST cuts while the growth outlook remains bright. By keeping the repo rate unchanged, the RBI is aiming to support domestic growth while keeping a watchful eye on inflation.

The impact of the unchanged repo rate is expected to be positive for the economy as it will allow banks to maintain their current lending rates which will in turn support borrowing and spending. The unchanged repo rate will also help to maintain the current growth momentum which is expected to be around 7-8 % for the current fiscal year. Additionally, the neutral policy stance indicates that the RBI is not looking to tighten monetary policy which will help to maintain liquidity in the system and support economic growth. The US tariffs remain a risk and could impact external demand. Still, the RBI believes the implementation of structural reforms, including streamlining of GST, may offset some of the adverse effects of the external headwinds. The standing deposit facility (SDF) rate remains at 5.25%, while the marginal standing facility

(MSF) rate and the bank rate remain at 5.75% which will also help to maintain stability in the financial system.

Repo rate in India (%)



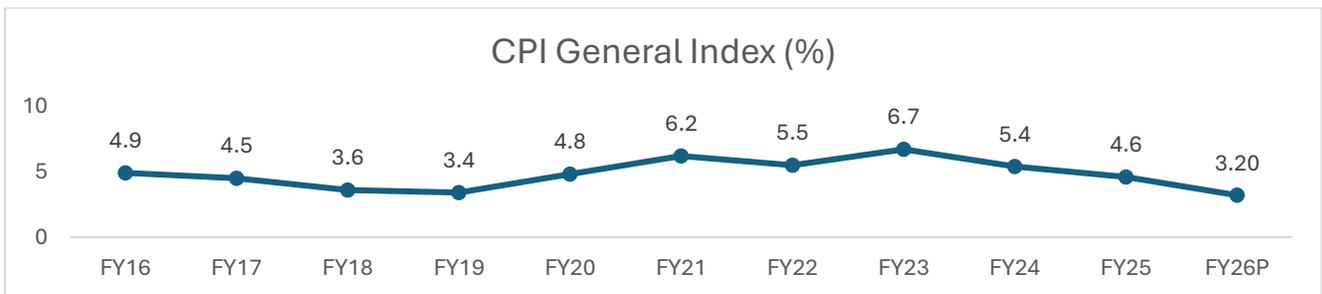
Source: RBI, Crisil Intelligence

CPI inflation is currently at 4.6 % for FY25, expected to be at 3.2% for FY26

Consumer price index (CPI) inflation softened sharply to 4.6% in fiscal 2025 supported by easing food inflation, which makes up around half of the Indian consumer price basket.

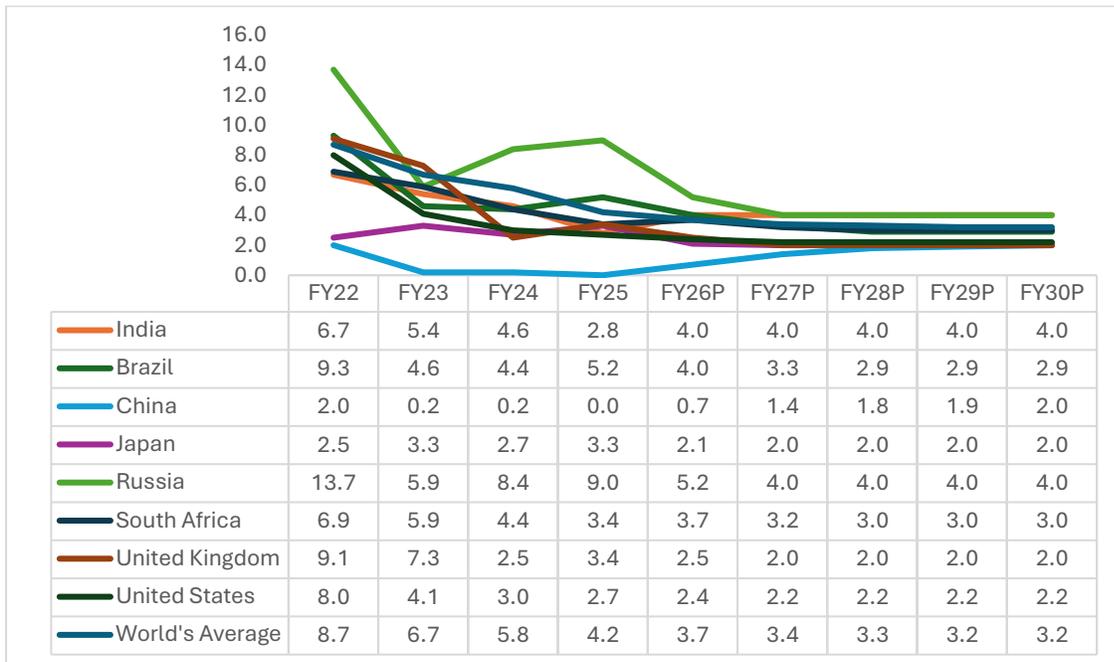
In the first half of fiscal 2026, CPI inflation further softened, averaging 2.2%. Lower food and fuel inflation drove the decline in inflation. Crisil expects inflation to reach 3.2% in fiscal 2026 compared with 4.6% in fiscal 2025. A modest uptick is expected in the second half given a low base effect on food inflation. While the overall monsoon looks similar to last year (above-normal at 8% above long period average), there was greater incidence of excess rains in major kharif crop-producing states. This could affect incoming kharif arrivals from October. The low inflation environment will provide space for monetary easing. Crisil expect the RBI to cut rates by another 25-bps in fiscal 2026.

Inflation to moderate to 4.6% in Fiscal 2025



Note: P = Projected, Source: Crisil Intelligence

India's inflation vs world's inflation



Note: All forecasts refer to IMF forecasts. Inflation rate is based on Average consumer prices (Annual percentage change), P: Projected; Source: IMF (World Economic Outlook – Oct 2025), Crisil Intelligence

For FY 2025, India's inflation rate of 2.8% is significantly lower than most of its major emerging market and developing economy peers, primarily due to a substantial decline in food prices and proactive monetary policies. In comparison, other countries have higher inflation rates, such as Brazil at 5.2%, Japan at 3.3%, and United States at 2.7%, driven by factors like political instability and currency depreciation. India's declining food prices, which turned negative for four consecutive months, and the RBI's proactive monetary policy have helped contain price pressures, allowing for a more flexible monetary policy to support economic growth. In contrast, other emerging markets face challenges like higher inflation, tariff pressures, and divergent trends, while China's pricing environment remains weak with risks of potential deflation. Overall, India's economic fundamentals, policy actions, and easing food prices have resulted in a stable and favorable inflation environment.

1.4 Macroeconomic outlook for FY26

Macroeconomic outlook for India (Fiscal 2026)

Macro variables	FY25	FY26P	Rationale for outlook
Real GDP (y-o-y)	6.5%#	6.5%	Lower inflation and RBI's rate cuts are expected to boost growth in Fiscal 2026, assuming a normal monsoon and lower crude oil prices. Any substantial pick up in investment growth will hinge on accelerating private capex. Exports face headwinds from tariff hikes initiated by the US.

Consumer Price Index (CPI) inflation (y-o-y)	4.6%	4.3%	In fiscal 2026, food inflation is expected to ease further supported by a healthy rabi crop, assuming normal southwest monsoon that benefits the kharif crop and expectations of soft global food prices. A high base for food inflation this fiscal will also provide some relief. Non-food inflation could see some more hardening lifted by a low base this fiscal and some impact of a weaker rupee. A sharper-than-expected weakening in the rupee, price shock to global oil prices due to any geopolitical turmoil and risks from climate change could impose upside pressures on the forecast.
10-year Government security yield (Fiscal end)	6.7%	6.3%	Crisil expects yields to ease mildly next fiscal, supported by rate cuts, softer inflation and lower crude oil prices. Crisil expects the RBI to cut interest rates further in fiscal 2026 given softening inflationary pressures. However, risks from currency depreciation and any unforeseen flare-up in food prices could impact the timing of rate cuts
Fiscal Deficit (% of GDP) *	4.8%	4.4%	Fiscal consolidation will be made possible via moderating revenue expenditure thrust even as capex focus is broadly maintained. The budget banks on revenue collection to remain robust.
CAD (Current Account Deficit as % of GDP)	-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)	86.6	87.5	A manageable CAD would not mean much pressure on the rupee but geopolitical shocks could keep the rupee volatile

*P – Projected, # As per NSO estimates *FY25 and FY26 numbers are government's revised and budget estimates; Source: Reserve Bank of India (RBI), National Statistics Office (NSO), Crisil Intelligence*

Positive government measures to aid economic growth for India

- India's capital expenditure (CAPEX) reached Rs.10.52 trillion in 2024-25, with a high quality of expenditure ratio of over 0.27. The Union government's CAPEX grew 8.2% in July-November 2024, while Real Private Final Consumption Expenditure (PFCE) rose 7.0% and Government Final Consumption Expenditure (GFCE) increased 9.7% in Q1 of FY 2025-26.
- A comprehensive revival package worth Rs. 697bn has been introduced to boost the shipbuilding industry, comprising the Shipbuilding Financial Assistance Scheme, Maritime Development Fund and Shipbuilding Development Scheme while also providing support to MSMEs through enhanced credit guarantee covers and increased limits for Kisan Credit Card holders. Additionally, a 'Rural Prosperity and Resilience' program is being launched to promote skill development and technology adoption, and an 'Urban Challenge Fund' of Rs. 1tn has been created to drive urban development. The government is also enhancing economic assistance to other countries through the revamped Indian Development and Economic Assistance Scheme and is focusing on boosting the manufacturing sector through the "Make in India" initiative.
- Furthermore, the fiscal policy for FY2025-26 includes a capital expenditure of Rs. 11.21tn a fiscal deficit of 4.4% of GDP and next-generation GST reforms to reduce taxes on essentials and ease compliance for MSMEs with initiatives also in place to create employment opportunities particularly for the youth and support innovation and the development of new technologies.

- For banks, RBI eased rules for lending to large corporates, by withdrawing a 2016 framework that restricted bank lending to large corporates. It proposed to provide a framework to enable banks to finance acquisitions by Indian corporates. It also eased regulatory norms for lending against listed debt securities and equity shares. For NBFCs. It reduced risk weights towards infrastructure projects.

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

In 2025, India is undergoing significant structural reforms, adopting a "next-generation" approach to drive economic growth and development. A key pillar of these reforms is the rationalization and simplification of the Goods and Services Tax (GST) to reduce taxes on essential items and ease compliance for Micro, Small, and Medium Enterprises (MSMEs). This move is expected to have a positive impact on the overall economy, as MSMEs are the backbone of India's industrial sector, providing employment to millions of people. By simplifying the GST, the government aims to increase tax compliance, reduce tax evasion, and generate more revenue. Additionally, the reforms also focus on boosting domestic production in critical sectors like defense and semiconductors to reduce import dependence, and a continued emphasis on infrastructure and financial inclusion. This comprehensive approach is expected to have a multiplier effect on the economy, leading to increased economic growth, job creation, and improved living standards.

Goods and Services Tax Reforms:

- A major overhaul of the GST is underway with the goal of simplifying the tax structure and lowering taxes on essential goods. The reform aims to provide targeted relief to MSMEs which are critical to India's economic growth. By reducing taxes on essential items the government hopes to increase consumer spending, which will have a positive impact on the overall economy.
- The GST reform also aims to create a more transparent and citizen-friendly tax system, making it easier for businesses to comply with tax laws and reducing the complexity of the tax system. This, in turn, will lead to increased tax compliance, reduced tax evasion, and a significant increase in government revenue.
- Furthermore, the simplified GST structure will also attract foreign investment, as a stable and predictable tax environment is essential for businesses to operate effectively. The government's efforts to simplify the GST are a step in the right direction, and it is expected that these reforms will have a significant impact on the economy in the coming years.

Strategic Sector Self-Reliance

- Reforms aimed at strengthening domestic capabilities in critical sectors are underway, with a focus on reducing import dependence and building resilience against global supply chain disruptions.

Specific focus areas include defense, critical minerals, semiconductors, fertilizers, and pharmaceuticals. By promoting domestic production in these sectors, the government aims to reduce India's reliance on imports, which will have a positive impact on the country's trade deficit.

- Additionally, the development of domestic industries in these sectors will also lead to the creation of new job opportunities, increased economic growth, and improved living standards. The government's efforts to promote strategic self-reliance are also expected to have a positive impact on national security, as a strong and self-reliant defense industry is essential for a country's security.
- Moreover, the development of domestic industries in critical sectors will also lead to the creation of new opportunities for innovation and entrepreneurship, which will drive economic growth and development in the long run.

Infrastructure and Connectivity

- Continued heavy investment in infrastructure is being made to improve economic productivity and facilitate faster growth in rural areas. The government's focus on infrastructure development is expected to have a significant impact on the economy as a well-developed infrastructure is essential for economic growth and development. The development of roads, railways, ports, and airports will lead to increased connectivity, which will facilitate the movement of goods and people, leading to increased economic activity.
- Additionally, the government's efforts to promote India's digital payment platforms like UPI and RuPay, making them more accessible internationally, will also have a positive impact on the economy. The increased use of digital payment platforms will lead to increased financial inclusion, reduced transaction costs, and improved economic efficiency.
- Furthermore, the development of digital infrastructure will also lead to the creation of new opportunities for innovation and entrepreneurship, which will drive economic growth and development in the long run.

Financial Inclusion and Formalization

- The government is continuing efforts to deepen financial inclusion through initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY). The PMJDY has been highly successful in promoting financial inclusion, with millions of people opening bank accounts and accessing formal financial services. The government's efforts to promote financial inclusion are expected to have a significant impact on the economy, as financial inclusion is essential for economic growth and development.
- The increased access to formal financial services will lead to increased savings, investment, and economic activity, which will have a positive impact on the overall economy. Additionally, the Insolvency and Bankruptcy Code (IBC) is also a key structural reform that is improving the ease of doing business and encouraging economic formalization. The IBC has been highly effective in

resolving insolvency cases, which has led to increased investor confidence and a significant reduction in non-performing assets.

- The government's efforts to promote financial inclusion and formalization are expected to have a long-term impact on the economy, leading to increased economic growth, job creation, and improved living standards.

Task Force for Future Reforms

- The government has established a task force to address the need for more comprehensive structural fixes in the future. This signals an acknowledgement that, while current reforms are focused on "nuts-and-bolts" measures to enhance efficiency, more ambitious reforms may be necessary down the line.
- The task force is expected to identify areas that require reform and provide recommendations for future reforms. The establishment of the task force is a positive step, as it indicates that the government is committed to ongoing reform and is willing to take a long-term view. The task force's recommendations are expected to have a significant impact on the economy, as they will provide a roadmap for future reforms. Additionally, the task force's work will also provide an opportunity for stakeholders to provide input and feedback, which will ensure that the reforms are inclusive and effective.
- The government's efforts to establish a task force for future reforms are a step in the right direction, and it is expected that the task force's work will have a significant impact on the economy in the coming years.

1.6 Government Measures

Stand up India: The Stand-Up India scheme has been a significant initiative to promote entrepreneurship and financial inclusion among SC, ST and women entrepreneurs. As of August 2025, the scheme has sanctioned a total loan amount of approximately Rs. 628bn to 0.27mn beneficiaries with the objective of providing financial support to set up new businesses. The scheme, which was launched in April 2016, offers bank loans ranging from Rs.1mn to Rs.10mn to eligible entrepreneurs and has been extended until 2025 to continue supporting inclusive growth and empowering entrepreneurs from underrepresented groups.

Pradhan Mantri Awas Yojana (PMAY): The Pradhan Mantri Awas Yojana (PMAY) aims to achieve "Housing for All" by 2025 with targets of 49.5mn houses in rural areas by 2029 and completion of sanctioned houses in urban areas by December 31, 2025. Eligible families receive financial assistance including Rs. 0.15mn in urban areas and up to Rs.12mn in rural areas as well as low-interest loans and additional benefits like toilet construction assistance and LPG connections to support the construction and upgradation of houses.

Pradhan Mantri Ujjwala Yojana (PMUY): The Pradhan Mantri Ujjwala Yojana (PMUY) provides clean cooking fuel to poor households by offering deposit-free LPG connections, with over 103.3mn connections active as of July 2025 and an additional 2.5mn planned for FY 2025-26. Beneficiaries receive a targeted subsidy of Rs. 300 per 14.2 kg cylinder, with a maximum of nine refills per year, as well as a free first refill and stove, aiming to replace smoky cooking stoves with clean LPG and improve health, save time, and empower women.

Pradhan Mantri Kisan Samman Nidhi (PM-KISAN): The PM-KISAN scheme continues to provide eligible landholding farmer families with an annual benefit of Rs. 6,000, paid in three installments of Rs. 2,000, with the 20th installment released on August 2, 2025, disbursing Rs. 205bn to 97mn farmers, bringing the total amount transferred to farmers' accounts since the scheme's launch in 2019 to over Rs. 3.69tn, with the funds being transferred directly to beneficiaries' bank accounts via direct benefit transfer (DBT) in a scheduled manner.

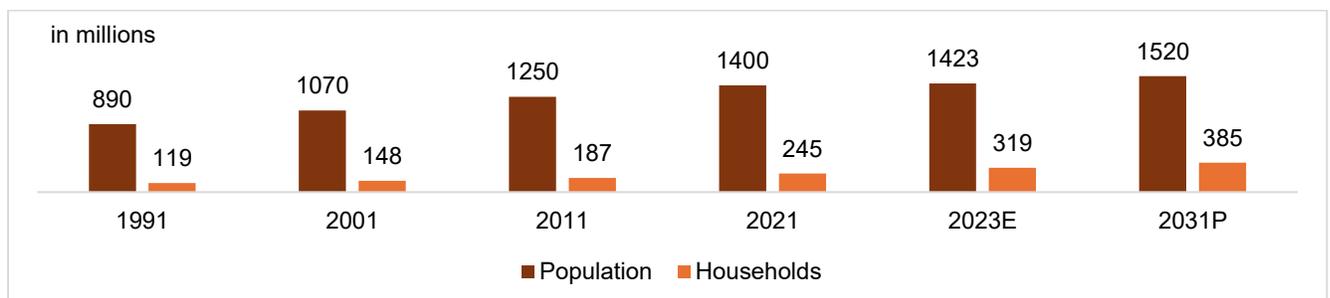
1.7 Key growth drivers

Key growth drivers

India has the world's largest population

As per the Census 2011, India's population was approximately 1.3 billion and comprised nearly 187 million households. The population, which grew at a compound annual growth rate (CAGR) of nearly 1.5% between 2001 and 2011, is expected by Crisil Intelligence to have increased at a CAGR of 1.1% between 2011 and 2021, reaching 1.4 billion. Furthermore, the population is projected to reach 1.5 billion by 2031, with the number of households expected to increase to around 385 million at a CAGR of 4.6% from FY21 to FY31, indicating a significant expansion in the country's demographic landscape.

India's population growth trajectory and number of households

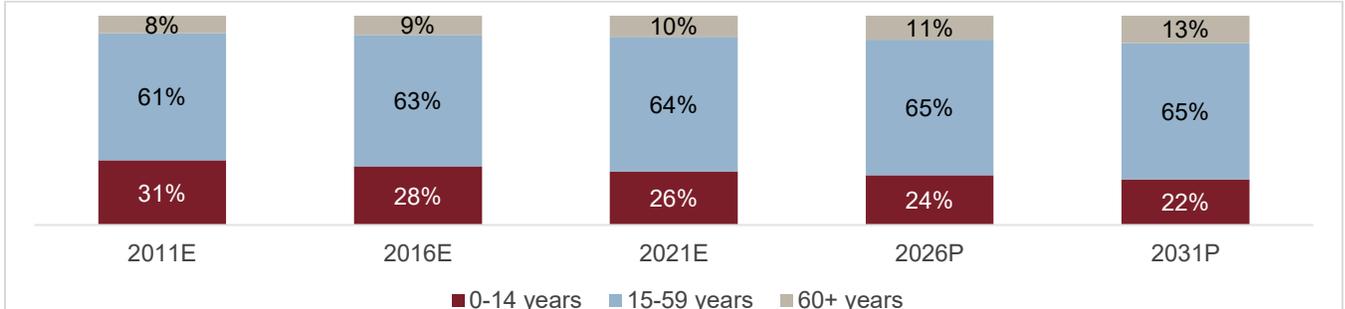


Note: As at the end of each Fiscal. P: Projected, Source: United Nations Department of Economic and Social Affairs, (<https://population.un.org/wpp/>), Census India, Crisil Intelligence

Favourable demographics

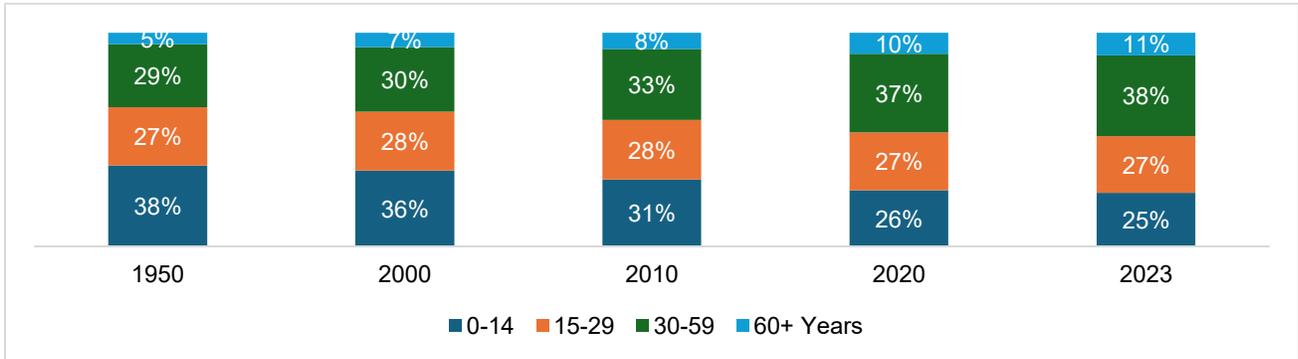
India has one of the world's largest youth populations, with a median age of 28 years. About 90% of Indians are below 60 years of age. As of CY 2023, it is estimated that India had the highest share of young working population (15-29 years) compared to major developed and developing countries with the share of 27%. 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)



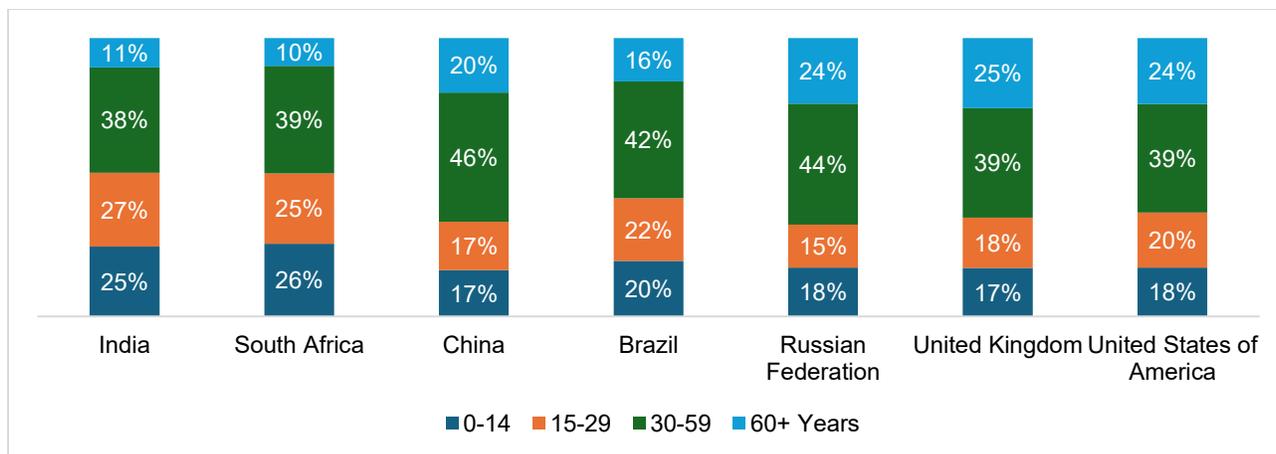
Note: P – Projected, E – Estimates Source: Census of India 2011, Ministry of Health and Family Welfare, Crisil Intelligence

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)

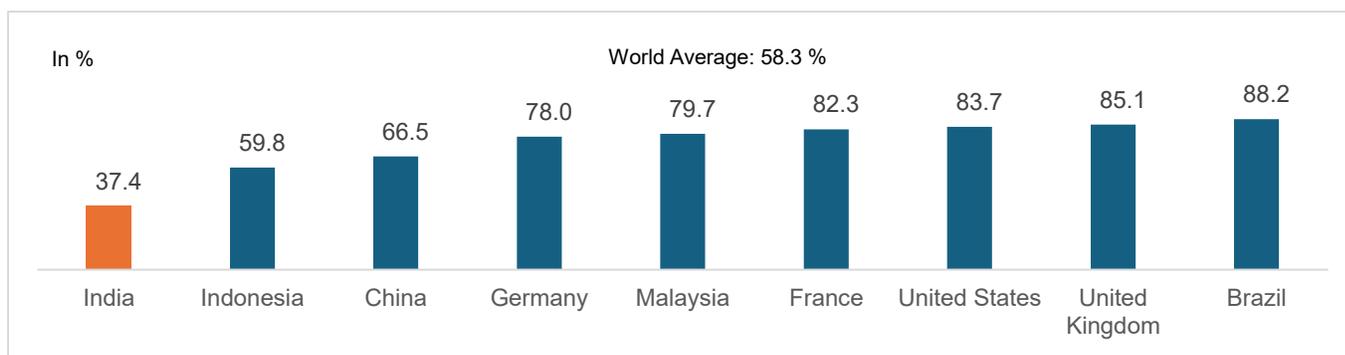


Source: World Urbanization Prospects: 2024

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. The urban population has gradually shown a growth from 23% in FY1980 to 27.7% in FY2000 and further to 34.9% in FY2020. By 2030, 40% of India's population is projected to live in urban areas, still lower than in developed nations. To address education challenges, India needs to prioritize urban planning, building more schools with adequate infrastructure and digital access. This will help bridge the digital divide, promote remote learning, and ensure equal access to education. Investing in education planning and infrastructure is crucial for India's human capital and economic development

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



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

Increasing per capita GDP

India’s per capita net national income at constant price expanded 5.5% in FY25, reflecting robust economic growth and the government’s continued endeavor to make the country an upper middle-income economy.

As per IMF estimates, India's per capita income (at constant prices) is expected to grow at 5-6% CAGR in real terms from FY25 to FY28.

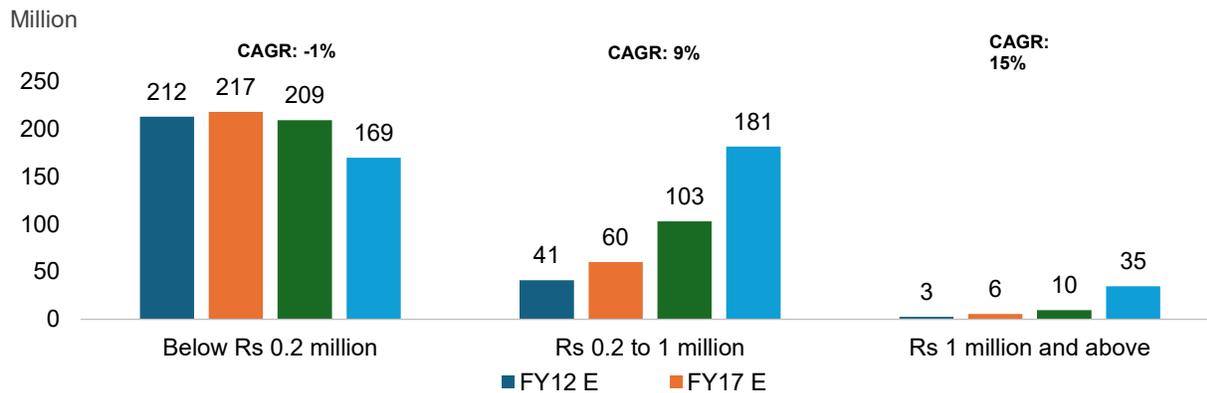
Per capita NNI	FY2025 (Rs. '000)		Growth of Real GDP Per Capita at constant prices (%)											
	Current prices	Constant prices	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	205	115	4.6	6.2	6.7	6.9	5.5	5.2	2.5	-8.9	7.6	5.7	8.2	5.5

Note: P – projected. (^) Per capita NNI as per Second Advance Estimates of Annual GDP, 2024-25
 Source: Ministry of Statistics and Program Implementation (MoSPI), International Monetary Fund (IMF), Crisil Intelligence

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 41 million middle-income households in India in FY2012 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).

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



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

MSME Revolution

The backbone of India's economy, MSMEs significantly contribute to the country's growth. According to MSME Annual report 2024-25, MSME sector accounts for 30.1% of the GDP, 36% (Fiscal 2023) of manufacturing output, 45% to exports (Fiscal 2024) and providing employment opportunities to a substantial 24.4 crore people (Fiscal 2023). 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.

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, urbanization, and the proliferation of e-commerce.

According to the Economic Survey, the government strategy has been that of an integrated and sustainable development of rural India. The government aims to fuel rural growth through decentralized 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.

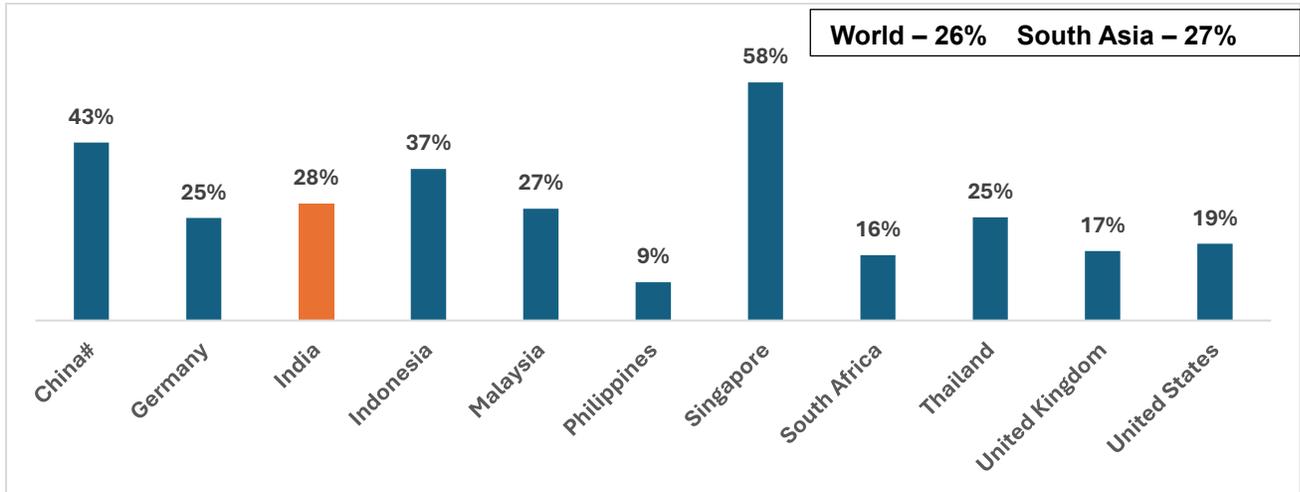
Digital Public infrastructure reforms by Government of India

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 Digi Locker, UPI, e-sign etc.

Household savings expected to increase

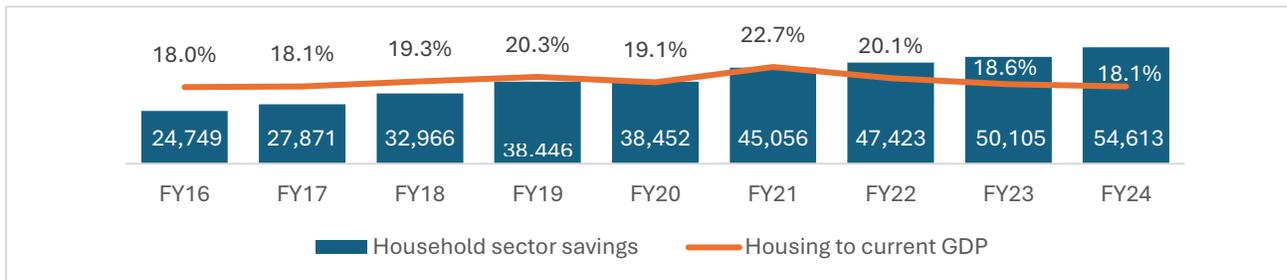
In 2023, India's gross domestic savings as a percentage of GDP declined to 28.4%, reflecting a downward trend from 2023 when it reached 29.5%, highlighting the economy's increased consumption. Decline is also in line with global trend where the savings rate has reduced to 26% in 2024 from 27% in 2023. India remains favourable in terms of gross domestic savings rate compared with most other emerging market peers slightly higher than the world average of 27% in 2024.

India's gross domestic savings rate is higher than global average (2024)



Note: The savings rate is in % of GDP, # Data as of 2023 Source: World Bank, Crisil Intelligence

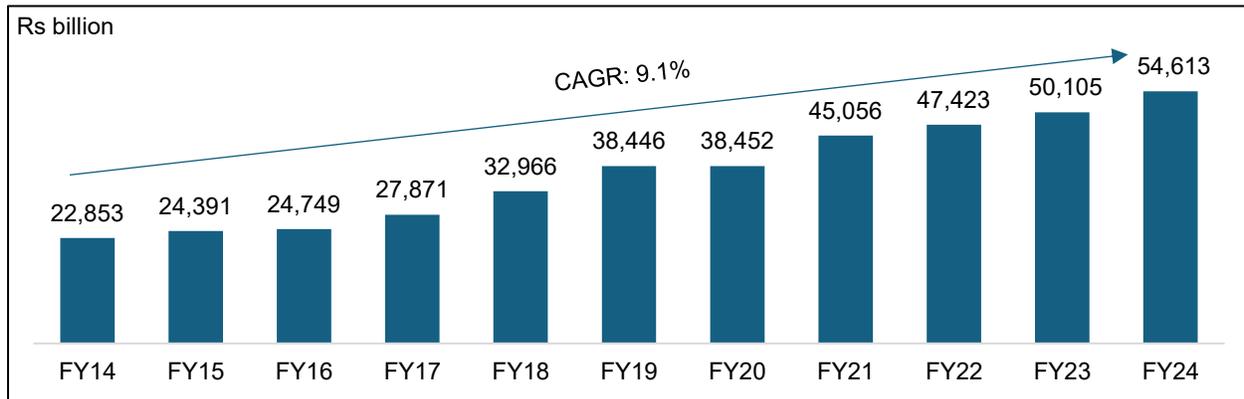
Household savings as a percentage of GDP moderated in Fiscals 2023 and 2024



Source: MoSPI, NSO, Crisil Intelligence

During the pandemic, household savings as a percentage of GDP increased from 19.1% in Fiscal 2020 to 22.7% in Fiscal 2021. However, household savings moderated to 18.6% in Fiscal 2023 and 18.5% in Fiscal 2024, due to households borrowing at a faster pace than they were saving since the pandemic. This was driven by a significant retail credit push by lenders, increased willingness among individuals (particularly the younger demographic) to borrow, and enhanced access to lenders facilitated by technological advancement. Crisil Intelligence expects India to remain a high-savings economy owing to a higher gross domestic savings rate than the global average.

Household savings growth



Source: MoSPI, Crisil Intelligence

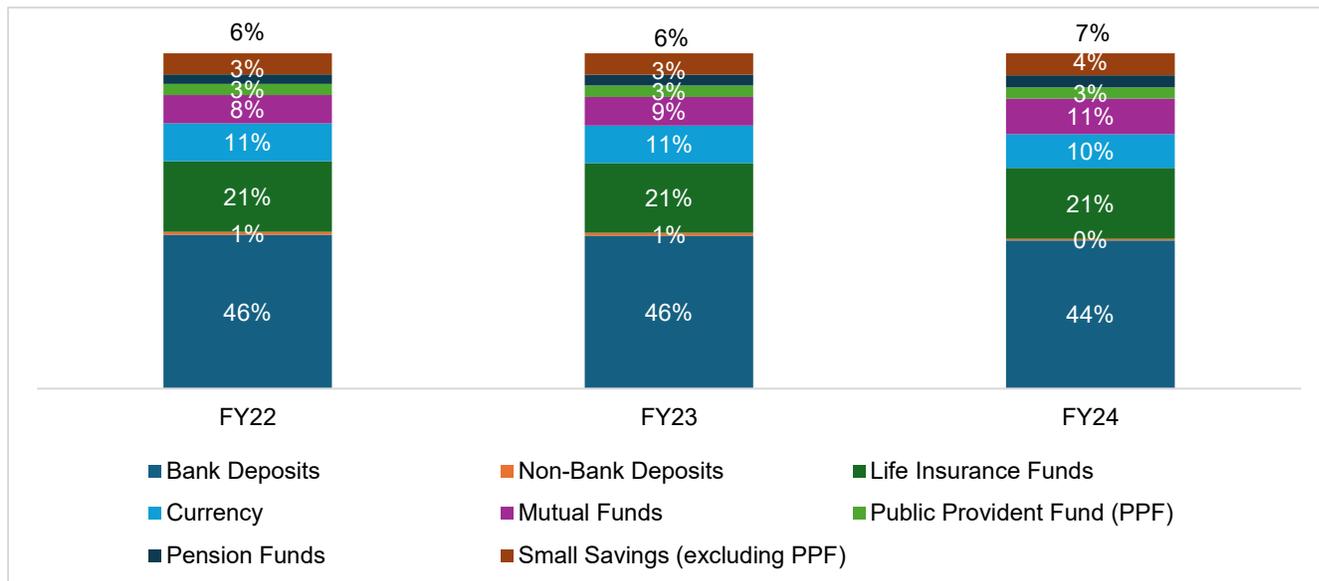
Gross domestic savings trend

Parameters (Rs billion)	Mar-2014	Mar-2015	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021	Mar-2022	Mar-2023	Mar-2024
Gross Domestic Savings (GDS)	36,082	40,200	42,823	48,251	54,807	60,004	59,411	57,869	73,631	82,440	92,592
Household sector savings (net financial savings, and savings in physical assets and in the form of gold and silver ornaments)	22,853	24,391	24,749	27,871	32,966	38,446	38,452	45,056	47,423	50,105	54,613
Household sector savings as a proportion of GDS (%)	63%	61%	58%	58%	60%	64%	65%	78%	64%	61%	59%
Gross financial savings	11,908	12,572	14,962	16,147	20,564	22,637	23,246	30,670	26,120	29,276	34,306
Net financial savings (% of household sector savings)	36%	36%	45%	41%	40%	39%	40%	52%	36%	27%	28%
Savings in physical assets (% of household sector savings)	62%	62%	53%	57%	59%	60%	59%	47%	63%	72%	70%
Savings in the form of gold and silver ornaments (% of household sector savings)	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%

Note: Data is for financial year ended March 31. Net financial savings are financial savings after excluding financial liabilities. Physical assets are those held in physical form, excluding gold and silver ornaments

Source: MoSPI, National Accounts Statistics, Crisil Intelligence

Trend in constituent of financial savings in India

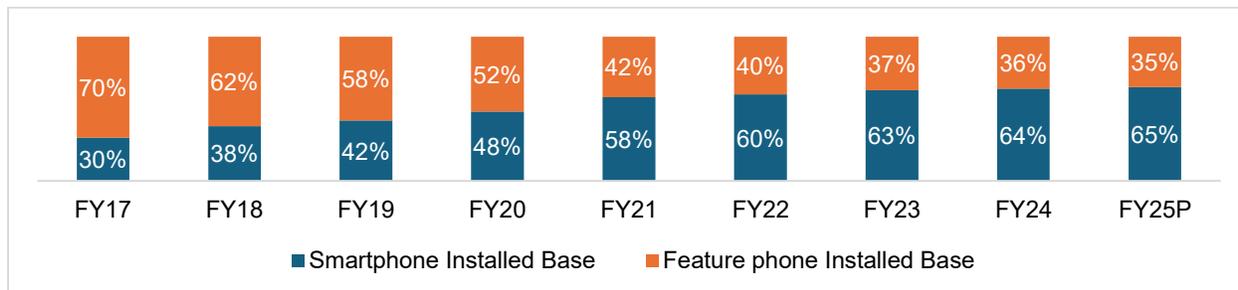


Source: RBI, Crisil Intelligence

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

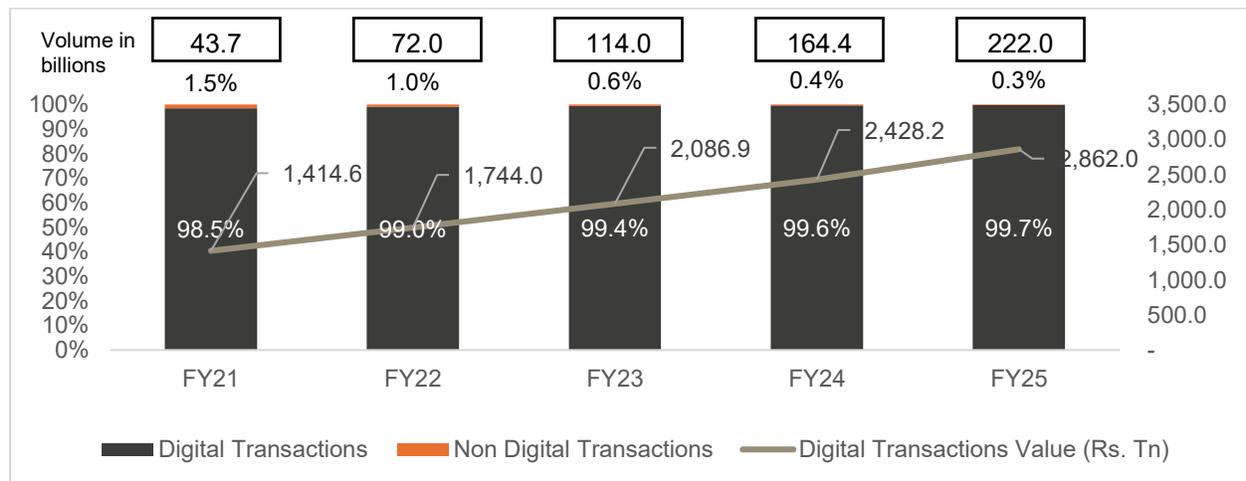


Note: E: Estimated, P: Projected; Source: Crisil Intelligence

Digital payments have witnessed substantial growth

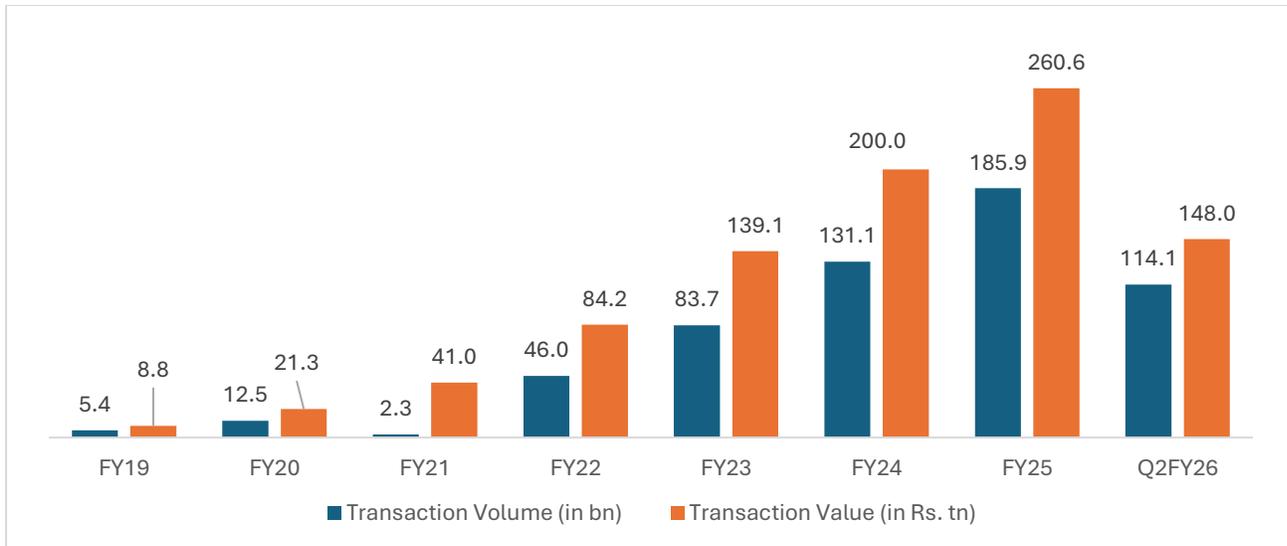
Higher mobile penetration, improved connectivity, and faster and cheaper data supported by Aadhaar, and bank account penetration have led India to shift from being a cash-dominated economy to a digital one. Total digital payments in India have witnessed significant growth over the past few years. Between FY21 and FY24, the volume of digital payments transactions increased from 43.7 billion to 164.4 billion, growing at a CAGR of ~56%. During the same period, the value of digital transactions has increased from Rs. 1,414.6 trillion in FY21 to Rs 2,428.2 trillion in FY24. 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; Source: RBI, Crisil Intelligence

UPI transactions volumes and values between FY20 and Q2FY26



Source: RBI, Crisil Intelligence

Key Drivers for Growth of Digital Lending in India

Multiple Hurdles for Physical Lending Channels

Physical lending channels, such as bank branches and storefront lenders, face multiple hurdles in today's digital age. One major challenge is the high operational costs associated with maintaining a physical presence, including rent, utilities, and staffing expenses. Additionally, these channels often struggle to provide a seamless customer experience, with lengthy application processes and limited hours of operation. Furthermore, physical lending channels may not be able to reach a wider audience, particularly in rural or underserved areas, limiting their accessibility and scalability.

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 disbursement. 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.

2. Financial Inclusion

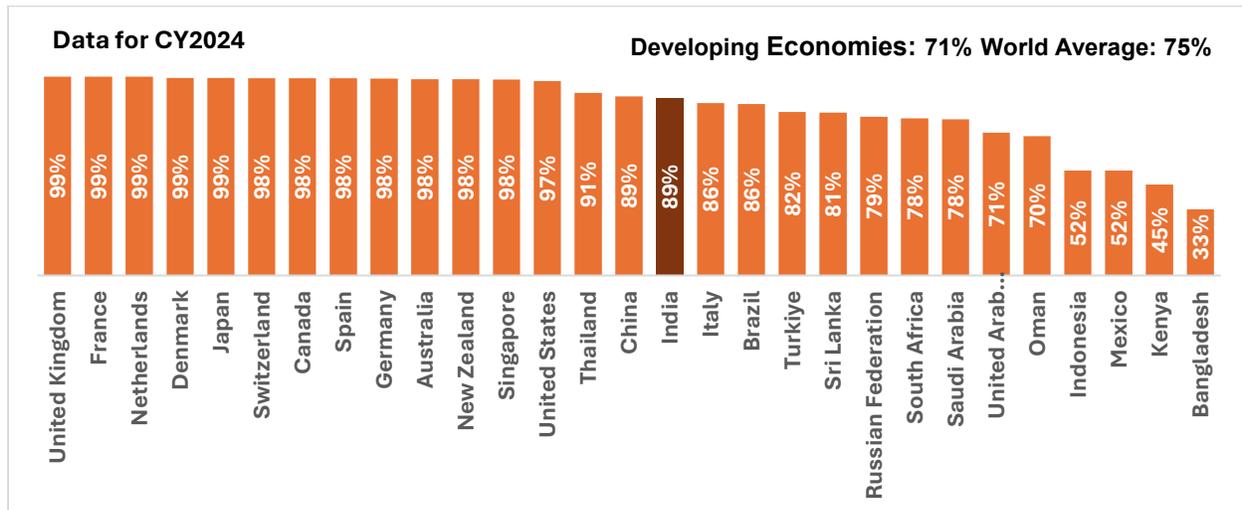
2.1 Financial penetration to rise with increase in awareness of financial products

Overall literacy in India is at 80.3% as per the results of NSO survey conducted from July 2022 to June 2023, which is still below the world literacy rate of 87.35%. 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 behavior 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.

Financial Inclusion on a fast path in India

According to the World Bank's Global Findex Database 2025, the average global percentage of adult population with an account opened with a bank, financial institution or mobile money provider, was approximately 75% in calendar year 2024. India's financial inclusion has improved significantly over calendar years 2014 to 2024 as adult population with bank accounts increased from 53% to 89% (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 (%): India vis-à-vis other countries


Source: 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 2025, Crisil Intelligence

Financial inclusion index

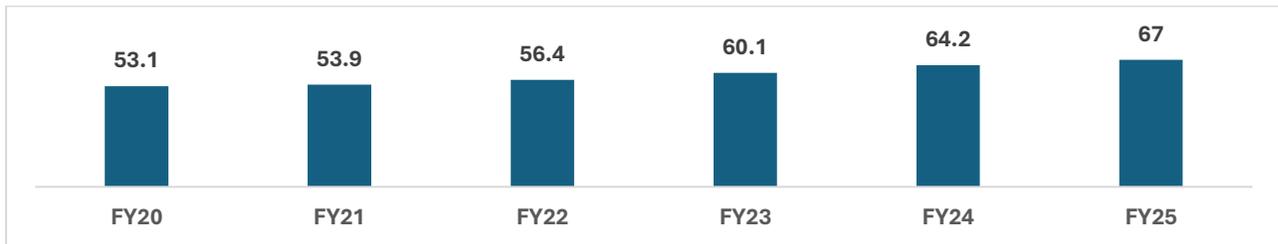
The RBI has constructed a composite financial inclusion index (FI-Index) to capture the extent of financial inclusion across the country. The FI-Index has been conceptualized as a comprehensive index incorporating details of banking, investments, insurance, postal and pension sector. The index captures information on various aspects of financial inclusion in a single value ranging between 0 to 100 where 0 represents complete financial exclusion and 100 indicates full financial inclusion.

The FI-Index comprises of three broad parameters – Access (35%), Usage (45%), and Quality (20%) with each of these consisting of various dimensions which are computed based on number of indicators.

The Index is responsive to ease of access, availability and usage of services, and quality of services, comprising in all 97 indicators. A unique feature of the Index is the Quality parameter which captures the quality aspect of financial inclusion as reflected by financial literacy, consumer protection, and inequalities and deficiencies in services.

The FI-Index has been constructed without any ‘base year’ and as such it reflects cumulative efforts of all stakeholders over the years towards financial inclusion. The value of FI Index for FY25 stands at 67 as against 64.2 in FY24, with growth witnessed across all the sub-indices.

Financial inclusion has improved over the years



Source: RBI, Crisil Intelligence Research

2.2 Role of NBFCs to achieve Financial Inclusion

While MFIs and SFBs are essential pillars of financial inclusion, NBFCs fill a critical gap by providing comprehensive financial products, catering to niche sectors like MSMEs, and extending services to the last mile. Their role in financial inclusion is complementary but equally vital, and with continued support, NBFCs can ensure that more underpenetrated populations have access to formal financial services.

- **Wider Reach and Product Diversity**

NBFCs have a strong presence in underbanked areas, particularly in Tier 2, 3, and 4 cities. Their regional focus allows them to serve areas where traditional banks and MFIs have limited access. NBFCs offer a broader range of financial products beyond micro finance loans, including vehicle loans, gold loans, consumer finance, and housing loans. These products cater to different segments of the population that are not always served by MFIs and SFBs

- **Credit to Niche Sectors (MSMEs and Agriculture)**

NBFCs have a strong foothold in lending to MSMEs, and agriculture-based businesses, which are crucial for the rural economy. MFIs and SFBs, while important, primarily focus on micro-loans and smaller ticket sizes, often leaving out larger credit requirements for MSMEs.

- **Customized Solutions for Diverse Needs**

NBFCs are known for their flexibility in designing financial products, which are tailored to the specific needs of rural and semi-urban populations. This is critical in addressing the unique financial requirements of small businesses, farmers, and low-income households. NBFCs provide loans against property, gold, and other assets, which enables individuals and small businesses in rural areas to access credit even when they do not meet stringent banking criteria.

Barriers to equitable and inclusive credit growth in India

- **Low or Unsteady Income**

Many individuals and small businesses, especially in rural areas and the informal economy, experience irregular income flows due to seasonal employment, agricultural dependence, or gig-based work. Lenders see these individuals as high-risk borrowers due to unpredictable income,

making it difficult to assess their repayment capacity. As a result, many of these individuals are excluded from formal lending channels.

- **Unawareness of Financial Products**

A significant portion of the population, particularly in rural areas, remains unaware of the financial products and services available to them. Misinformation or distrust of formal banking channels discourages many from seeking loans, especially if they've had negative experiences with high fees or complex loan conditions.

- **Unavailability of Appropriate Credit Products**

The formal credit market often offers standardized products that do not cater to the specific needs of diverse borrower segments, particularly those in rural areas or the informal economy. Many credit products, such as fixed repayment loans or collateral-based lending, are not suitable for individuals with fluctuating incomes or no assets to pledge. Borrowers often face high interest rates or unfavorable terms, making loans inaccessible or unaffordable.

New-age NBFCs are overcoming the challenges of conventional lending

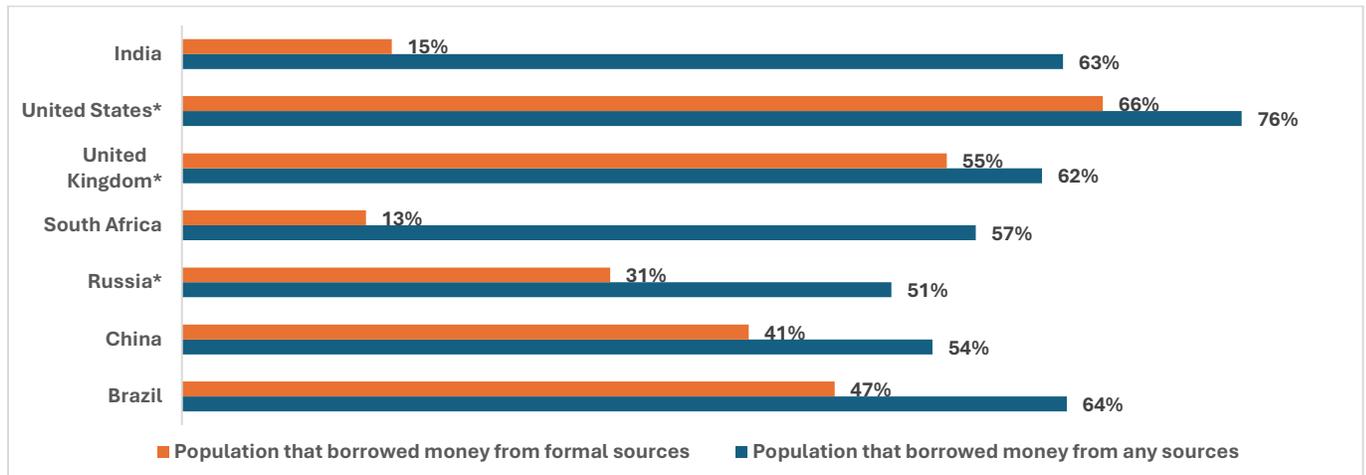
New-age NBFCs are revolutionizing the lending landscape by using technology to overcome the inefficiencies of conventional lending. Through automation, alternative data, personalized products, and secure digital platforms, they are making credit more accessible, efficient, and affordable.

Traditional lending involves lengthy credit approval processes, relying heavily on manual underwriting and evaluation, which often delays loan disbursement. New-age NBFCs use AI and machine learning algorithms to automate credit risk assessment. By analyzing vast amounts of data, including alternative data points (such as utility payments, mobile data, and social media activity), these NBFCs can quickly assess creditworthiness and approve loans within minutes or hours.

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

As per the Global Findex Database 2024, ~53% of the world's 650 million unbanked adults live in only eight countries (India, Bangladesh, China, Indonesia, Egypt, Mexico, Nigeria and Pakistan), of which almost 31% (230 million) are in India. This shows an immense opportunity for furtherance of financial inclusion. China and India have account ownership rates of nearly 90 percent, yet they are also home to the largest number of adults without accounts.

Only 15% of India's population borrowed money from formal sources (CY2024)



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+; * Data consists for CY2021

Money borrowed from formal sources includes money borrowed from Banks, NBFCs and usage of credit card.

Source: World Bank – The Global Findex Database 2025, Crisil Intelligence

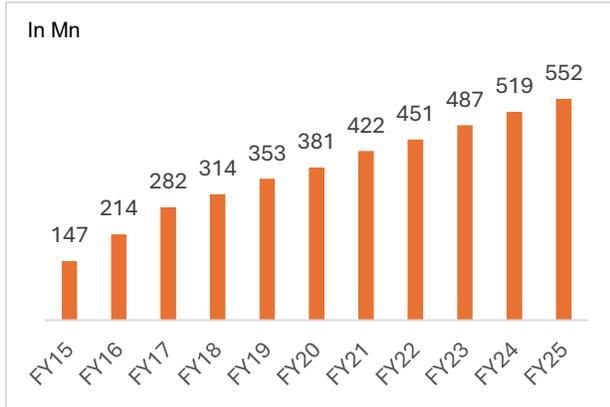
66% of the US Population borrowed money from formal sources such as Banks, NBFCs and credit card in 2021 followed by UK Population whose 55% of Population borrowed money from formal sources. Only 15% of India's population borrowed money from formal sources. This implies that a significant majority relied on informal sources of credit, such as friends, family, or unorganized lenders. This is the lowest among the major economies. A significant portion of the population may not have the necessary documents, such as proof of income or identity, to access formal credit.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

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 of 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 Rs 0.2 million at a premium of Rs 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 Rs 0.2 million at a premium of Rs 20 annually. As per the Government, more than 70 crore people have registered for these two social security schemes.

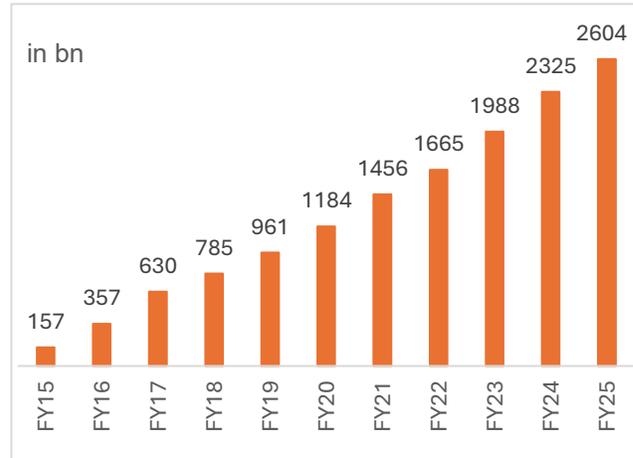
As of September 2025, 566 million PMJDY accounts had been opened, with total deposits of Rs. 2.67 trillion. (Source: Pradhan Mantri Jan-Dhan Yojana: Progress Report)

Number of PMJDY accounts



Source: PMJDY; Crisil Intelligence

Total balance in PMJDY accounts

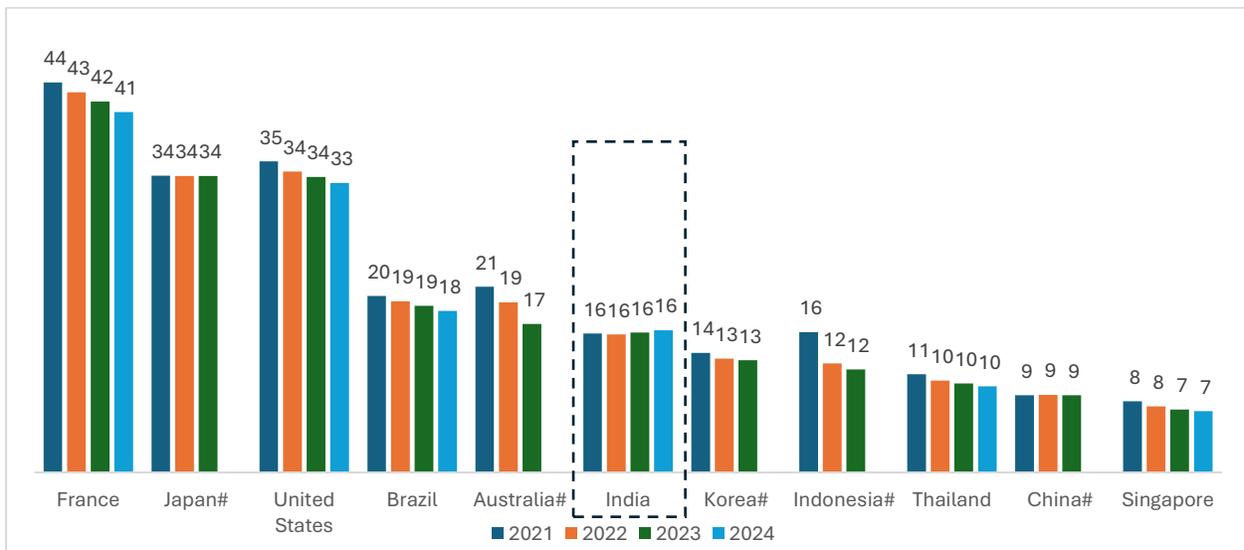


Source: PMJDY; Crisil Intelligence

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 93% for India as of the CY 2024 as compared to developed economies such as China and US with bank credit to GDP ratio of 198% and 143%. The number of commercial bank branches as well as ATMs in India per 100,00 people, contrast in comparison to other countries is lower. This provides immense opportunities for banks and other financial institutions over the long term.

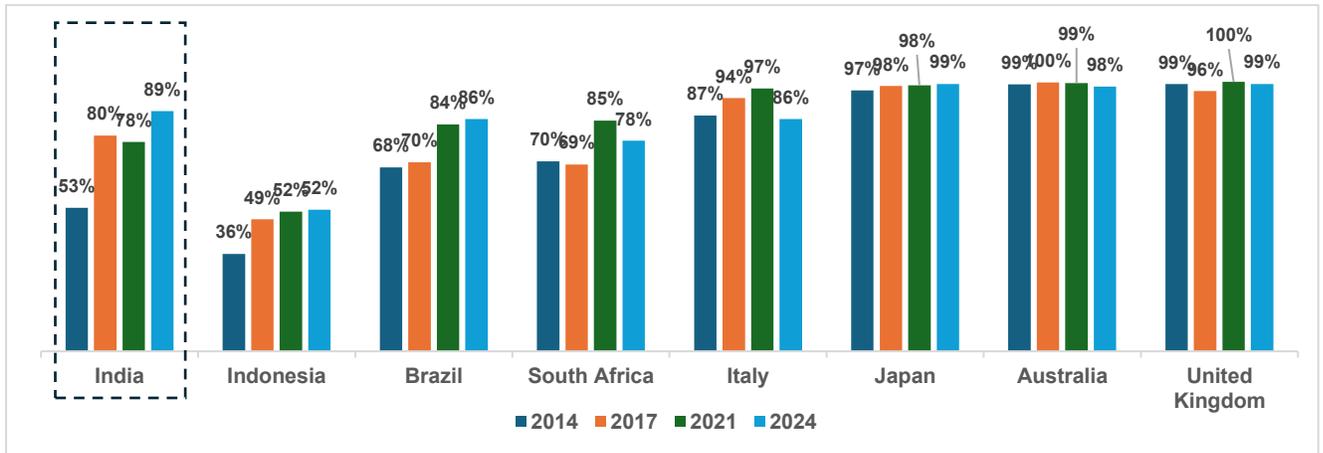
Number of Commercial Bank Branches per 100,000 Adults (CY)



Note: # - Data not available for CY2024, percentage of population above 15 yrs having an account at bank or another type of financial institutions, Source: IMF: Financial Access Survey; Crisil Intelligence

France has the highest number of commercial bank branches per 100,000 Adults amounting to 41 bank branches per 100,000 Adults in 2024. In major economies the number of bank branches per 100,000 adults have remained stable due to the digitisation of banking services with customer preferring online and mobile banking over physical visits.

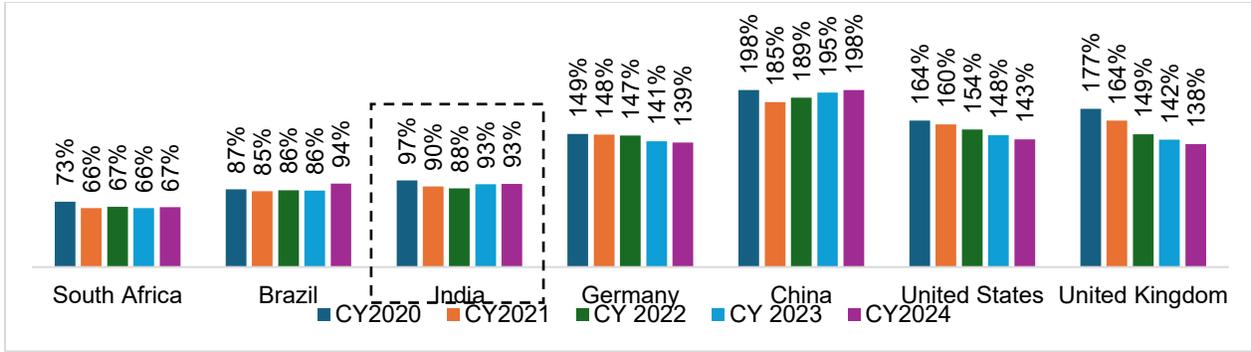
Percentage of population above 15 years having an account at bank or another type of financial institutions



Note: percentage of population above 15 yrs having an account at bank or another type of financial institutions, Source: IMF: Financial Access Survey; Crisil Intelligence

~100% of UK Population above 15 years have an account at bank or another type of financial institution in 2024 followed by Australia with 98% of the population above 15 years having an account at bank or another type of financial institution. Banking is deeply ingrained in the culture, with financial products viewed as essential from a young age. Advanced digital banking systems make it easy for people to open and manage accounts even in remote areas. High employment levels and growing income stability have led to higher engagement with formal financial systems even for countries like India.

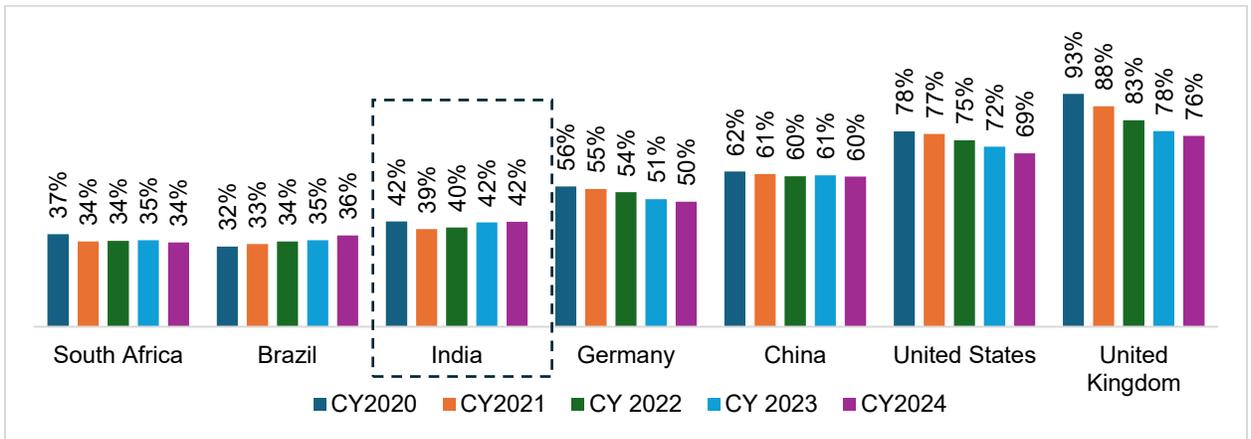
Credit to GDP ratio (%) from CY 2020 to CY 2024



Source: Bank of International Settlements, Crisil Intelligence

China has the highest credit to GDP ratio of 198% followed by United States with a ratio of 143%. The Indian banking sector is under-penetrated as observed in the current bank credit-to-GDP ratio of 93% for India.

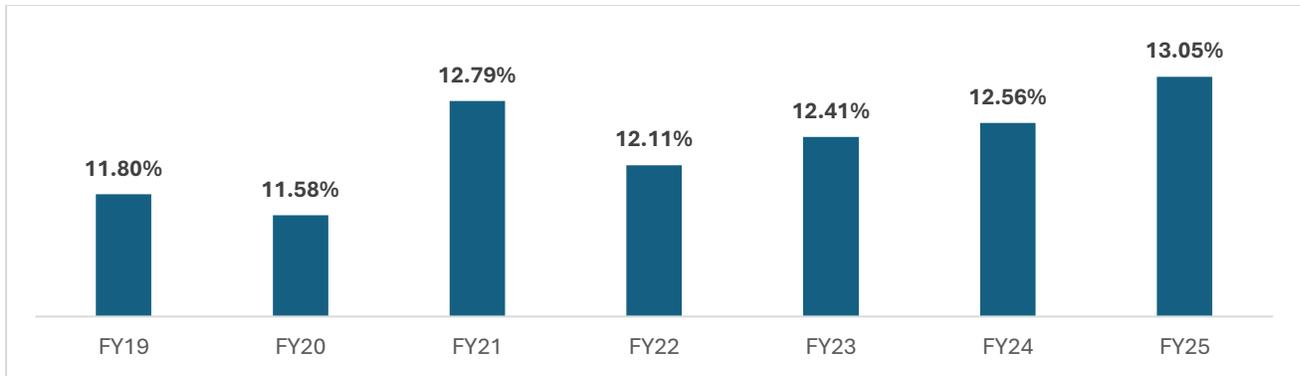
Household credit to GDP ratio of India and peer countries



Source: Bank of International Settlements, Crisil Intelligence

United Kingdom has the highest household credit to GDP ratio of 76% among the major economies as of CY-2024 followed by United States with a ratio of 69%. India household credit to GDP ratio is 42% as of CY-2024.

Credit Penetration in MSME



Note: Credit penetration is calculated as MSME credit portfolio value (reported to Commercial bureau) by the nominal GDP of the fiscal year. Source: CIBIL, Crisil Intelligence

MSME forms the backbone of India's economy contributing actively to the GDP and providing employment opportunities. Despite its critical role, the sector faces a persistent challenge of low credit penetration. A significant number of MSMEs lack tangible assets to offer as collateral, making it difficult for banks to assess credit worthiness. Many MSME operate informally, with inadequate financial documentation, further complicating their access to formal credit.

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, infrastructure development, and the proliferation of e-commerce.

The government's strategy, as outlined in the [Economic Survey 2024-25](#), centers on systematic deregulation to boost growth, a focus on improving the ease of doing business, and developing India's small and medium-sized enterprises (SMEs). Key priorities include enhancing fiscal prudence, ensuring a push for green growth and sustainability through energy transition, strengthening domestic manufacturing capabilities, and investing in human capital. The survey notes that a multi-pronged approach has helped raise rural incomes and improve the quality of life through different schemes, such as:

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 a total of 4.3 crore households availed of employment. A total of 220.11 crore person-days' employment has been generated under the Scheme (until January 10, 2025).

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. As on 31st January, 2025 about 10.05 crore Women households have been mobilized into 90.90 lakh Self Help Groups (SHGs).. Also, there has been a steady rise in Rural Female Labor Force Participation Rate (FLFPR) from 24.6% in fiscal 2018 to 47.6% in fiscal 2024 (Female Labor Utilization in India)

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. Under the scheme, landless beneficiaries are accorded the highest priority in the allotment of houses. A total of 6.97 million houses have been sanctioned and 1.82 crore houses have been completed in Fiscal 2025, under the scheme.

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

Additionally, e-commerce has been a significant contributor to the growth of rural areas. The e-commerce market in India has grown exponentially in recent years. This growth can be attributed to increased internet penetration, the proliferation of smartphones, and the convenience offered by online shopping.

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 disbursement of benefits to a wide population spread geographically through 328 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. The total DBT was around Rs 6.89 trillion in fiscal 2025 and Cumulative Total DBT was Rs 46.78 trillion as of March 2025.

Aadhaar card

It has played a critical role in promoting financial inclusion in India by enabling easy and efficient identification of individuals and reducing the need for physical documents. Aadhaar Card has been used for various initiatives, such as PMJDY, DBT, mobile wallets, and e-KYC, to improve financial access.

Mobile banking

The government has promoted mobile banking to make financial services accessible to people who are unable to access physical bank branches. Mobile banking has increased financial inclusion in rural areas. Some of the mobile banking initiatives for financial inclusion are United Payments Interface (UPI), mobile wallets, Jan Dhan Yojana Mobile App, and business correspondent (BC) model.

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. According to Economic Survey 2024-25, total number of operative KCC accounts stood at 7.75 crores with total outstanding amount of Rs. 9.81 trillion as of March 31, 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 18-70 years) with matching contributions by the employer. As of fiscal 2025, National Pension System Trust reported AUM of Rs 13.98 trillion and subscriber base of 19.8 million.

Priority-sector lending (PSL)

PSL is an important policy tool used by the RBI to promote financial inclusion in India. The PSL requirement mandates banks to 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 fiscal 2024, bank credit to PSL stood at Rs 42.73 trillion, up from Rs 23 trillion from fiscal 2010 (as per PIB report March 2025 - <https://www.pib.gov.in/>).

Priority sector lending ensures credit flow to underserved segments of the population through banks. PSL also encourages bridging the gap between rural and urban credit and hence lower regional imbalances. PSL is also used by the government to ensure that credit is given to sectors which can help the country in the long term. PSL mandates banks to lend to MSMEs which ultimately adds to the overall manufacturing output of the country.

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. As of fiscal 2025, 4.1 crore registered subscribers were active as part of the scheme.

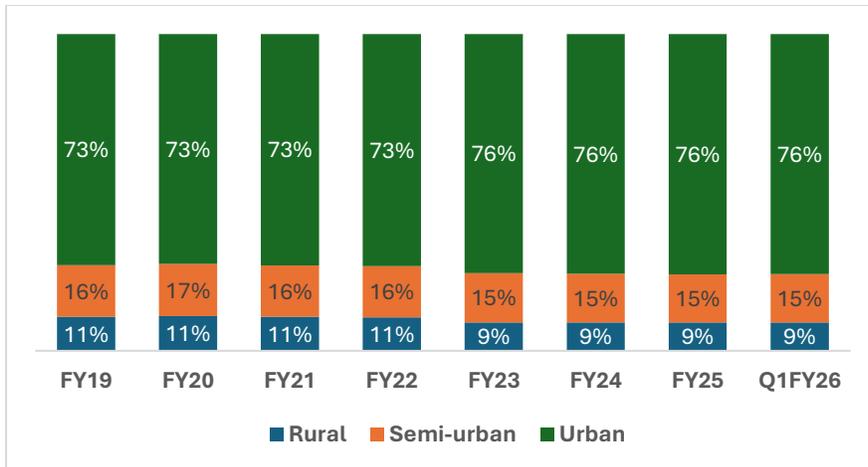
Mahila Samman Savings Certificate was launched as a part of Union Budget 2023-24 through which women of any age could open an account with a minimum deposit of Rs. 1,000 and maximum deposit of Rs. 2,00,000 provided with a facility of partial withdrawal. The interest rate for the accounts was declared at 7.5% p.a. which will be compounded quarterly. Other small saving schemes available include Kisan Vikas Patra.

Rural India accounts for about 47% of GDP, but only 9% of deposits and 8% of credit

Rural India has a crucial role to play, as almost 63% of the population resides in rural areas, as per world bank data for CY2024 and as per the Census data of 2011, there are over 6.4 lakh villages in India. About 47% of India's GDP comes from rural areas; however, their share is abysmally low at just 9% of total banking deposits and 8% of total banking credit as of March 2025. Lack of bank infrastructure, low level of financial literacy and investment habits, along with lack of formal identification, are some of the reasons for low penetration.

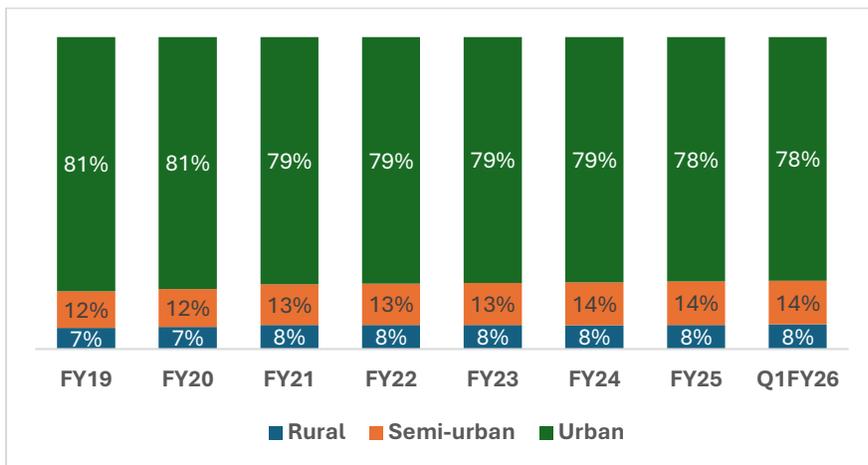
Share of bank credit and deposits shows low penetration in rural areas

Population group wise share of deposit



Note: Urban includes data for urban and metropolitan areas, Above data represents indicators for scheduled commercial banks in India and excludes inter company deposits Source: RBI; Crisil Intelligence

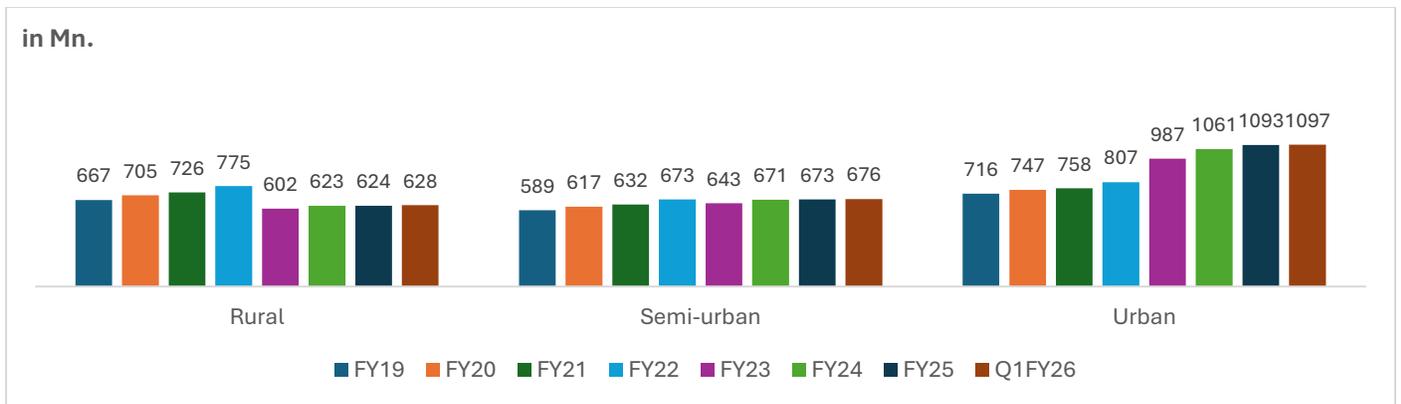
Population group wise share of credit



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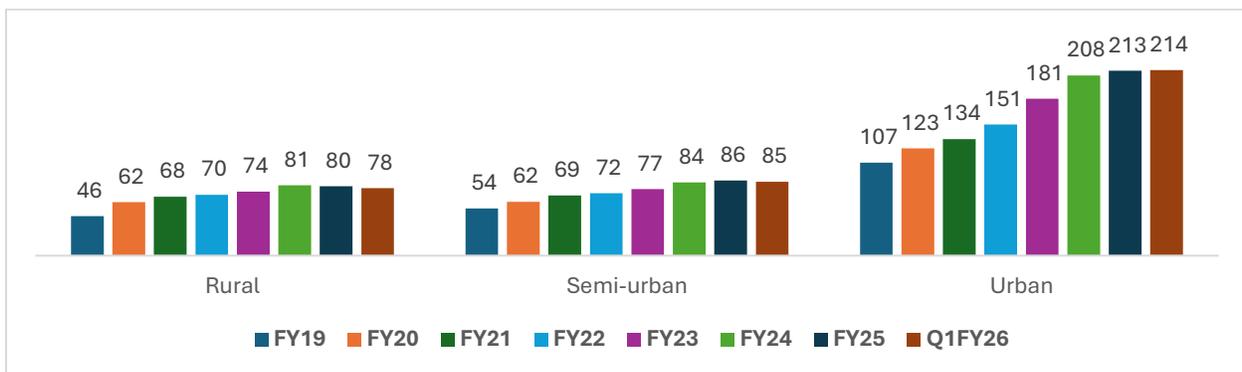
Financial inclusion is lower in rural areas than in urban areas in India. Hence, there are significant growth opportunities in this segment. Initiatives such as PMJDY and digital banking, along with increasing emphasis on financial literacy, have led to increasing financial inclusion in rural areas

Bank Deposit accounts in rural, semi-urban and urban areas



Note: Urban includes data for urban and metropolitan areas; numbers are as of the end of the fiscal year indicated. Data represents only bank deposit accounts. Above data represents indicators for scheduled commercial banks in India, Source: RBI, Crisil Intelligence

Bank Credit accounts in rural, semi-urban and urban areas



Note: Urban includes data for urban and metropolitan areas; numbers are as of the end of the fiscal year indicated. Data represents only bank credit accounts. Above data represents indicators for scheduled commercial banks in India, Source: RBI, Crisil Intelligence

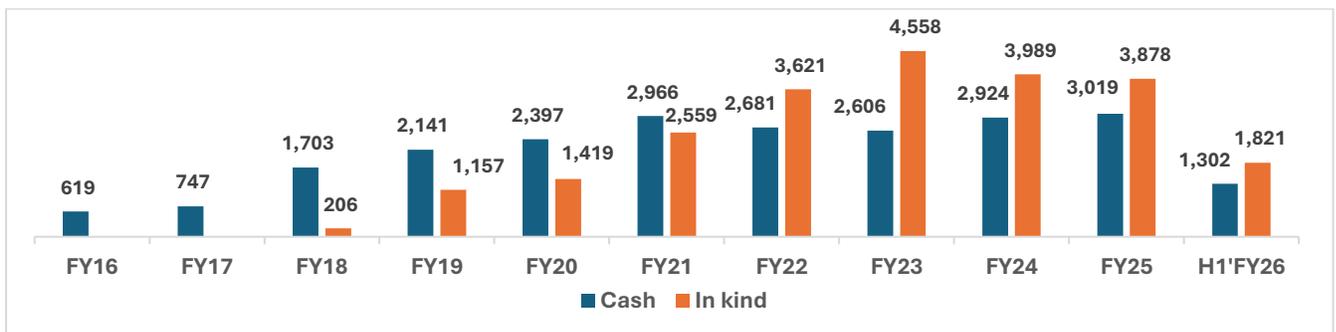
Rural areas and small towns (Tier 3 and Tier 4) are becoming structurally far more resilient to shocks

According to Census 2011, there are about 640,000 villages in India, which are inhabited by about 893 million people. The rural and semi-urban economy is far more resilient today due to increased spending under PM-Kisan scheme, Mahatma Gandhi National Rural Employment Guarantee Act, 2005 and irrigation programs. Additionally, schemes such as direct benefit transfer (“DBT”), PM Ujwala Yojana for cooking gas, PM Awas Yojana for housing, and Ayushman Bharat scheme for healthcare are supporting growth in rural and semi-urban areas. To supplement this, there has been a continuous improvement in rural and semi-urban infrastructure such as electricity and roads. These government initiatives have led to lesser leakages and higher incomes in the hands of the rural and semi-urban populace, thereby enhancing their ability and willingness to spend on discretionary products and services. The structural changes, combined with a positive macro environment, are expected to improve rural and semi-urban business prospects, provide business opportunities for the banking and financial services sector and drive the long-term growth of the economy.

The rural economy, particularly in India, is driven largely by agriculture, which remained relatively less impacted by the COVID-19 lockdowns compared to urban sectors like services and manufacturing. With farming activities continuing, rural households maintained some level of income stability, especially due to government support (e.g., PM-KISAN scheme, increased MNREGA funding).

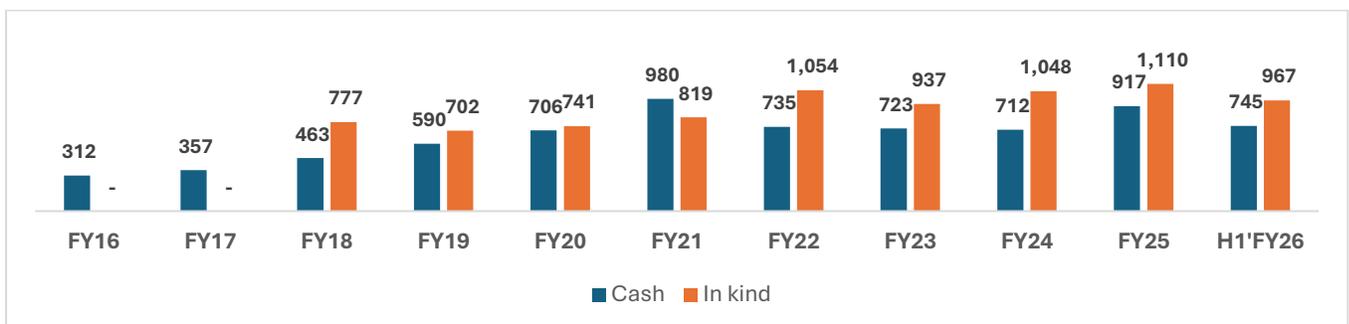
Despite increased efforts, rural and semi-urban areas remain underpenetrated when it comes to banking and financial services. With only a fraction of the population fully integrated into the formal financial system, significant opportunities exist for expanding credit access, insurance, and digital payments. Digital Infrastructure, rising smartphone penetration and increasing internet connectivity are creating opportunities for fintech and banking players to reach previously untapped rural and semi-urban markets, especially through initiatives like PM Jan Dhan Yojana and the use of Aadhaar-enabled payment systems. Tier 3 and Tier 4 towns have economies driven by micro, small, and medium enterprises (MSMEs), which have shown greater adaptability to disruptions. Moreover, many residents engage in entrepreneurial or informal work, providing flexibility in times of economic shocks. Smaller towns are seeing upward mobility due to factors such as improved education facilities, access to e-commerce, and better transport infrastructure, allowing for a closer integration with larger urban economies

Government schemes being delivered through digital adoption – Fund Transfer



Source: Direct benefit transfer, Crisil Intelligence

Trend in DBT Beneficiaries (Non-Unique)



Source: Direct benefit transfer, 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 etc.

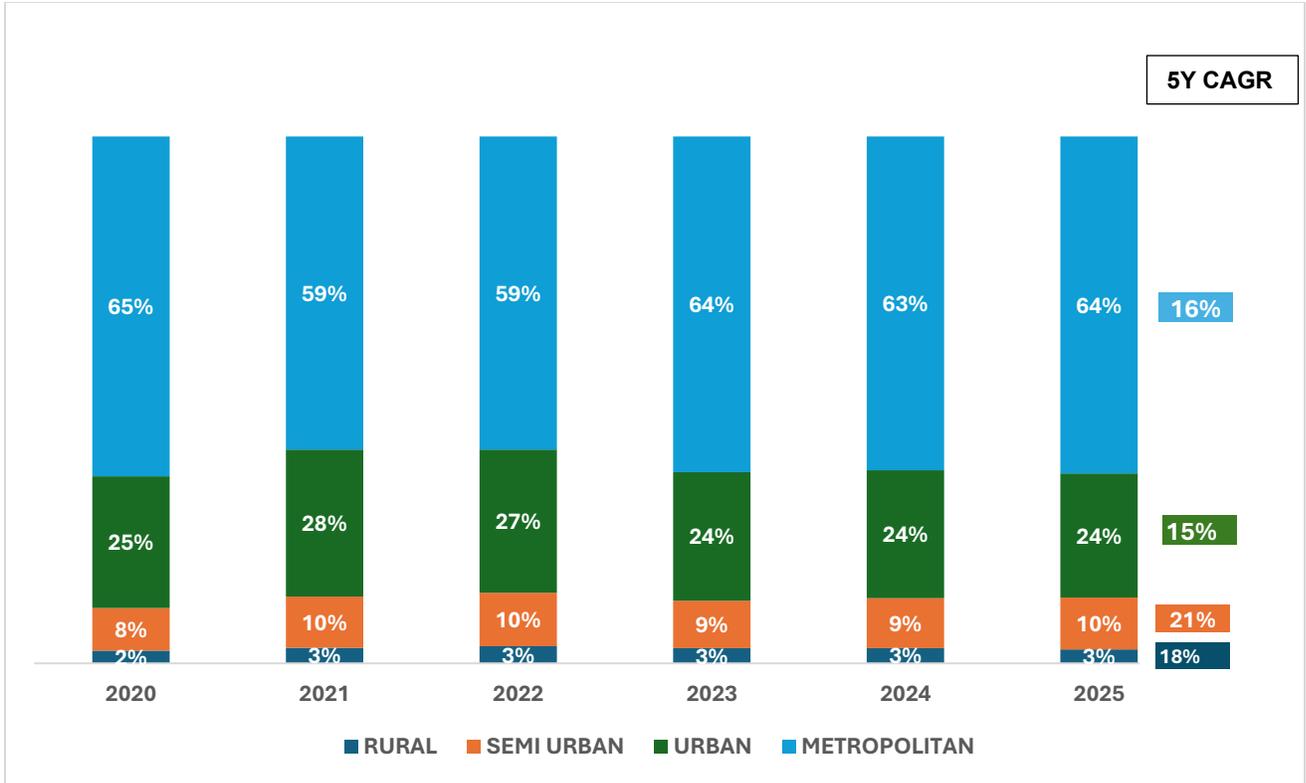
Use of generative AI and new technologies increasing productivity

Generative AI, or Gen AI, leverages extensive training on large datasets to swiftly produce diverse content forms like text and multimedia in response to prompts. Gen AI, exemplified by ChatGPT in BFSI, enables efficient, conversational banking, delivering prompt and responses, enhancing customer experiences, and saving time. Gen AI does well in fraud prevention, where it can swiftly detect potentially fraudulent activity by analysing customer behaviour patterns. This can help BFSI companies to take proactive measures to help bolster transaction security. Gen AI aids in risk analysis & synthetic data generation. This helps to offer detailed insights from intricate financial datasets which can be employed for decision making. The different uses of Gen AI now show a fraction of its potential to transform the BFSI sector.

Fintech Innovation

Fintech Innovation are a core part of India's Digital Public Infrastructure (DPI) reforms, driven by the government to foster financial inclusion, transparency and economic growth. Key initiatives like Unified Payment transfer (UPI) have revolutionized digital payments landscape, making real-time, cost-effective transactions accessible to millions. Aadhar based system for identify verification and Jan Dhan Yojana for financial inclusion are transforming India's financial ecosystem.

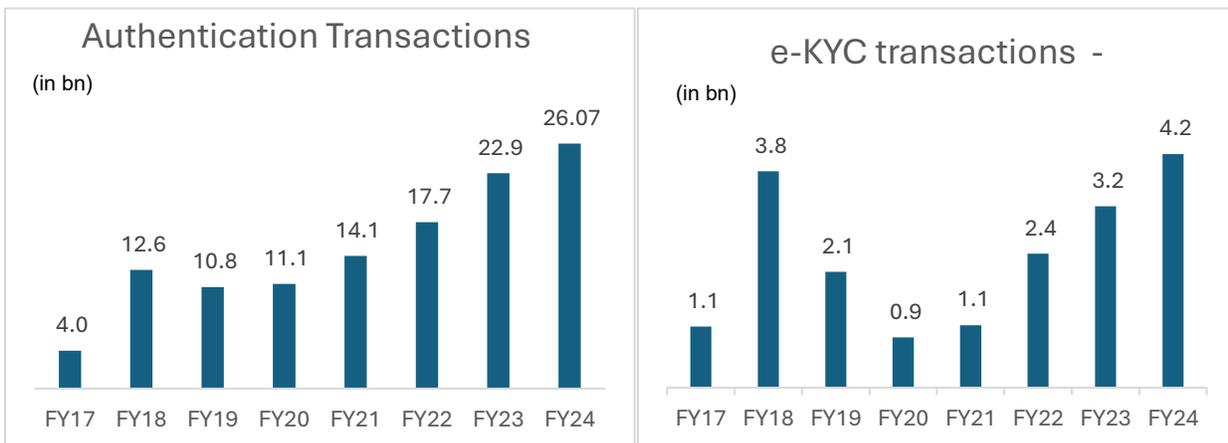
Share of rural and semi-urban regions in personal credit card outstanding has remained range bound from FY2020-2025



Source: RBI DBIE, Crisil Intelligence

Trend in the number of E-KYC transactions

The adoption and implementation of e-KYC in rural areas have transformed the financial landscape, streamlining access to various financial services. By enabling digital identity verification, e-KYC has minimized the time and costs involved in customer onboarding, facilitating easier access to banking services, credit, and government benefits for rural populations. This technology has played a crucial role in enhancing financial inclusion, integrating more individuals into the formal financial system, and improving transparency while mitigating fraud risks.



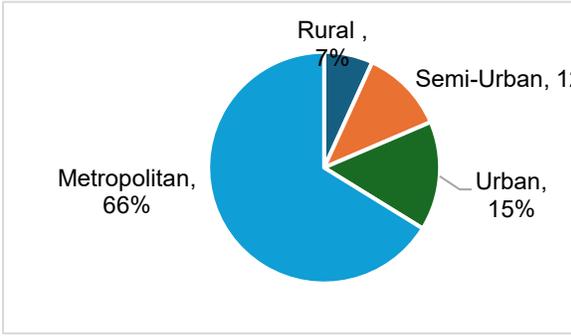
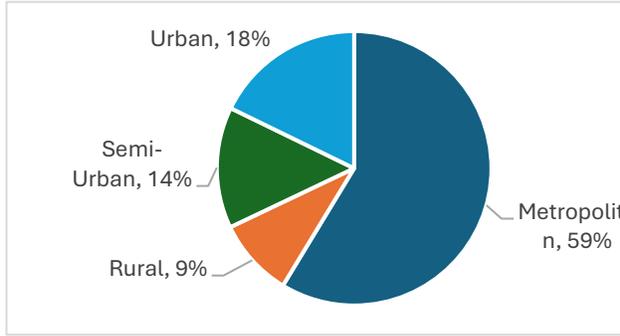
Source: UIDAI Annual report 2023-24, Crisil Intelligence

Source: UIDAI Annual report 2023-24, Crisil Intelligence

Rural and semi-urban India – Under penetration and untapped market presents a huge opportunity for growth of financiers

Bank credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% as of March 31, 2019, to 59% as of March 31, 2025. Between the same period, credit share has witnessed a marginal rise in rural (7% as of FY19 to 9% as of FY25) and semi-urban areas (12% as of FY19 to 14% as of FY25). As of March 31, 2025, rural areas, which is estimated to account for 47% of GDP, received just 9% of the overall banking credit, which shows the vast market opportunity for banks and NBFCs to lend in these areas. With increasing focus of government towards financial inclusion, rising financial awareness, increasing smartphone and internet penetration, Crisil Intelligence expects delivery of credit services in rural area to increase. Further, usage of alternative data to underwrite customers is also expected to help banks and NBFCs to assess customers and cater to the informal sections of the society in these regions.

Share of rural and semi-urban regions in banking credit increased marginally between FY19 & FY25

Share of region wise banking credit data as of FY2019	Share of region wise banking credit data as of FY2025																				
 <table border="1"> <caption>Banking Credit Distribution - FY2019</caption> <thead> <tr> <th>Region</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr> <td>Metropolitan</td> <td>66%</td> </tr> <tr> <td>Urban</td> <td>15%</td> </tr> <tr> <td>Semi-Urban</td> <td>12%</td> </tr> <tr> <td>Rural</td> <td>7%</td> </tr> </tbody> </table>	Region	Share (%)	Metropolitan	66%	Urban	15%	Semi-Urban	12%	Rural	7%	 <table border="1"> <caption>Banking Credit Distribution - FY2025</caption> <thead> <tr> <th>Region</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr> <td>Metropolitan</td> <td>59%</td> </tr> <tr> <td>Urban</td> <td>18%</td> </tr> <tr> <td>Semi-Urban</td> <td>14%</td> </tr> <tr> <td>Rural</td> <td>9%</td> </tr> </tbody> </table>	Region	Share (%)	Metropolitan	59%	Urban	18%	Semi-Urban	14%	Rural	9%
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2.3 Government Initiatives and Schemes

Relaxation in the threshold under SARFAESI Act from Rs. 5 million to Rs. 2 million for NBFCs

In the Union Budget 2021-22, for NBFCs with a minimum asset size of Rs. 1 billion, the minimum loan size eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) Act, 2002 was proposed to be reduced from the existing level of Rs. 5 million to Rs. 2 million. The objective of this move is to improve credit discipline while continuing to protect the interest of small borrowers. This relaxation is expected to facilitate recovery from stressed books, help the NBFCs to improve their ability to recover smaller loans and strengthen their overall financial health. More importantly, it acts as a deterrent to default and enhances the enforceability of collateral for players focused on the medium ticket size LAP segment with loans of Rs. 2 million – Rs. 5 million.

Inclusion of retail and wholesale trade under MSME category

In July 2021, the Ministry of Micro, Small and Medium enterprises decided to include Retail and Wholesale trade as MSMEs for the purpose of Priority Sector Lending and they would be allowed to be registered on UDYAM Registration Portal. The move is structurally positive from long-term perspective, as it will enable entities operating in the segment to register on Government's UDYAM portal, participate in government tenders and also avail financing options/ benefits available to the category. This move will also aid in the formalisation of India's retail trade and enable financial support to small and mid-sized retail businesses. By widening the scope of MSME to cover wholesale as well as retail trade, this move also creates an additional opportunity for MSME lenders to increase their penetration and business.

Prime Minister's Employment Generation Programme (PMEGP) providing margin money to MSMEs

PMEGP is a credit linked subsidy scheme to provide employment opportunities by establishing new micro enterprises in the non-farm sector where margin money is provided to MSMEs availing loan from banks to set up new enterprises. The maximum margin money provided under the scheme for setting up a new project is Rs 5 million for manufacturing sector and Rs. 2 million for service sector. Geo-tagging for the products and services of the units set up under this scheme has been initiated. This will help the enterprises with creating market linkages. Since its inception till the financial year 2024-25, the Prime Minister's Employment Generation Programme (PMEGP) has become a pillar of entrepreneurship and self-reliance in rural and urban India. A total of **10,18,185 micro enterprises** have been set up under the scheme so far, for which **loans of Rs 73,348 crore** have been sanctioned by the Government of India. Against this, **margin money subsidy of Rs 27,166 crore** has been provided to the beneficiaries. So far, more than **90,04,541 people** across the country have got **direct and indirect employment** through this scheme, which makes it one of the most effective self-employment schemes in the country. This program not only promotes self-employment, but also recognizes the Prime Minister's resolution of self-reliant India on the ground

Credit Guarantee Fund Scheme extended to cover NBFCs

One of the major reasons why MSMEs are credit-starved is the insistence by banks or financial institutions for the provision of collateral against loans. Collaterals are not easily available with such enterprises, leading to a high-risk perception and higher interest rates for these MSMEs. In order to address this issue, the government launched the Credit Guarantee Fund Scheme under the aegis of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to make collateral-free credit available to micro and small enterprises. In January 2017, the scheme was extended to cover systemically important NBFCs as well. Key eligibility criteria for this scheme are:

- 1) NBFCs should be registered with RBI and meet specified prudential norms.
- 2) the NBFC should have made a profit for the three preceding Fiscals at the time of enrolment.
- 3) the NBFC should be lending to micro and small enterprises with minimum 5 years of lending experience, minimum Rs. 1 billion of MSE loan portfolio, NPA level below 5% for MSE portfolio and average recovery ratio of 90% for preceding three Fiscals at the time of enrolment and
- 4) it should have long-term credit rating of at least BBB. The overall limit under the scheme has also been enhanced to Rs. 20 million.

The scheme was revamped in the year 2023 with following new features:

- 1) Ceiling limit of guarantee coverage raised from Rs. 20 Mn to Rs. 50 Mn
- 2) The annual guarantee fees was reduced from 0.75% to 0.37%
- 3) Increase in threshold limit from Rs. 0.5 Mn to Rs. 1 Mn for waiver of legal action

Other government initiatives addressing structural issues in the MSME market

Some of the other government and regulatory initiatives are detailed below:

- Stand-up India: It facilitates bank loans between Rs. 1 million and Rs. 10 million to at least one scheduled caste or scheduled tribe borrower and at least one-woman borrower per bank branch for setting up a greenfield enterprise.
- Make in India: Launched with an intention to make India a global manufacturing hub, which in turn will provide employment to numerous youths in India
- Mudra loans: To fulfil funding requirement of MSMEs who were earlier left out by financial institutions; credit guarantee support also offered to financiers.
- 59-minute loan: Online marketplace that provides in-principle approval to MSME loans up to Rs. 10 million in 59 minutes.

- Unified Payments Interface 2.0 (UPI 2.0): Real-time system for seamless money transfer from account
- Trade Receivables Discounting System (TreDS): Institutional mechanism to facilitate financing of trade receivables of MSMEs from corporates and other buyers through multiple financiers.
- Factoring to support more participation from NBFCs: In an amendment to Factoring Regulation Act, 2011, the Lok Sabha passed the Factoring Regulation (Amendment) Bill in July 2021.

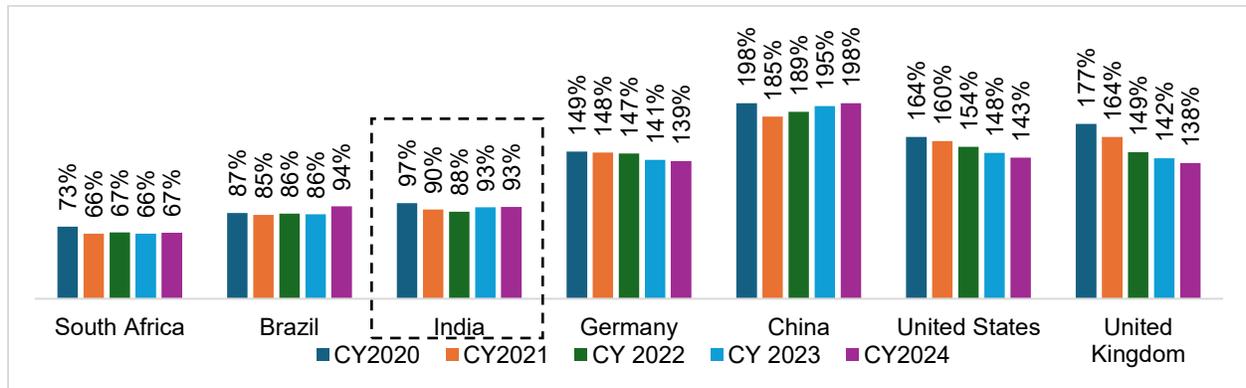
3. Overview of Credit Scenario in India

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

Overall credit to GDP ratio in India stood at 93% in CY24, which was significantly lower as compared to 139% for Germany, 143% for United States and 198% for China, signalling significant room for credit penetration in the nation.

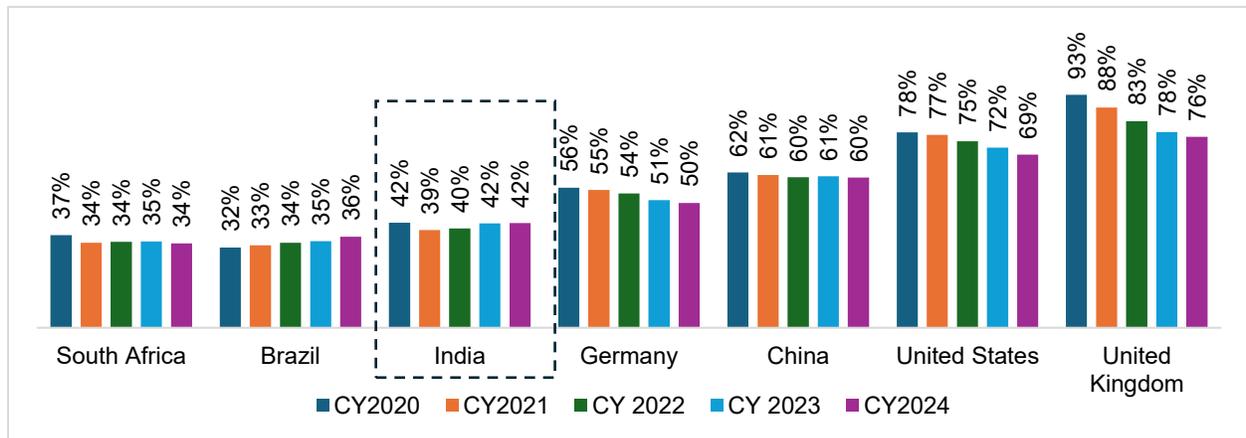
Significant retail credit gap exists in India, as evident by India’s household credit to GDP ratio of 42% as of CY24, as compared to 60%, 69% and 76% for China, United States and United Kingdom respectively. With rising financial awareness, government’s continuous efforts for financial inclusion and 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.

Credit to GDP ratio from (CY2020 -CY2024)



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

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

Chandigarh, Delhi, Maharashtra, Tamil Nadu and Karnataka have a higher banking credit penetration compared to other states

Delhi, Maharashtra, Tamil Nadu, Telangana, and Chandigarh have a banking credit to GDP ratio of more than 100% as of March 2025 which indicates that banking credit penetration in the state is higher as compared to other states in India. Delhi has the highest banking credit penetration of 184% as of March 2025 followed by Chandigarh at 178%. Maharashtra has the third highest banking credit penetration in Indian States at 171.62%. Sikkim, Mizoram, Tripura, Himachal Pradesh had the lowest banking credit penetration among all states in Fiscal 2025.

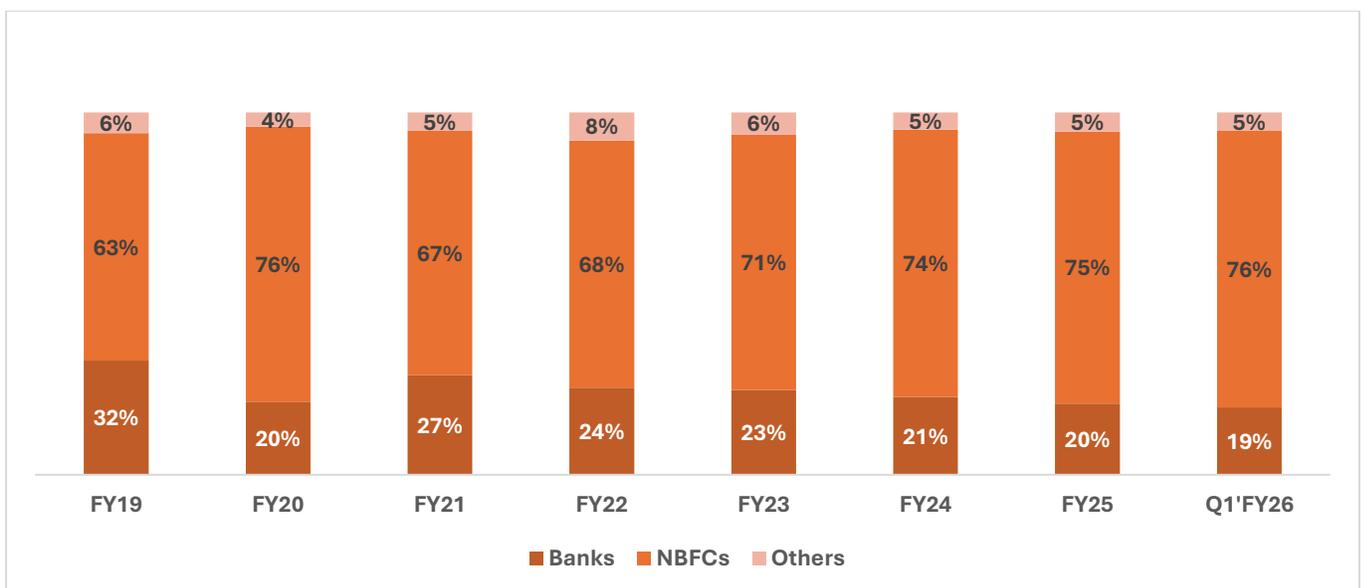
Banking credit penetration across states in India (Fiscal 2025)

States	NSDP	% of NSDP				Total Credit
		Rural	Semi Urban	Urban	metro	
Maharashtra	3,957,319	3%	6%	7%	99%	113%
Tamil Nadu	2,764,755	8%	15%	9%	31%	64%
Karnataka	2,603,948	6%	6%	9%	32%	53%
Uttar Pradesh	2,214,869	9%	7%	15%	15%	47%
Gujarat	2,143,869	4%	7%	9%	33%	53%
West Bengal	1,632,104	6%	4%	9%	22%	41%
Rajasthan	1,524,950	7%	10%	12%	17%	46%
Telangana	1,456,837	6%	9%	6%	50%	72%
Andhra Pradesh	1,422,998	11%	15%	19%	13%	59%
Madhya Pradesh	1,346,245	5%	9%	8%	19%	41%
Haryana	1,087,269	5%	8%	44%	5%	62%
Kerala	1,009,132	2%	31%	29%	0%	63%
Delhi	991,771	1%	1%	5%	178%	184%
Odisha	853,157	8%	8%	19%	0%	35%
Bihar	769,437	10%	10%	10%	10%	40%
Punjab	693,418	10%	17%	16%	15%	59%
Assam	558,930	6%	8%	13%	0%	28%
Chhattisgarh	500,400	5%	8%	13%	19%	45%
Jharkhand	418,528	7%	7%	9%	13%	36%
Uttarakhand	324,054	6%	7%	20%	0%	33%

Jammu & Kashmir	212,841	20%	18%	11%	7%	55%
Himachal Pradesh	193,604	19%	11%	3%	0%	33%
Goa	92,522	7%	30%	0%	0%	37%
Tripura	73,697	9%	7%	10%	0%	26%
Chandigarh	53,206	1%	3%	175%	0%	178%
Meghalaya	51,338	11%	6%	13%	0%	30%
Puducherry	48,576	6%	10%	34%	0%	51%
Manipur	41,746	10%	7%	15%	0%	32%
Sikkim	40,672	6%	2%	10%	0%	18%
Nagaland	35,762	6%	13%	9%	0%	28%
Arunachal Pradesh	34,551	9%	22%	0%	0%	31%
Mizoram	29,336	5%	8%	18%	0%	31%
Andaman & Nicobar Islands	11,113	8%	7%	26%	0%	40%

Note: Credit penetration calculated as banking credit to states as of Fiscal 25 divided by state NSDP (at current prices) as of Fiscal 25; NSDP taken at current prices, Base Year: 2011-12., Tier-wise share is taken as outstanding in the tier divided by total outstanding in the state; Source: RBI, MOSPI, Crisil Intelligence

NBFCs remain the market leader in terms of volume, providing credit to new-to-credit (NTC) customers



Note: Others include Co-op Banks, SFBs and other small lenders, Credit include business loan, education loan, housing loan, personal loan, property loan, and vehicle loan. Source: CIBIL, Crisil Intelligence

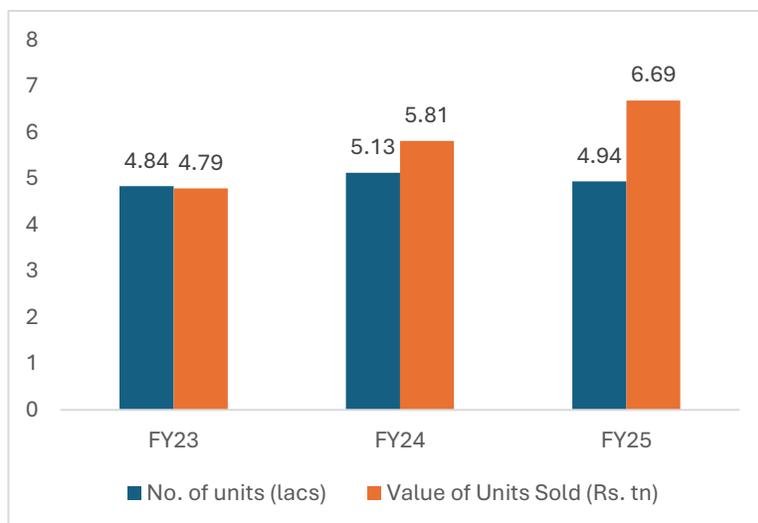
While Banks reduced their share in catering to new to credit (NTC) customers to 19% in Q1 FY26, NBFCs continued to cater to these new to credit customers which can be attributed to its share, which increased from 63% to 78% from FY19 to Q1 FY25.

Strong Demand of Housing across market in FY25

The Indian housing market witnessed a significant surge in demand in FY25 with primary housing sales reaching a record Rs. 66.92 bn indicating robust market appetite in Tier -1. The National Capital Region (NCR) led in revenue contribution with a 25% share followed closely by the Mumbai Metropolitan Region (MMR) at 24%. Despite this, new launches have been on a declining trend over the past two financial years with approximately 0.49mn units launched in FY'25, a decline of around 8% from 0.51mn units launched in FY'22.

The disparity between revenue and volume growth suggests a significant rise in average ticket size, with the average unit price increasing from Rs. 8.1mn in FY'22 to Rs. 13.5mn in FY'25, an increase of approximately 66%. This growth in average ticket size is a key factor contributing to the overall revenue growth in the housing market. The market share of NCR has seen a significant rise, increasing from 12% in FY'22 to 25% in FY'25, while MMR's market share has decreased from 30% in FY'22 to 24% in FY'25. Other cities like Hyderabad and Bengaluru have also seen a decline in their market share, with Hyderabad's share decreasing from 17% in FY'22 to 15% in FY'25, and Bengaluru's share decreasing from 20% in FY'22 to 14% in FY'25.

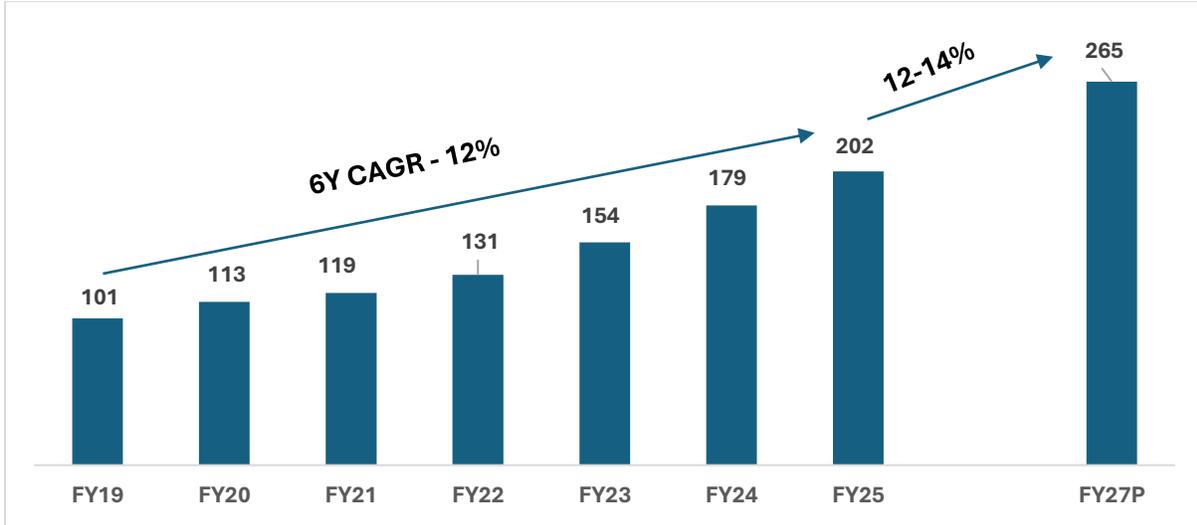
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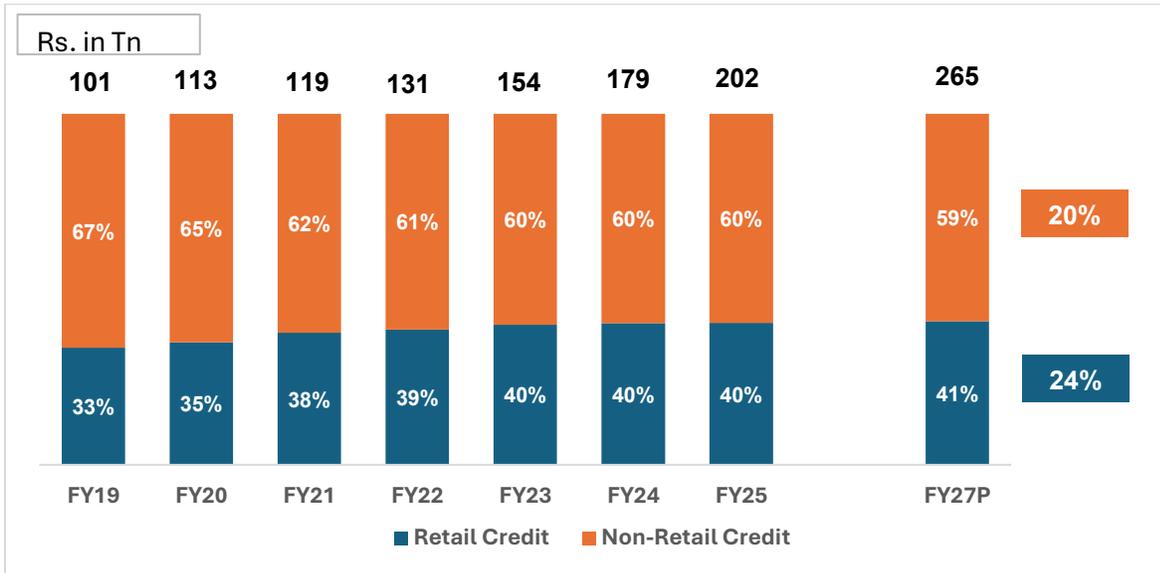
Note: E: Estimated; Source: RBI, Planning Commission, Crisil Intelligence

3.2 Overall Systemic Credit

Systemic Credit to grow by 12-14% between FY25 and FY27



Note: P: Projected; Source: RBI, company reports, Crisil Intelligence



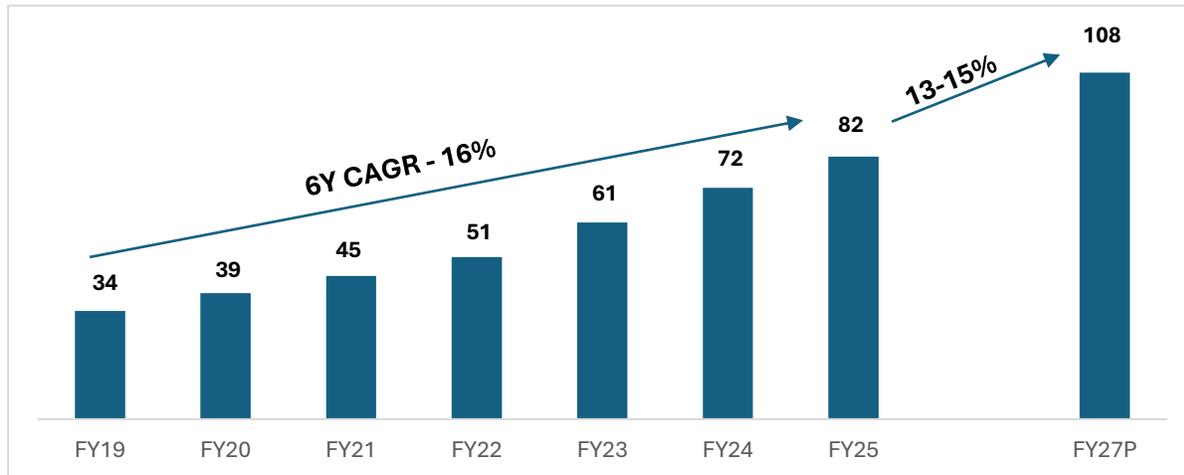
Note: P: Projected; Source: RBI, company reports, Crisil Intelligence

Systemic credit in India grew at a 6-year CAGR of 12% over fiscals 2019 and 2025 (Rs. 101 trillion in fiscal 2019 and Rs. 202 trillion in FY25). Retail credit continues to lead the systemic credit growth in fiscal 2025, supported by the focused approach of banks and NBFCs in increasing the retail portfolio. Retail credit portfolio continues to outpace non-retail credit. Going ahead, CRISIL Intelligence projects systemic credit to grow at 12%-14% CAGR between FY25 and FY27.

As of FY25, the retail and non-retail segments account for 40% and 60% of total systemic credit,

respectively. By FY27, the retail segment is projected to expand its share to 41%, while the non-retail segment will contract slightly to 59%. This represents a modest rebalancing of the credit landscape, with retail credit gaining a slightly larger foothold.

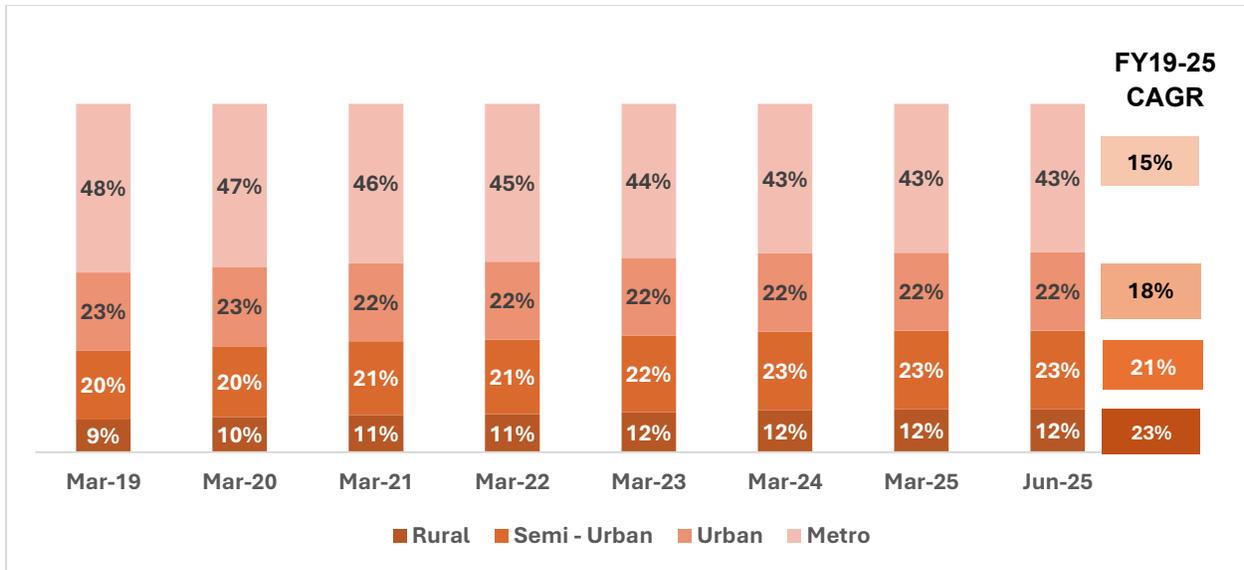
Retail credit growth is projected to have stable growth from FY2025 to FY2027



Note: P: Projected Source: RBI, Crisil Intelligence

The retail credit including small ticket loans for asset classes such as Housing finance, Vehicle Financing, Gold Loans, Education Loans, Consumer Durables, Personal loans, and microfinance, in India stood at Rs. 82 trillion, as of FY25 which rapidly grew at a CAGR of 16% between FY19 and FY25 (Rs. 34 trillion in FY19). Retail credit grew at 14% in FY25 supported by steady demand in underlying assets like housing, auto and growth in education loans 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 13-15% between FY25 and FY27 (Rs 108 trillion projected in FY27). 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.

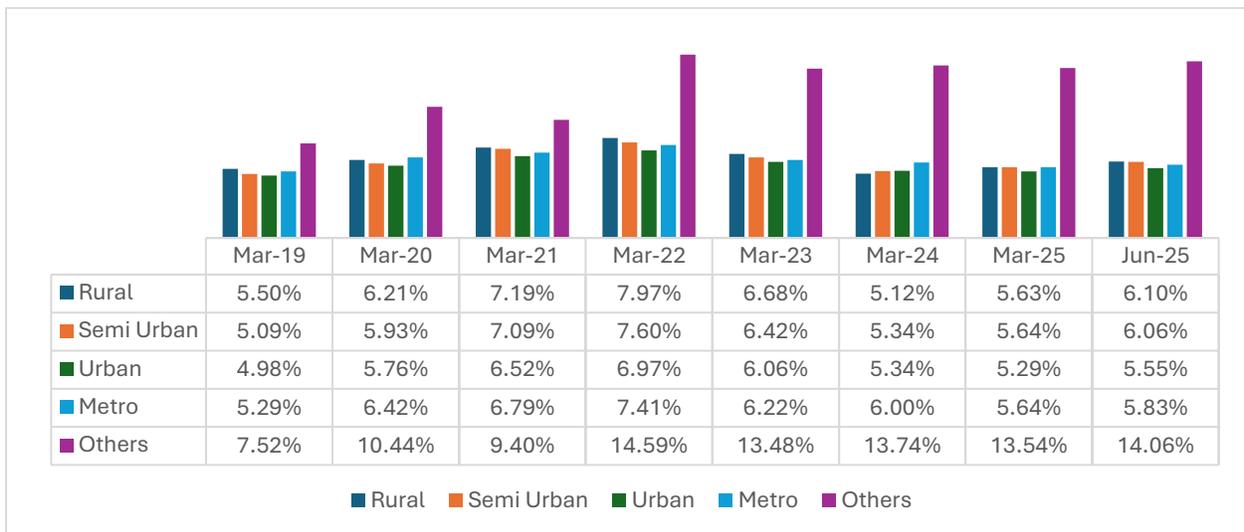
Rural and Semi Urban's share in credit showed the fastest growth from FY19 to FY25



Note: Credit include Education, Housing, Property, secured business, commercial vehicle, Tractor, 2W, Used car, Auto, Unsecured business, general business, consumer and personal loan, Source: CIBIL, Crisil Intelligence

Metro cities continue to hold the largest share of retail credit, at 43% in FY25, followed by urban and semi urban at 23% and 22% respectively and rural at 12%. However, in terms of growth, rural has witnessed the highest CAGR growth at 23% during FY19 and FY25, followed by Semi Urban (21%), Urban (18%) and Metro (15%).

Asset Quality Trends: Rural Shows Resilience, Metro and Semi-Urban Weaken



Note: Credit include Education, Housing, Property, secured business, commercial vehicle, Tractor, 2W, Used car, Auto, Unsecured business, general business, consumer and personal loan, Source: CIBIL, Crisil Intelligence

In terms of asset quality, the Metro region reported the weakest performance, with a gross non-performing asset (GNPA) ratio of 6% in FY24. Semi-Urban and Urban areas followed closely, with a GNPA ratio of 5.3% in FY24.

In contrast, the Rural segment demonstrated remarkable resilience, with its GNPA ratio improving from 5.5% in FY19 to 5.1% in FY24. This improvement is notable, especially when compared to the deterioration in asset quality observed in other regions.

However, a notable reversal in trends emerged in FY25, with asset quality in rural areas slightly deteriorating to 6%, while metro and urban areas exhibited improvements, recording 5.6% and 5 % respectively. This deteriorating trend across all areas has persisted into Q1'FY26. The rural portfolio, being the most affected, has been particularly affected by over-leveraging issue and asset quality concerns persisting in the industry, primarily stemming from the unsecured segment.

NBFCs regained momentum in rural and semi urban areas, with market share being range bound throughout from FY19 - FY25

Lenders	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Jun-25
Rural								
Banks	60%	61%	62%	63%	61%	58%	56%	56%
NBFCs	35%	34%	32%	31%	32%	35%	36%	37%
Others	5%	5%	6%	6%	7%	7%	8%	7%
Semi - Urban								
Banks	65%	66%	66%	67%	65%	62%	61%	60%
NBFCs	30%	29%	27%	26%	27%	30%	31%	32%
Others	5%	5%	7%	7%	8%	8%	8%	8%
Urban								
Banks	69%	71%	71%	73%	72%	70%	69%	69%
NBFCs	27%	25%	24%	23%	23%	24%	25%	25%
Others	4%	4%	5%	5%	5%	5%	6%	6%
Metro								
Banks	66%	69%	69%	71%	70%	69%	68%	68%
NBFCs	29%	26%	25%	24%	24%	25%	27%	27%
Others	6%	5%	6%	5%	6%	6%	6%	6%

Note: Credit include Education, Housing, Property, secured business, commercial vehicle, Tractor, 2W, Used car, Auto, Unsecured business, general business, consumer and personal loan, Others include Co-op Banks, SFBs and other small lenders, Source: CIBIL, Crisil Intelligence

While banks have intensified their focus on premium markets, such as urban, and metro areas, where their market share increased between FY22 and FY23, NBFCs have tapped into the underserved rural market.

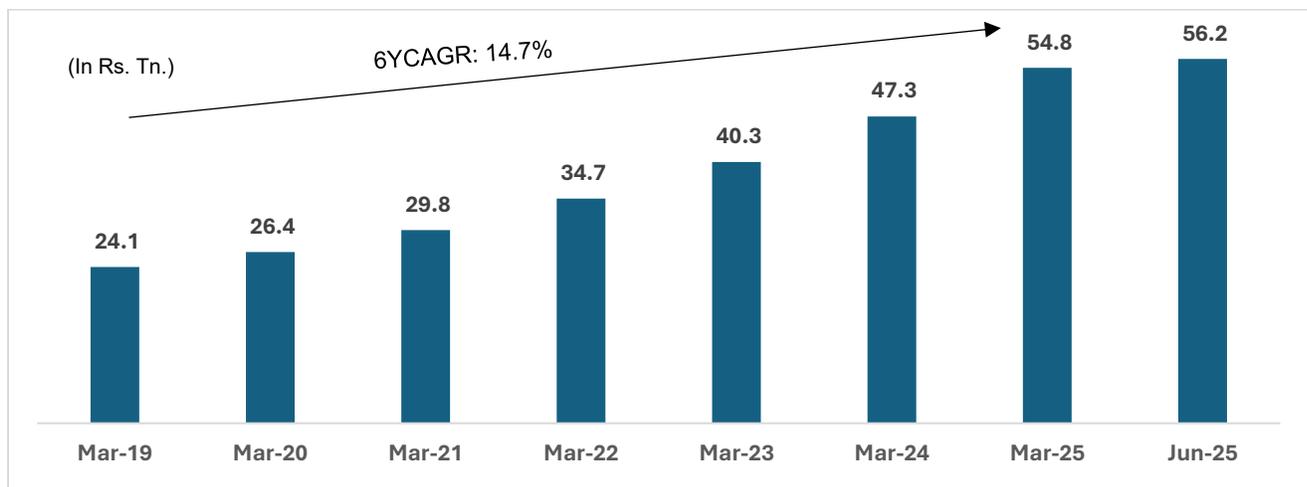
The rural market has traditionally been avoided by banks due to the lower ticket value loan requirements and the perceived riskier profile of borrowers. However, NBFCs have been able to successfully cater to this market by leveraging their unconventional underwriting and lending approaches. By providing last-mile

connectivity and customized product offerings, NBFCs have been able to bridge the financial inclusion gap in rural areas.

NBFCs' ability to innovate and adapt to the unique needs of rural and semi-urban customers has enabled them to thrive in this underserved market. Their willingness to take on risk and invest in untraditional lending models allows them to increase their market share and provide much-needed financial services to rural communities.

Secured retail loan witnessed growth at a 14.7% CAGR between FY19 and FY25

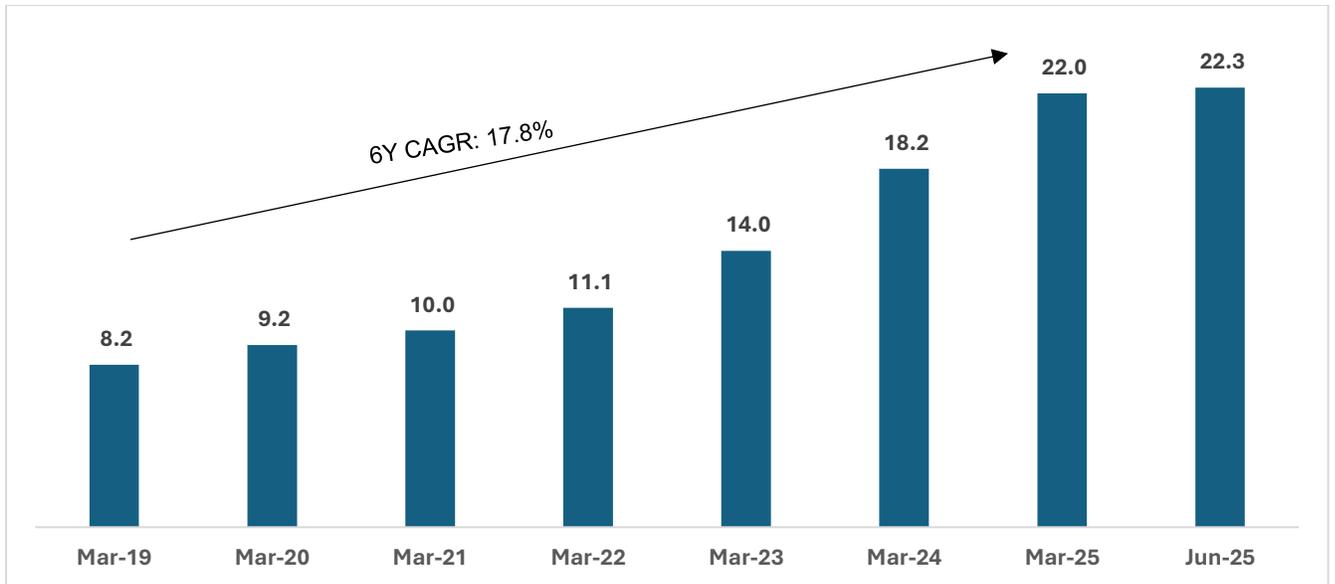
As of FY25, secured retail loans reached 54.8 trillion and 56.2 trillion in Q1 of FY26. It is growing at a CAGR of 14.7% from FY19 to FY25.



Note: Secured retail loan includes education loan, housing loan, property loan, Source: CIBIL, Crisil Intelligence

Secured hypothecation retail loan grew at a CAGR of 17.8% between FY19 and FY25

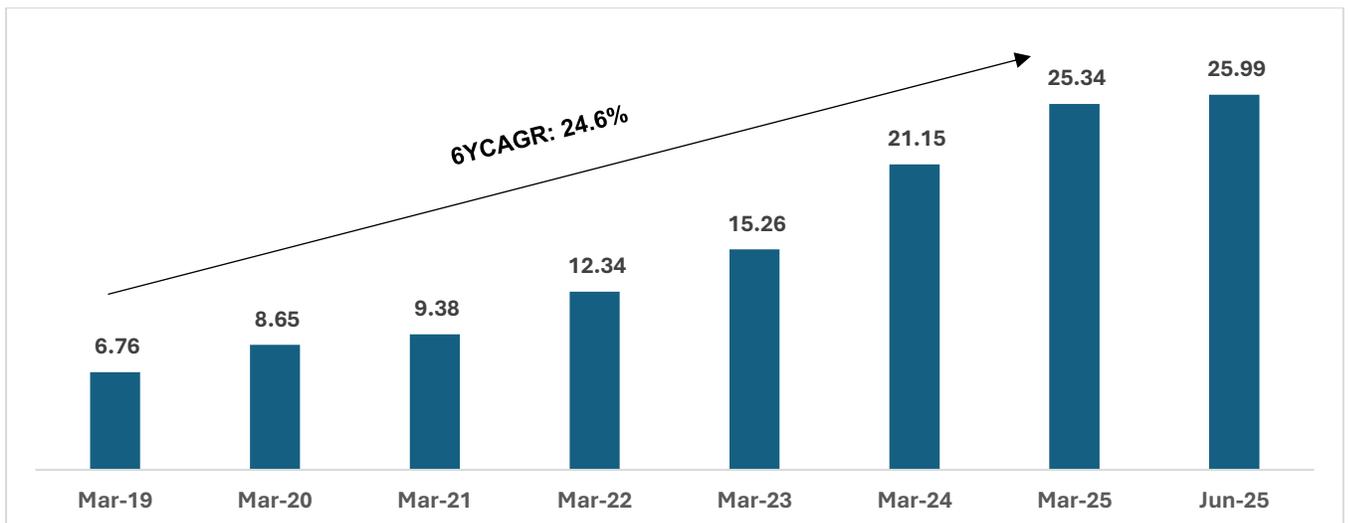
As of FY25, secured hypothecation loans reached 21.97 trillion and 22 trillion in Q1 of FY26. It exhibited CAGR of 17.8% from FY19 to FY25.



Note: Secured Hypothecation retail loan include secured business loans; Commercial vehicle loan, Tractor loan, 2-Wheeler loan, used car loan, and auto loan, Source: CIBIL, Crisil Intelligence

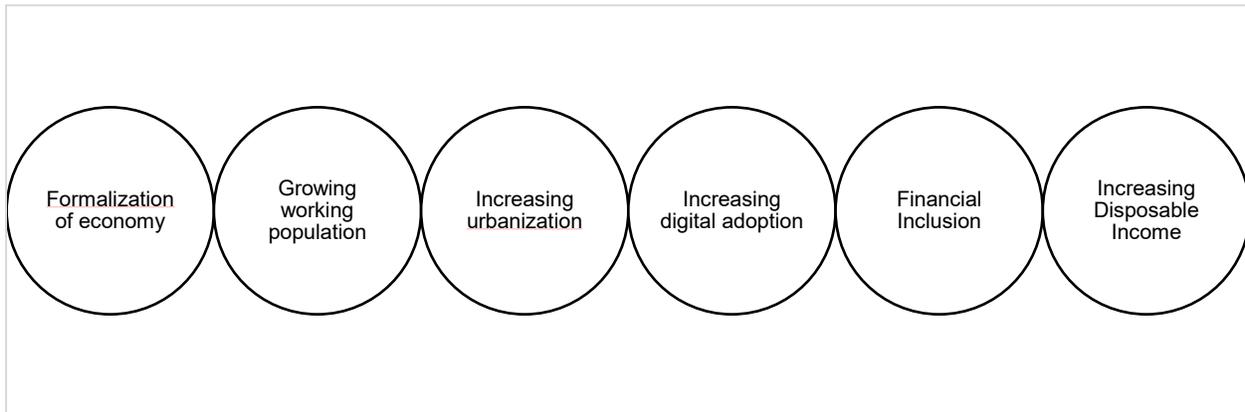
Unsecured retail loan reported 24.6% CAGR between FY19 and FY25

As of FY25, unsecured retail loans reached 25.34 trillion and 25.99 trillion in Q1 of FY26. It reported CAGR of 24.6% from FY19 to FY25. A significant driver of this growth has been the personal loan and business loan category, which experienced a substantial increase during the same period, serving as a key catalyst behind the segment's expansion.



Note: Unsecured retail loan includes unsecured business loan, general business loan, consumer loan, and personal loan, Source: CIBIL, Crisil Intelligence

3.2 Factors that will support retail credit growth



Source: Crisil Intelligence

The Indian retail credit market is poised for significant growth, driven by increasing disposable incomes, changing lifestyles, and a shift towards discretionary spending. This trend is evident in both rural and urban India, with the share of discretionary items in consumption baskets growing between 2011-12 and 2023-24 (Household Consumption Expenditure Survey(HCES) 2023-24, [Ministry of Statistics and Programme Implementation](#) (MoSPI)). As financial health improves, consumers are seeking credit to finance purchases such as vehicles and homes, creating a sizable market for lenders. The government's initiatives to promote digitalization and financial inclusion have improved access to credit for underserved segments, including MSMEs and low-income households. Despite rapid growth, retail credit penetration remains low, presenting an opportunity for lenders to expand their customer base and increase market share. India's demographic dividend, with a large working-age population, is expected to drive consumption and credit demand. India's large working-age population is expected to drive consumption and credit demand, fuelling the growth of the retail credit market. The young population's aspirations for a better lifestyle and increased access to credit will contribute to a sustained growth trajectory, offering lenders opportunities.

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 by 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 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 seamless experience to borrowers. Looking ahead, the digitization of retail credit in India is expected to continue evolving.

The Key Growth drivers of digital lending in India include:

- **Efficiency in catering to Credit Pan-India in Remote / Tier-2+ Regions via Digital Lending:** Digital lending has transformed credit access in India's remote and tier-2+ regions by leveraging data analytics, AI, and machine learning. This has enabled lenders to evaluate creditworthiness, streamline loan processing, and disburse funds quickly, resulting in customized loan products for borrowers and advancing financial inclusion.
- **Higher ability to cross sell as 360-degree view in customer lifecycle:** Digital lending's advanced analytics and technology enable effective cross-selling to existing customers. A 360-degree customer view allows lenders to understand behaviour, preferences, and financial needs, identifying cross-selling opportunities and enabling timely, relevant product offers that enhance customer satisfaction and cross-selling success.
- **Phygital Network Key for Distribution + Underwriting:** Phygital networks combine physical and digital channels, enabling lenders to reach a wider audience, increase efficiency, and reduce costs. This hybrid approach leverages the strengths of both, providing a human interface for guidance and support while facilitating seamless onboarding, loan processing, disbursement and improve risk assessment.

FinTech Innovations

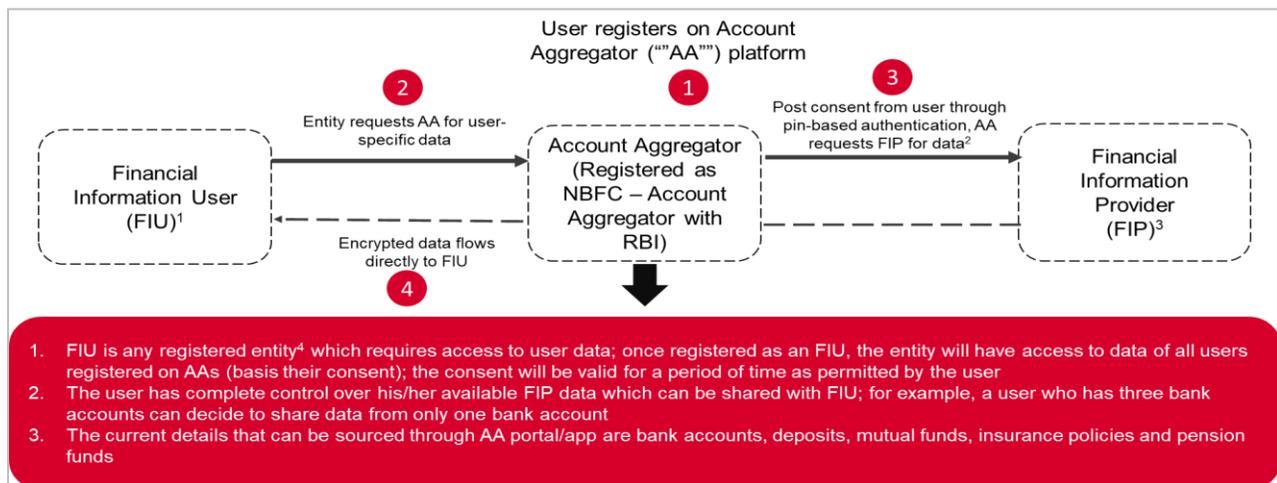
- **TReDS Platform:** The TReDS platform connects MSMEs with financial institutions, enabling them to access financing at competitive interest rates. This platform ensures transparency and efficiency in the discounting process, allowing MSMEs to receive prompt payments against outstanding invoices. As a result, MSMEs have experienced improved cash flows, reduced working capital requirements, and enhanced 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.

- **Use of generative AI and new technologies increasing productivity:** Generative AI (Gen AI) uses large data sets to produce content in response to prompts. In BFSI sector, it enables efficient conversational banking, enhances customer experiences, and saves time. Gen AI aids in fraud prevention and risk analysis, generating synthetic data for detailed insights and informed decision-making, ultimately transforming the BFSI sector.

Government Regulations for the Digital Finance economy

- **Implementation of data privacy law and potential impact on this industry:** The Ministry of Electronics and Information Technology has released the Draft Digital Personal Data Protection Rules, 2025, which require financial institutions to obtain explicit customer consent and define data governance practices. The rules will impact the Indian Fintech industry, increasing transparency and accountability in data collection and processing, and making financial institutions more accountable for personal data security.
- **Account aggregator flow:**



Source: Crisil Intelligence

- **Regulations and Initiatives on credit by fintech:**
 RBI has been actively supporting the growth of the Fintech sector in India by promoting innovation, financial inclusion, regulatory compliance, and consumer protection. To achieve this, the RBI has launched several key initiatives, including:
 1. Establishment of a Fintech Department: The RBI established a dedicated Fintech department in 2022 to promote innovation and growth in the sector. The department has been involved in initiatives such as pilot programs for central bank digital currencies, G20 events, and setting up

digital banking units across India.

2. Framework for Self-Regulatory Organizations: In 2024, the RBI introduced a framework for self-regulatory organizations in the Fintech sector, aimed at establishing a collaborative and structured regulatory approach. This framework enables self-regulatory organizations to oversee their members, promoting transparency, accountability, and fair competition.
3. Fintech Repository: The RBI has launched the "Fintech Repository", a database that tracks financial technology developments in India. The repository aims to facilitate collaboration and knowledge sharing among stakeholders, including regulators and industry players, to promote a more informed and effective regulatory framework for the Fintech sector.
4. RBI has also developed a Payments Infrastructure Development Fund (PIDF) scheme to subsidise deployment of payment acceptance infrastructure in tier-3 to tier-6 centres.

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. 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.

3.3 Non-retail credit growth drivers

Strategic infrastructure investment: A comprehensive plan to channel massive investments into infrastructure over several years. It covers 34 sub-sectors, with significant allocations to roads, power, and urban infrastructure. PM Gati Shakti National Master Plan is a unified digital platform for integrated planning and coordinated implementation of infrastructure projects across ministries. It improves multi-modal connectivity and last-mile efficiency. National Highways Expansion is significant government spending has led to a major expansion and modernization of the country's road network, speeding up the movement of goods and people. Initiatives like the Smart Cities Mission and Swachh Bharat Mission focus on improving urban services, waste management, and housing, which contributes to higher quality of life and economic activity.

Digital public infrastructure: UPI is an instant payment system that has democratized digital transactions, driving a massive increase in retail digital payments and formalizing a large part of the cash-based economy. It allows small businesses and individuals to participate in the digital economy with low transaction costs. Aadhar based Services is a biometric identity system that provides a foundation for seamless digital verification, improving access to financial services and government benefits.

Fiscal and regulatory policies: Improvements in tax compliance due to reforms have resulted in increased government revenue, which can be reinvested into public infrastructure and development. Better supervision by bodies like the Reserve Bank of India (RBI) and the introduction of measures like the Insolvency and Bankruptcy Code (IBC) have improved credit market health. This frees banks to lend and supports non-banking financial companies (NBFCs) in filling credit gaps. Initiatives like Make in India attract foreign direct investment (FDI) and boost manufacturing by simplifying regulations.

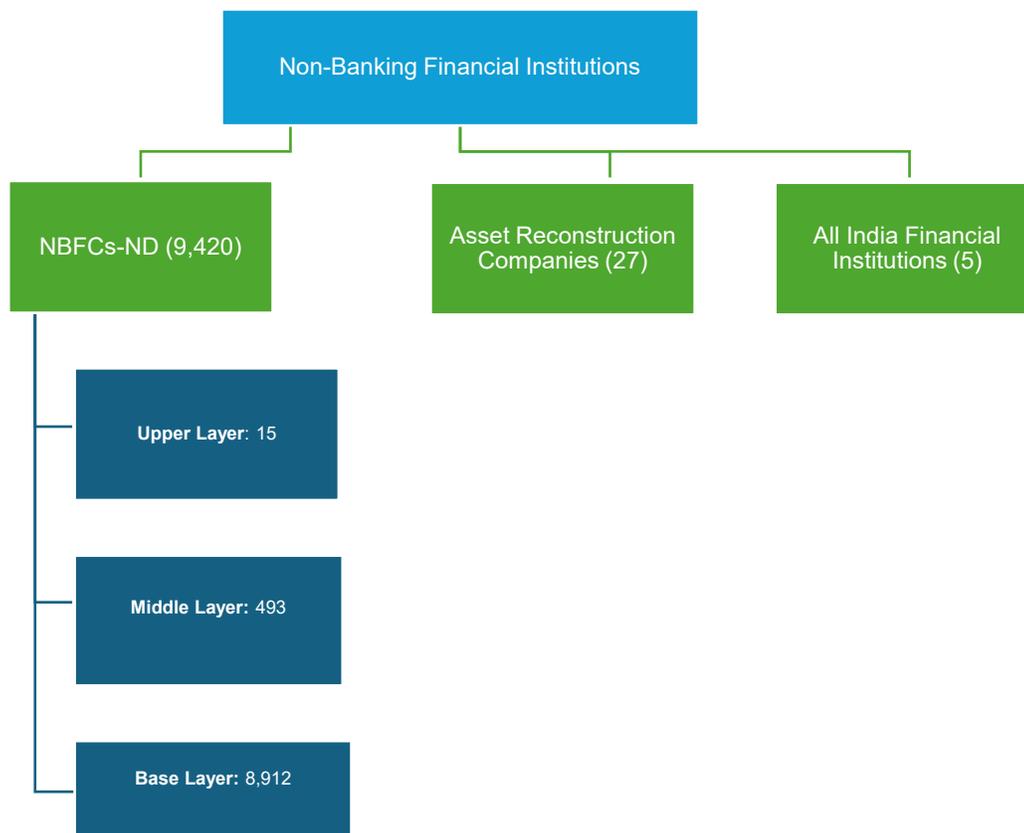
Social and financial inclusion: Pradhan Mantri Jan Dhan Yojana (PMJDY) is the program pushed for widespread financial inclusion by extending banking services to millions of unbanked citizens. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is scheme guarantees wage employment in rural areas, boosting income levels, alleviating poverty, and creating rural infrastructure. Subsidies on essential goods and the Production-Linked Incentive (PLI) scheme for manufacturing encourage consumption and industrial growth.

4. NBFC Credit Landscape

4.1 Classification of NBFCs

NBFCs are classified based on liabilities into two broad categories: a) deposit-taking; and b) non-deposit-taking. Deposit-taking NBFCs are subject to requirements of capital adequacy, liquid assets maintenance, exposure norms, etc. 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.

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



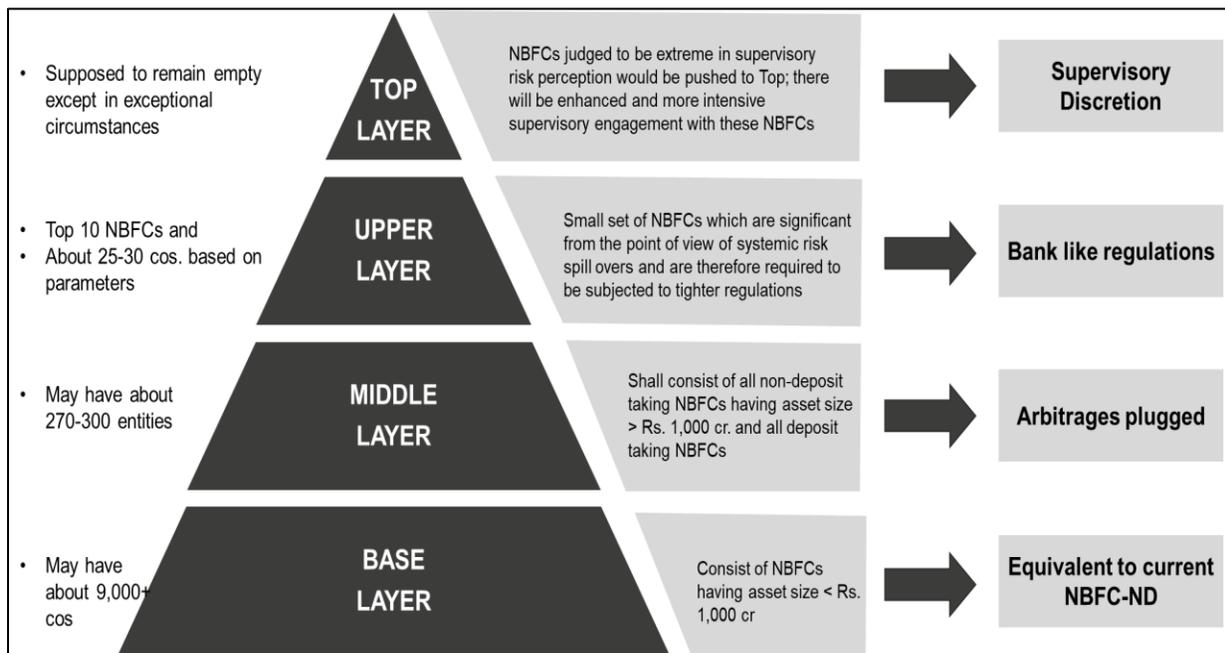
Note: Figures in brackets represent the number of entities registered with RBI as of March 2024. Source: Report on trend and progress of Banking in India 2023-24, Crisil Intelligence

4.2 Regulations impacting NBFCs and key changes over the last few years

Scale based Regulatory Framework 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, in October 2021, the RBI put in place a revised regulatory framework for NBFCs, which is in effect from October 2022.

As per the RBI's Scale-Based Regulation for NBFCs framework, the regulatory and supervisory 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.



Source: RBI, Crisil Intelligence

Regulatory distinction between banks and NBFCs

	NBFC – ND –SI	NBFC – D	NBFC - HFC	Banks (Basel-III)
Minimum net owned funds	Rs 20 million	Rs 20 million	Rs 200 million	N.A.
Capital adequacy	15.00%	15.00%	15.00%	11.50%
Tier I capital	10.00%	10.00%	10.00%	9.50%
Stage III assets	90 days#	90 days#	90 days	90 days
Cash reserve ratio (CRR)	N.A.	N.A.	N.A.	4.50%
Statutory liquidity ratio (SLR)	N.A.	15.0% [§]	15.0% [^]	18.00%
Priority sector	N.A.	N.A.	N.A.	40% of Adjusted net bank credit

SARFAESI eligibility	Yes*	Yes*	Yes	Yes
Exposure norms (% of NOF)	Single borrower: 15% (+10% for IFC)	Single borrower: 15%	Single borrower: 25% of tier-1 capital@	Single borrower: 15% (+5% for infrastructure projects)
	Group of borrowers: 25% (+15% for IFC)	Group of borrowers: 25%	Group of borrowers: 40% of tier-1 capital@	Group of borrowers: 30% (+10% for infrastructure projects)

Note: N.A. = Not applicable

*The Ministry of Finance, in its union budget for 2021, proposed that the SARFAESI threshold be reduced from Rs.5 million to Rs.2 million, # Discretion with the audit committee of NBFCs to defer stage 3 classification beyond 90+dpd, \$ as per RBI regulations, NBFC-D, shall invest in India in unencumbered approved securities valued at the price not exceeding the current market price of such securities an amount which shall, at the close of business or any day, not be less than 15% of the "public deposit". ^In exercise of powers conferred under Section 29B of NHB Act 1987, it has been decided that all deposit taking HFCs shall maintain, on an ongoing basis, liquid assets to the extent of 15.0% of the public deposits held by them. @As per RBI regulation, concentration of credit/investment taken together (not applicable to upper-layer HFCs), Adjusted net bank credit (ANBC) denotes the outstanding bank credit in India [As prescribed in item No.VI of Form 'A' under Section 42 (2) of the RBI Act, 1934]
Source: RBI Master Directions, Crisil Intelligence

The RBI has taken a balanced view, and instead of going for a one-size-fits-all approach, it has opted for differential regulations based on the size and systemic importance of an NBFC. Furthermore, the importance of NBFCs in providing credit to underserved customers has been recognised. The RBI has not proposed imposition of CRR and SLR on NBFCs, is a relief to NBFCs.

Net owned fund

The RBI has specified Rs. 10 Cr 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 mentioned NBFCs having net owned fund of less than ten crore rupees, shall achieve the NOF of Rs 10 crore as per the following.

Net Fund Owned Requirement		
NBFCs	By 31 st Mar 2025	By 31 st Mar 2027
NBFC-ICC	Rs. 5 Cr.	Rs. 10 Cr.
NBFC-MFI	Rs. 7 Cr.	Rs. 10 Cr.
NBFC-MFI in Northeastern region	Rs. 5 Cr.	Rs. 10 Cr.
NBFC-Factor	Rs. 7 Cr.	Rs. 10 Cr.

Source: RBI, Crisil Intelligence

RBI tightens provisioning norms on Standard assets for NBFC Upper Layer

On June 6th, 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. 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

RBI issues 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 specialisation 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.

Activity-based classification

As per the RBI circular dated February 22, 2019, 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): An NBFC-ICC means any company that is a financial institution carrying on as its principal business – asset finance – that is providing of finance by making loans or advances or otherwise for any activity other than its own and acquisition of securities; and is not any other category of NBFCs
- Infrastructure finance company (IFC): An IFC is a NBFC that deploys at least 75% of its total assets in infrastructure loans and has minimum net-owned funds of Rs 300 crore, with a minimum credit

rating of 'A' or equivalent and a 15% CRAR.

- Systemically important core investment company (CIC-ND-SI): A CIC-ND-SI is an NBFC in the business of acquisition of shares and securities and satisfying the following conditions:
 - Holds not less than 90% of its total assets in the form of investments in equity shares, preference shares, 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 that constitute not less than 60% of its total assets.
 - Does not trade in its investments in shares, 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, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies
 - Asset size is Rs 500 crore or above
 - Accepts public funds
- Infrastructure debt fund (IDF-NBFC): An IDF-NBFC is a company registered as an NBFC to facilitate the flow of long-term debt into infrastructure projects. It raises resources through issue of rupee or dollar-denominated bonds with a minimum five-year maturity. Only IFCs can sponsor IDF-NBFCs
- 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 all rural, urban, and semi-urban households
 - Loan tenure to not be less than 24 months for a loan amount in excess of Rs 30,000 with prepayment without penalty
 - Fixed obligation to income ratio (repayment) capped at 50%
 - Loan to be extended without collateral
 - Loan is repayable on weekly, fortnightly, or monthly instalments as per the borrower's choice
- 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): An MGC is a financial institution for which at least 90% of the business turnover is mortgage-guarantee business or at least 90% of the gross income is from mortgage-guarantee business and whose net-owned funds is Rs 100 crore.

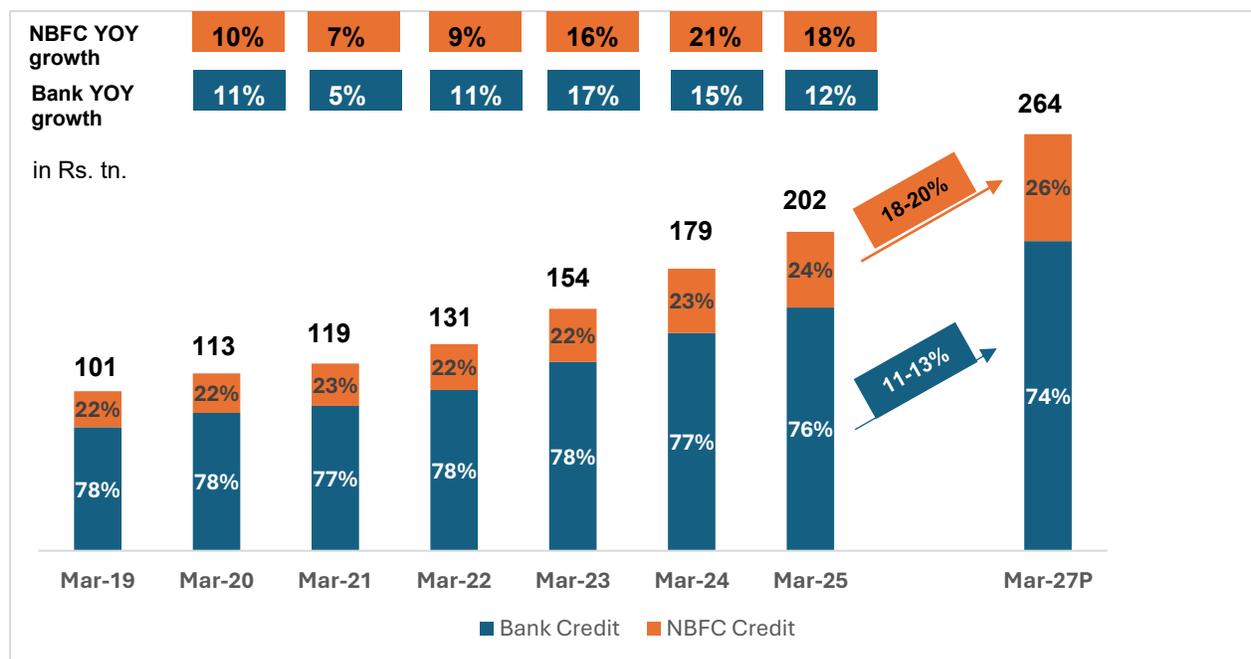
- Non-operative financial holding company (NOFHC): An NOFHC is a financial institution through which promoter / promoter groups will be permitted to set up a new bank. A wholly owned NOFHC will hold the bank as well as all other financial services companies regulated by the RBI or other.

4.3 NBFCs: Trends in Growth and Performance

NBFC Credit is expected to grow at a higher growth rate of 18-20% from Mar-25 to Mar-27 than bank credit which is expected to grow at a moderate growth rate of 11-13%.

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. Traditional banking system had many limitations for certain sections of the society with lower GSDP and no credit score. NBFCs were able to bridge that gap by providing opening branches in rural and semi urban areas by not only provided credit but also other financial services. NBFCs could bridge the credit gap on account of their flexibility in assessing customers with lower/no credit score, unlike banks, they could provide customized services to retail and institutional customers and introduce newer credit products.

The credit growth of banks increased at 12% year-on-year in fiscal 2025, despite a high base, spurred by their aggressive focus on the retail loans segment in recent times. Banks typically focus on Tier 1 cities and salaried customers to maintain asset quality. However, recently, tech-enabled, retail-focused NBFCs that can leverage their cost of funds are also serving lower-salaried customers who do not meet bank underwriting criteria.

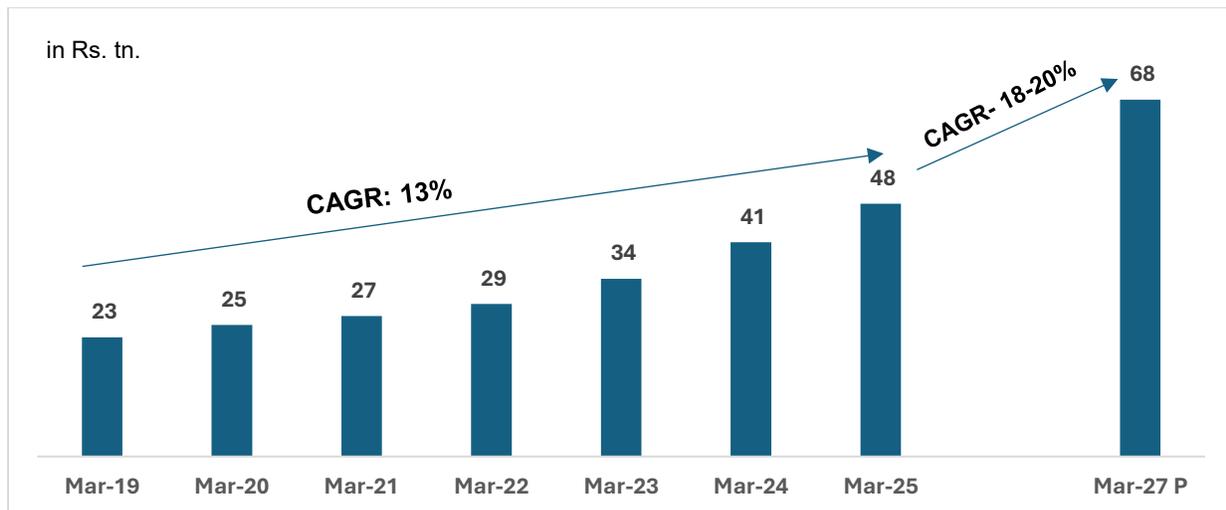


Note: P = Projected, Source: RBI, Company reports, Crisil Intelligence

NBFC's share in systemic credit is estimated to have increased from 22% in Fiscal 2019 to 24% in Fiscal 2025. It is expected that share of NBFCs will be marginally higher at 26% in FY27. 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 not conventionally targeted by the Banks. Going forward, NBFCs are expected to continue to gain market share over banks 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.

Non Banking Finance companies AUM from Fiscal 2022 to Fiscal 2025



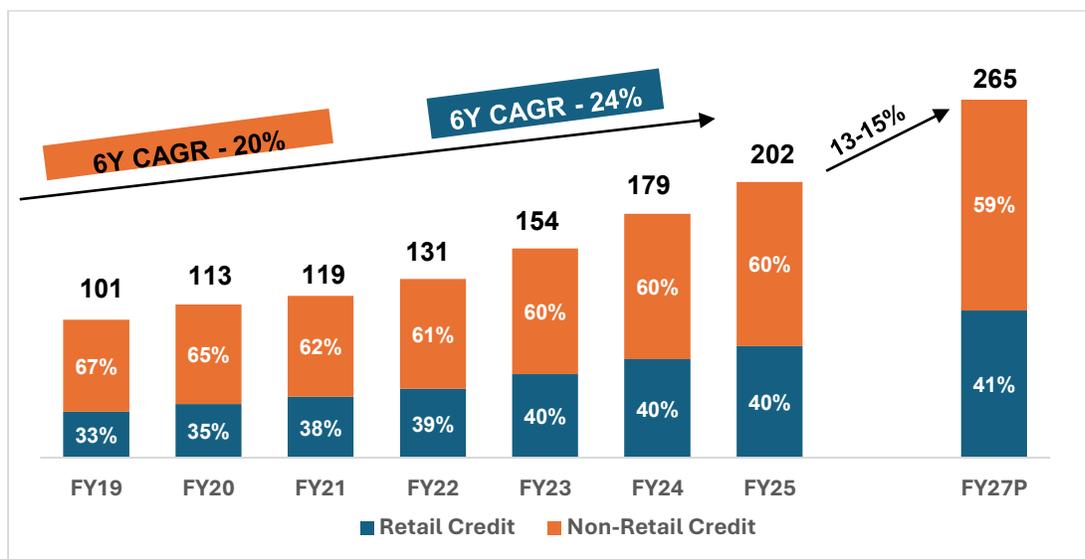
Note: P = Projected, Source: RBI, Company reports, Crisil Intelligence

NBFCs AUM as of FY19 was Rs. 23 trillion which has grown at a 6-year CAGR of 13.2% to Rs. 48 trillion as of FY25. Tax incentives, GST 2.0 and rising income levels in the economy are expected to drive consumer demand, leading to healthy growth in NBFCs.

NBFCs are driving Financial Inclusion

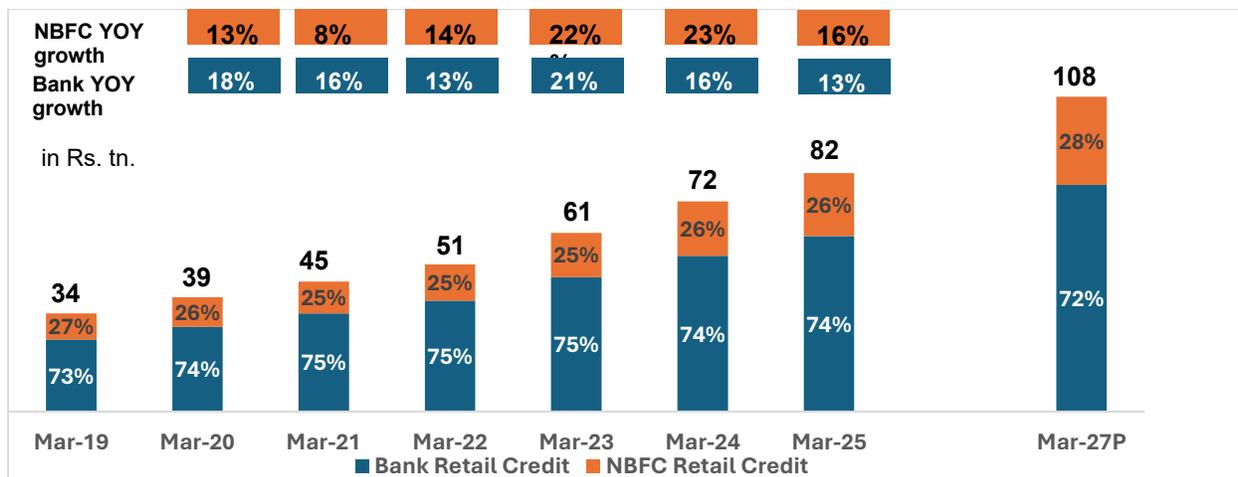
While banks are the primary institutions for banking in India, retail loan portfolio forms only 40% of the overall banking credit as of Fiscal 2025. Other focus areas for banks are wholesale lending to large corporates, credit to services sector and agriculture sector. Lower presence of banks in the 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 more than 45% as of Fiscal 2025 of its portfolio indicating larger focus on retail

customers. Rural and semi-urban 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. MSME often lack easy access to formal credit from banks due to limited credit history, insufficient collateral, or lack of financial documentation. NBFCs bridge the gap by offering customized solutions. NBFCs stronger presence in rural and semi-urban areas where MSMEs are prominent help them to serve the under-penetrated segments driving financial inclusion



Note: P = Projected, Source: RBI, Company reports, Crisil Intelligence

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 has grown significantly, with a number of 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 democratisation of financial services, particularly credit.

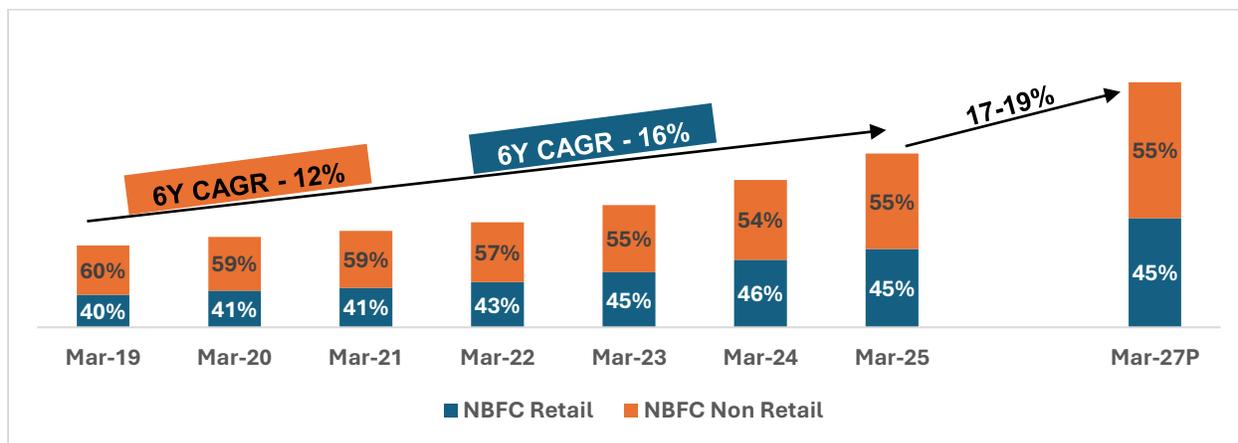


Note: P = Projected, Source: RBI, Company reports, Crisil Intelligence

The retail credit sector has experienced steady growth, marked by a consistent upward trend in both bank and NBFC retail credit. However, growth of NBFC retail credit is accelerating at a faster rate, indicating a growing significance of NBFCs in the retail credit market.

Bank retail credit has seen a steady annual increase, rising from Rs 25 trillion in FY19 to Rs 154 trillion in FY25. NBFC retail credit has also demonstrated an increasing trend, growing from Rs 9 trillion in FY19 to Rs 22 trillion in FY25.

The growth of NBFCs has moderated to 16% in FY25, down from 23% and 22% in FY24 and FY23, respectively. This slowdown can be attributed to a decline in unsecured loans, including microfinance, personal, and consumer durables, which had experienced rapid expansion in previous years. Concerns over overleveraging and potential asset quality issues have likely contributed to this moderation. Nevertheless, the sustained growth of NBFCs underscores the continued expansion of the retail credit market, driven by steady increases in both bank and NBFC retail credit. This trend highlights the ongoing demand for credit in the retail sector, with both banks and NBFCs playing a crucial role in meeting this demand.

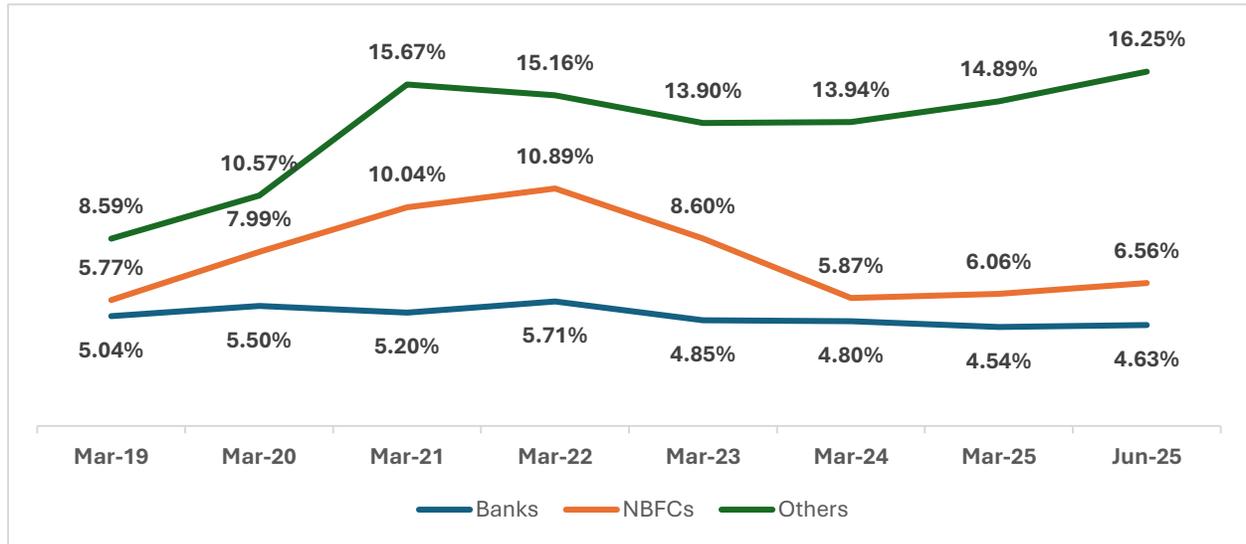


Note: P = Projected, Source: RBI, Company reports, Crisil Intelligence

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 has grown significantly, with a number of 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 democratisation of financial services, particularly credit. Overall NBFC credit during fiscals 2019 to 2025, 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 ~16%, while NBFC non-retail credit is estimated to have witnessed a growth of ~11.5% during the same time period.

Going forward, growth in the NBFC retail segment is expected at 17-19% from Fiscal 2025 to Fiscal 2027 which will support overall NBFC credit growth, with continued focus on the retail segment.

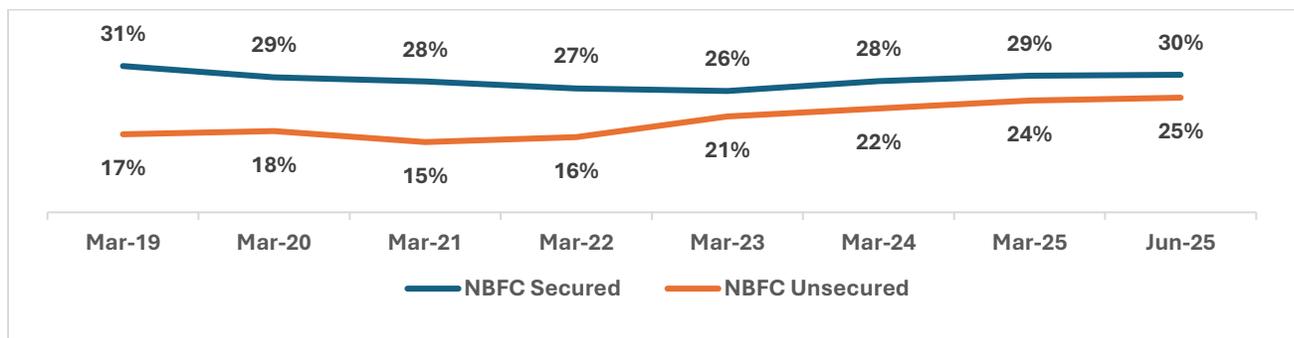
GNPA (90+ DPD) Trend for NBFCs, Banks and Others



Source: CIBIL, Crisil Intelligence

Note: Asset class considered were Auto loan, Business loan general, Business loan secured, business loan unsecured, commercial vehicle loan, consumer loan, education loan, housing loan, personal loan, property loan, tractor loan, two-wheeler loan, used car loan

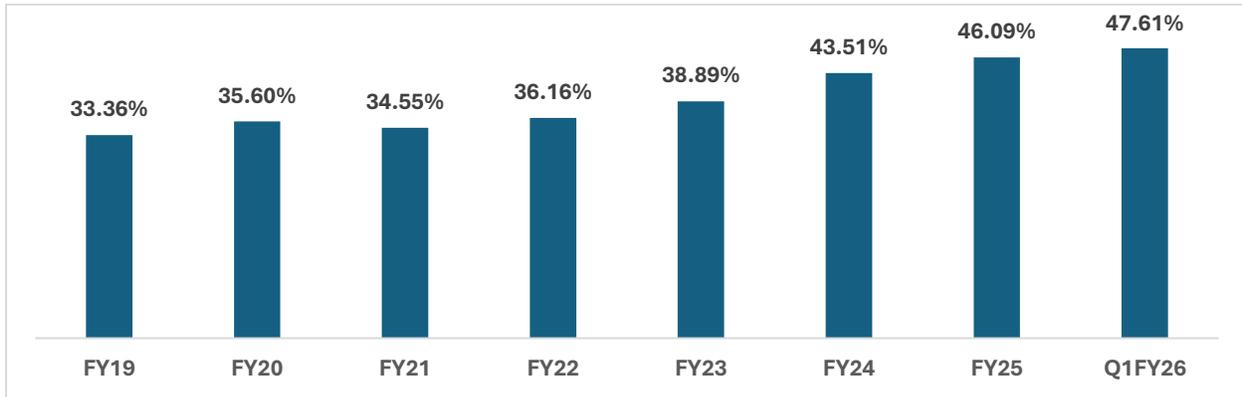
Share of NBFCs in Secured and Unsecured credit asset classes



Note: For computation of share of NBFC Secured, loans considered were Auto loan, Business loan secured, commercial vehicle loans, education loan, housing loan, loan against property, tractor loan, two-wheeler loan and used car loan. For computation of share of NBFC Unsecured loans, loans considered were business loan general, business loan unsecured, consumer loan and personal loan.

Source: CIBIL, Crisil Intelligence

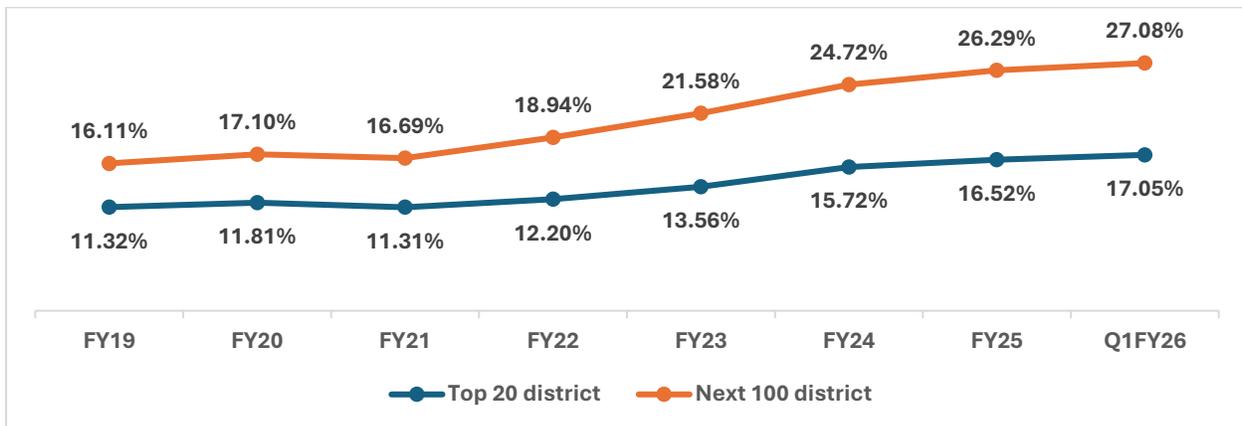
NBFCs' share in small ticket (up to Rs 0.5 million) loans



Note: Asset class considered were Auto loan, Business loan general, Business loan secured, business loan unsecured, commercial vehicle loan, consumer loan, education loan, housing loan, personal loan, property loan, tractor loan, two-wheeler loan, used car loan
Source: CIBIL, Crisil Intelligence

NBFC Share in small ticket loans (upto 0.5 million) has increased from 33.36% in FY19 to 46.09.% in FY25. NBFCs have a significant presence in tier 2 and tier 3 cities as well as rural areas where traditional banking penetration is lower which makes them favourable for small ticket loans specifically in smaller cities and districts.

NBFCs' share of lending in small ticket loans (Upto Rs 0.5 million) in top 20 districts and in next 100 districts



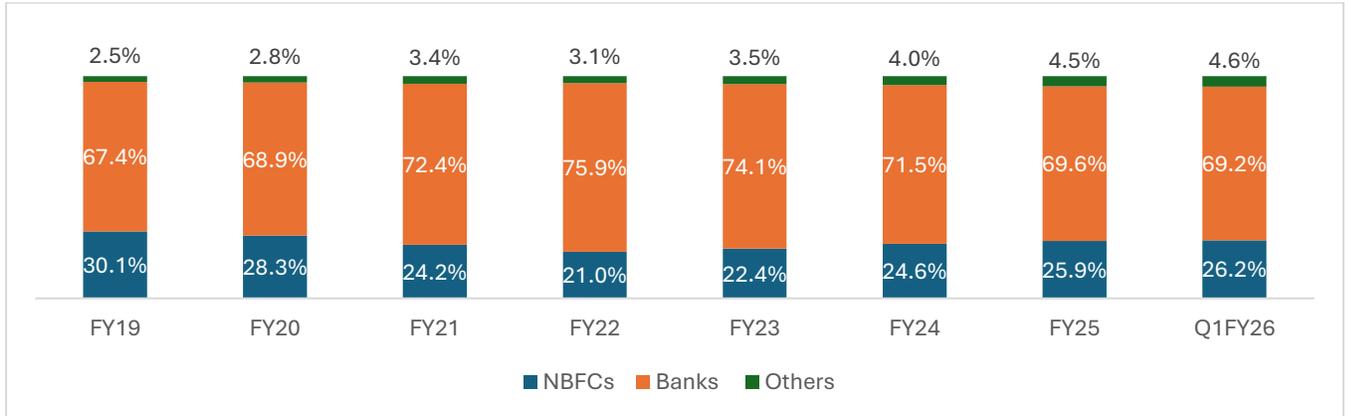
Note: Top 20 and next 100 districts are considered based on portfolio outstanding of Auto loan, Business loan general, Business loan secured, business loan unsecured, commercial vehicle loan, consumer loan, education loan, housing loan, personal loan, property loan, tractor loan, two-wheeler loan, used car loan
Source: CIBIL, Crisil Intelligence

NBFCs have steadily expanded their presence in the top 20 districts, with their share of loans up to ₹0.5 million increasing by 11.32% to 16.52% in FY25, and further to 17.05% in Q1FY26. Notably, their

penetration in the next 100 districts has been more pronounced, with their share surging from 16.11% in FY19 to 26.29% in FY25 and reaching 27.08% in Q1FY26.

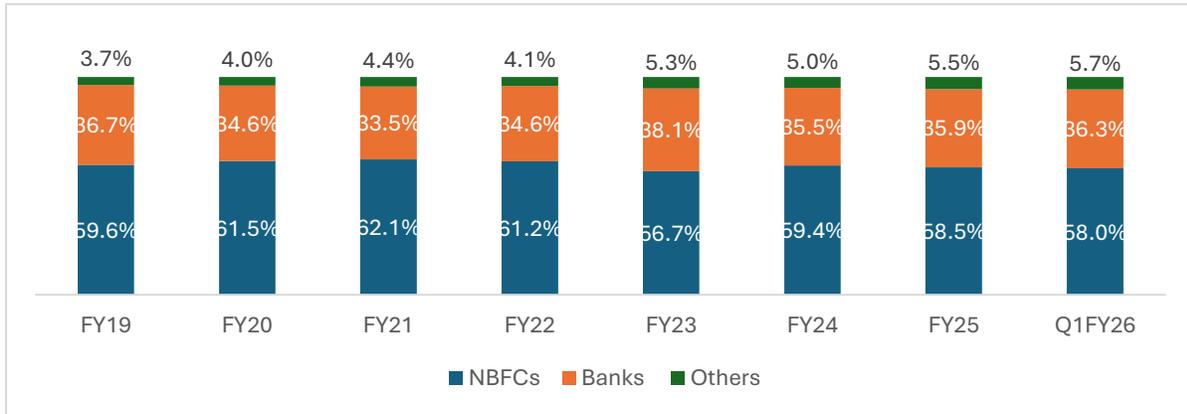
Share of NBFCs across select asset classes

Auto loans



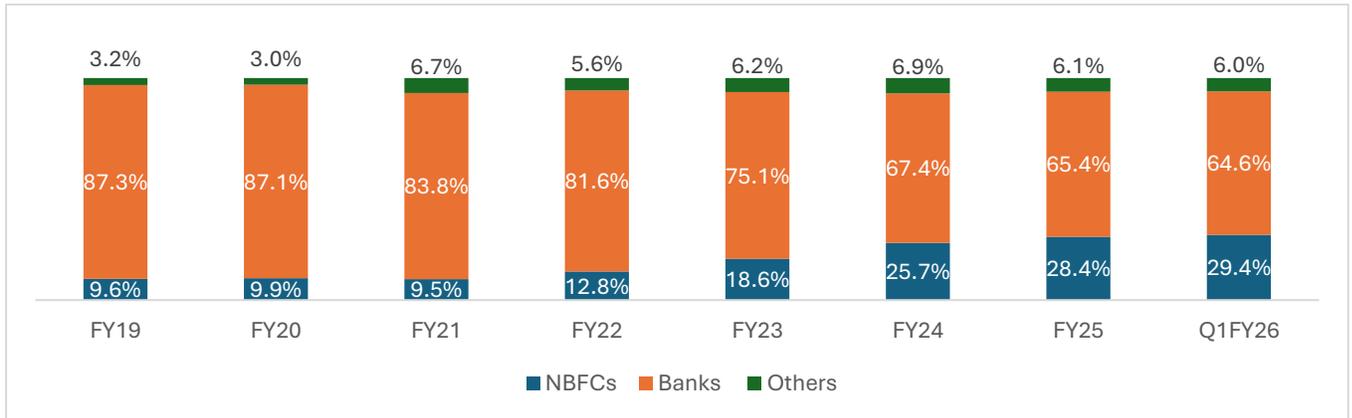
Source: CIBIL, Crisil Intelligence

Commercial vehicle loans



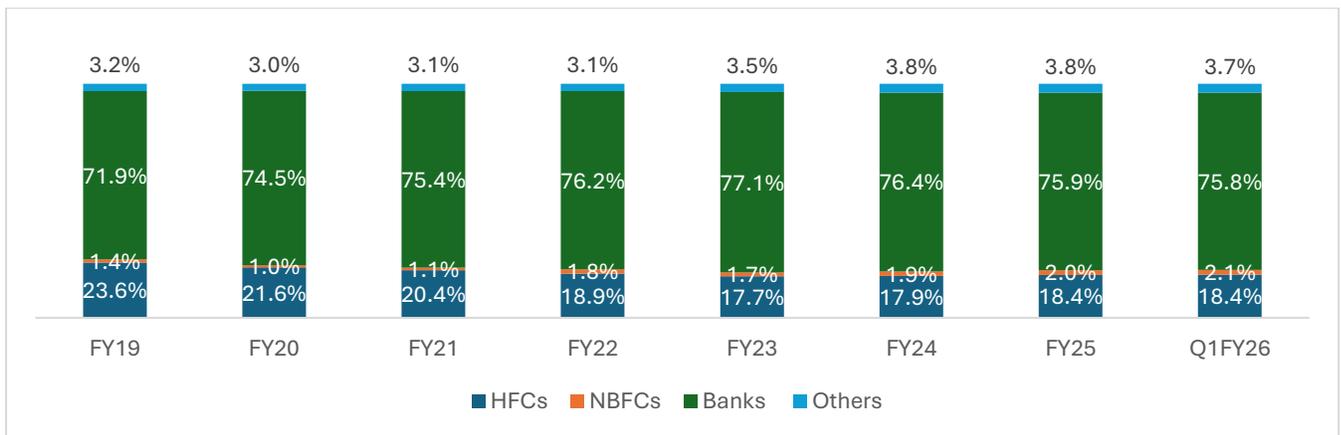
Source: CIBIL, Crisil Intelligence

Education loan



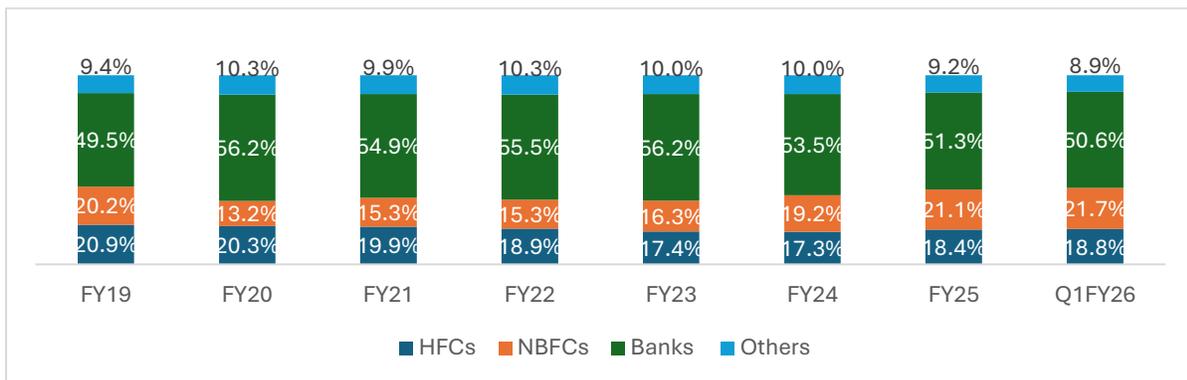
Source: CIBIL, Crisil Intelligence

Housing loan



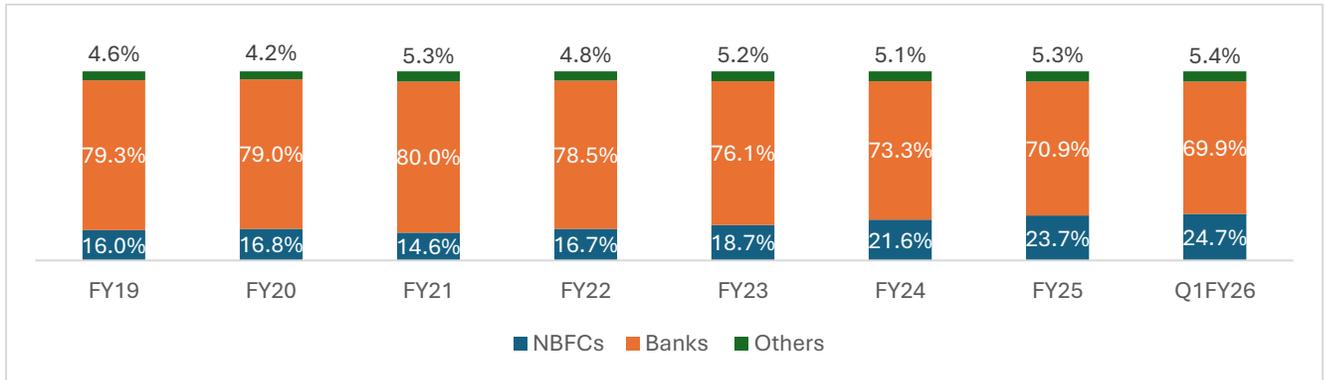
Source: CIBIL, Crisil Intelligence

Loan against property



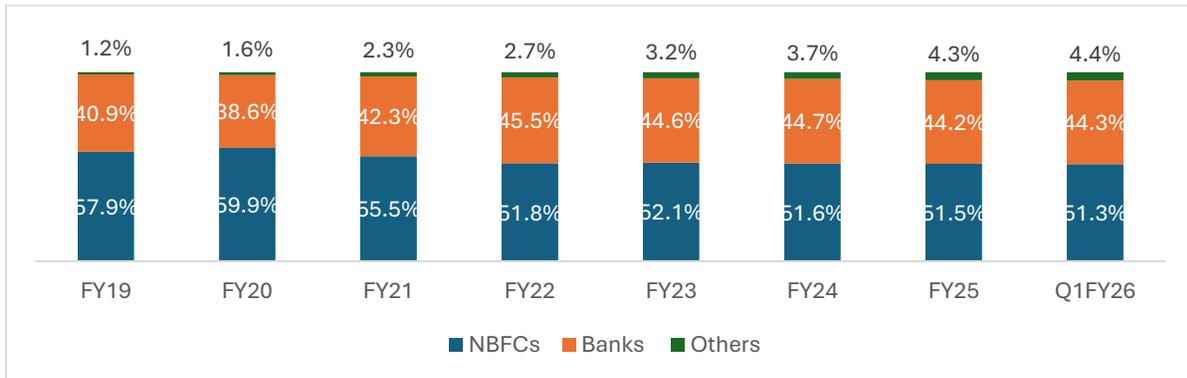
Source: CIBIL, Crisil Intelligence

Personal loan



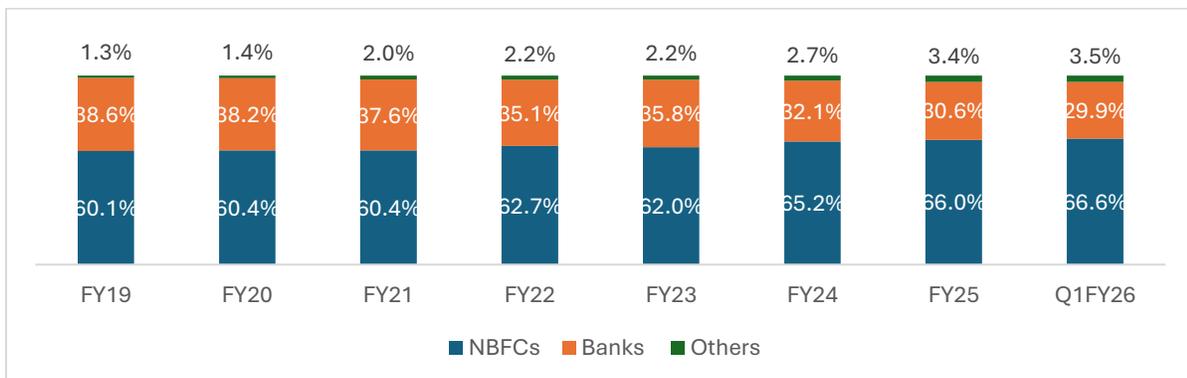
Source: CIBIL, Crisil Intelligence

Tractor loan



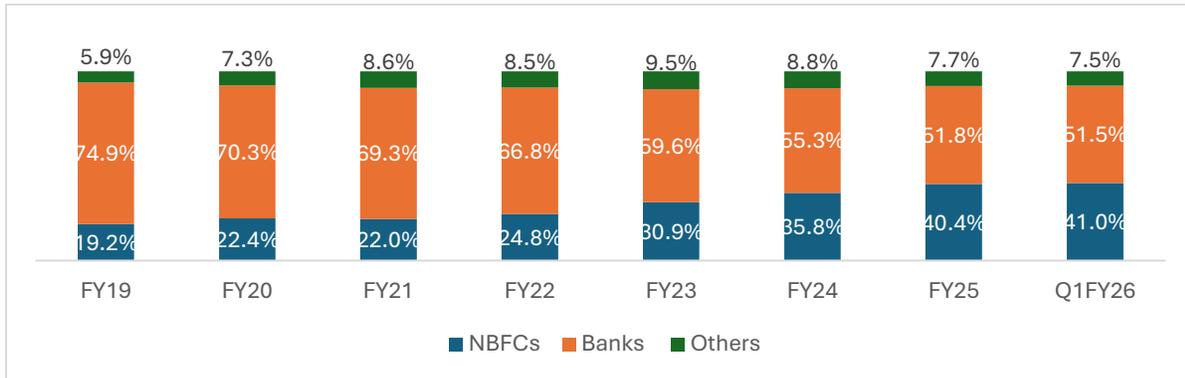
Source: CIBIL, Crisil Intelligence

Two-wheeler loan



Source: CIBIL, Crisil Intelligence

Used car loan



Source: CIBIL, Crisil Intelligence

4.4 Loan segments driving NBFC growth

NBFCs in India have demonstrated remarkable growth, driven by an increased focus on diversified loan segments catering to both individual and business needs. NBFCs have strategically expanded their portfolios across various segments, including auto loans, commercial vehicle loans, education loans, housing loans, personal loans, loans against property, tractor loans, two-wheeler loans, used car loans, and general as well as secured and unsecured business loans.

NBFC non retail segment consists of secured MSME, Hypothecation MSME and unsecured MSME loans. This portfolio is growing at a moderate CAGR between 11% to 13% between FY19 and FY25. In NBFC retail the secured business loan segment stands out as the fastest-growing segment, with a CAGR of 54.8%. This surge can be attributed to the rising need for capital among MSMEs and an increased willingness among NBFCs to fund businesses that provide collateral. Unsecured business loans have witnessed a 32.58% CAGR benefitting from a huge credit gap and, underscoring NBFCs' role in addressing the financing gap for enterprises lacking sufficient assets for collateral. In the individual-focused segments, education loans have seen a robust 41.53% CAGR, highlighting the increasing priority given to higher education and skill development in the country. The personal loan segment, with a CAGR of 32.25%, reflects a strong preference for quick and flexible financing options among consumers. This growth is driven by the need for funds for personal consumption, lifestyle needs, and emergency expenses, supported by the ease of access and minimal documentation provided by NBFCs.

NBFC - Segment Wise Credit (portfolio outstanding) across asset class

Segment (in tn)	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Jun-25	6Y CAGR
Secured MSME	6	7	7	8	10	10	12	12	11%
Unsecured MSME	3	3	3	3	4	5	5	6	13%
Hypothecation MSME	13	14	15	17	20	23	26	26	11%

Housing Loan	4.6	4.6	4.9	5.5	6.0	7.0	8.1	8.3	10%
Vehicle Finance	3.4	3.9	3.9	4.0	4.8	6.5	7.8	7.9	15%
LAP	2.0	1.7	2.1	2.4	2.8	3.8	5.0	5.3	17%
Personal Loans	0.7	1.0	1.0	1.5	2.1	3.0	3.7	3.9	32%
Business loan – Unsecured	0.1	0.2	0.1	0.2	0.4	0.8	1.1	1.2	49%
Business loan - Secured	0.1	0.1	0.2	0.2	0.4	0.8	1.1	1.1	55%
Education Loan	0.1	0.1	0.1	0.1	0.2	0.4	0.6	0.7	42%
Consumer Loan	0.2	0.2	0.2	0.3	0.4	0.5	0.6	0.7	23%

Note: Vehicle Finance includes auto loan, commercial vehicle loan, tractor loan, two-wheeler loan and used car loan. CRISIL has classified overall MSME loans into three categories – Secured MSME loans, Unsecured MSME loans and MSME Hypothecation loans. The credit portfolio and other related data of MSME loans which are reported to commercial bureau are considered while providing analysis.

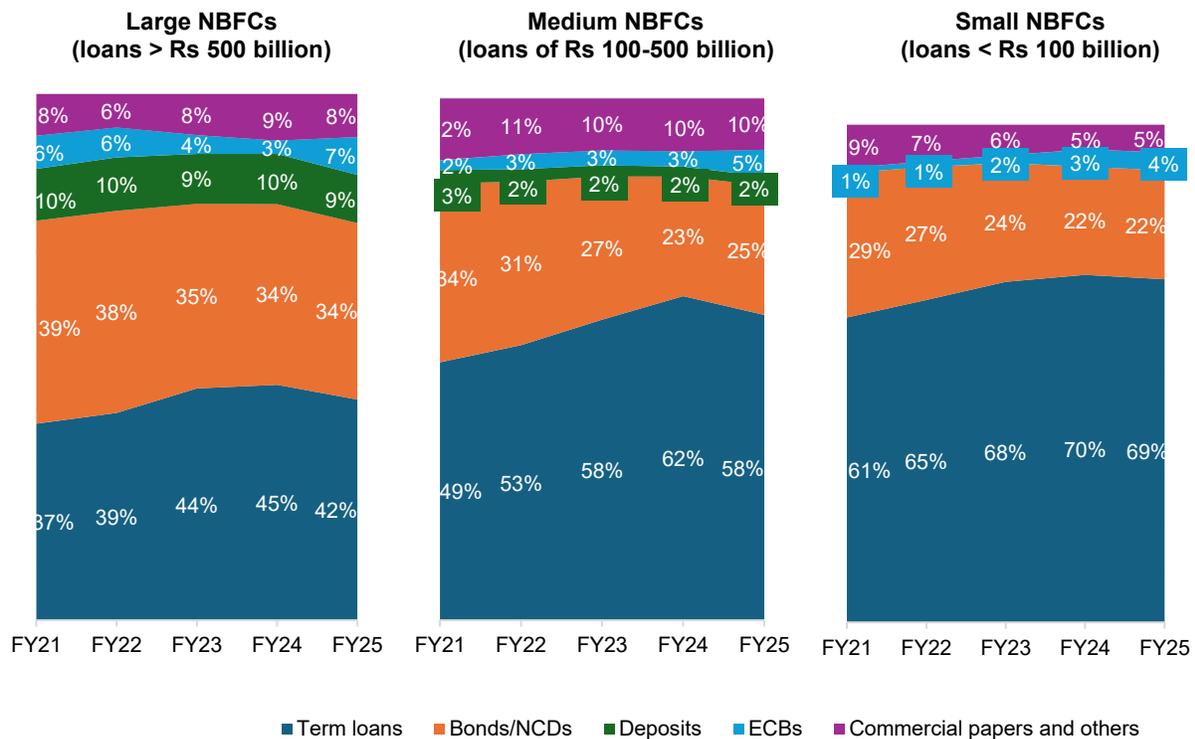
Business loans considered in this section are business loans – secured, business loans – unsecured and business loans – general which are reported to consumer bureau. For the analysis, CRISIL has considered Business loan – unsecured and business loan – general as unsecured business loans.

Source: CIBIL, Crisil Intelligence

4.5 Borrowing Mix of NBFCs

Share of bonds and NCD expected to gain ground in fiscal 2026 as banks remain cautious on lending towards NBFCs

Share of ECB rose across all categories of NBFCs due to faster interest rate cuts in US and Europe relative to domestic market



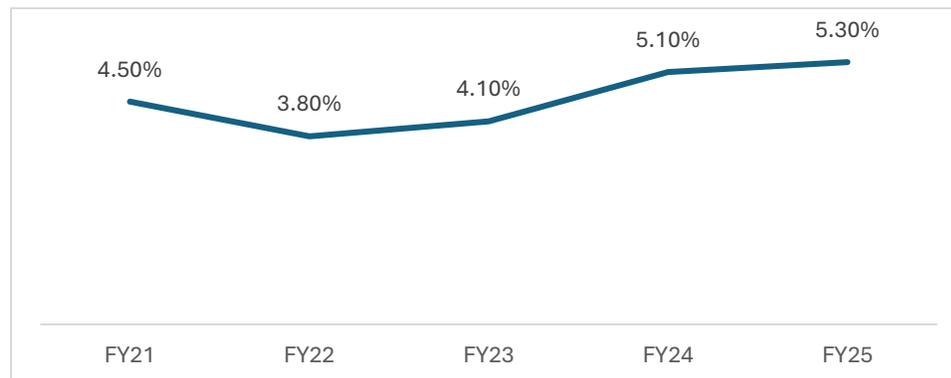
Note: The analysis is based on data of 100+ NBFCs (including HFCs), which collectively accounted for loans and advances of Rs 30,600 billion as on March 31, 2025. These NBFCs account for more than 80% of the total loans and advances outstanding of the overall NBFC sector. The above set excludes PFC and REC. Other include refinance from National Housing Bank and inter corporate borrowings

Source: Crisil Intelligence

In FY25, share of term loans from banks reduced across NBFCs. The decrease was driven by the dynamic management of liquidity in the system, which led to higher lending rates among banks. In November 2023, RBI increased risk weights on bank lending to NBFCs by 25 percentage points, further compounding the slowdown. Many NBFCs, particularly large and highly rated, resorted to overseas and capital market borrowings, which reduced their dependence on banks for funding.

Going forward, CRISIL Intelligence believes that the recent reversal of the 25 percentage points increase in risk weights on banks' exposure to NBFCs effective April 01, 2025, along with the normalisation of rates in the capital markets and a reduction in asset quality stress are expected to boost lending by banks to NBFCs.

Cost of funds for banks stood at ~5.3% as of FY25

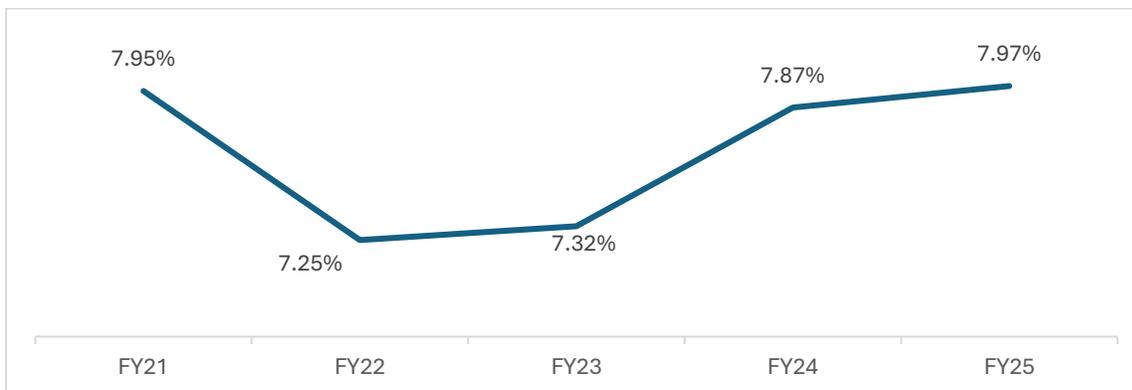


Source: Company Reports, Crisil Intelligence

NBFC borrowing cost increased in fiscal 2024

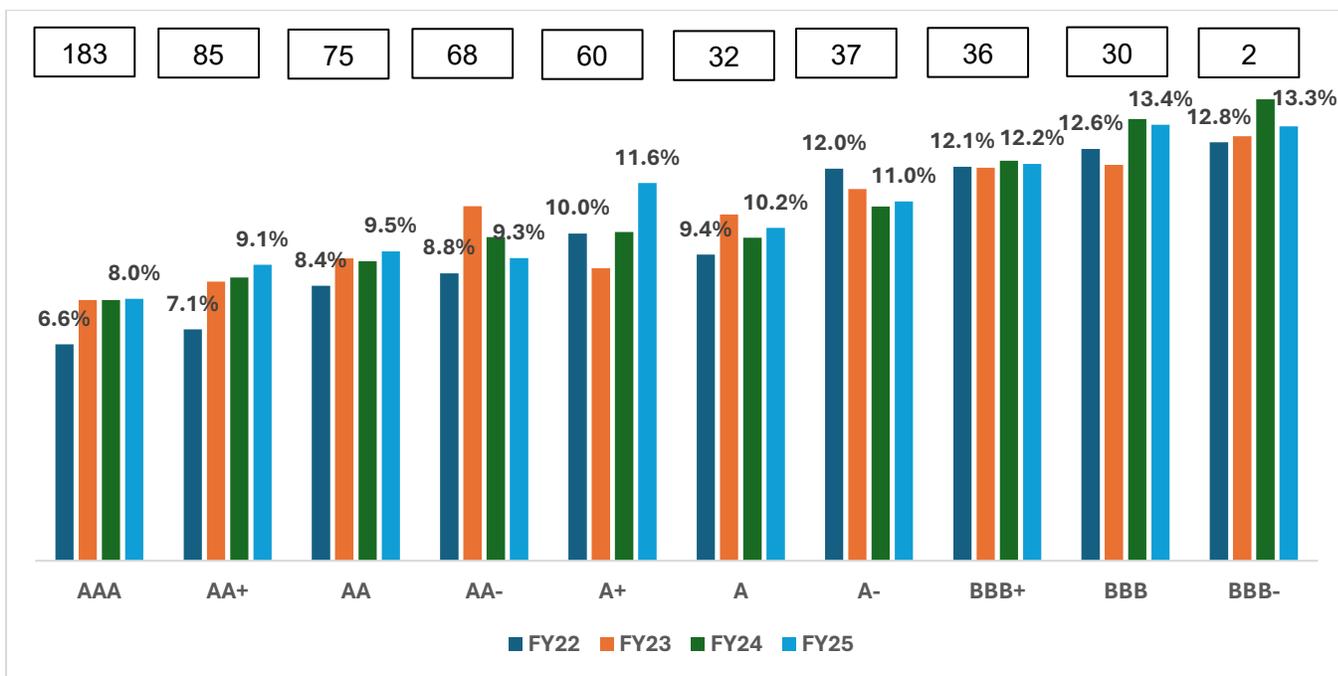
On account of increased unsecured lending in recent times by NBFCs, the RBI introduced a circular on risk weights, which acts as a deterrent to the growth of unsecured loans. As per the circular, the risk weights of all consumer loans (extended by both banks and NBFCs) were increased; the consumer credit exposure for banks and NBFCs will attract a risk weight of 125% from 100% earlier, excluding housing, vehicle, education, and gold loans. Additionally, the risk weights for exposure of banks to NBFCs where the extant risk weight of the NBFC is below 100% was also increased. An increase in the cost of funds for NBFCs could drive the demand for securitisation and co-lending. NBFCs will also need to maintain adequate capital buffers.

Borrowing cost for NBFCs increased in fiscal 2025



Note: The analysis is based on data of 100+ NBFCs (including HFCs), which collectively accounted for loans and advances of Rs 30,600 billion as on March 31, 2025. These NBFCs account for more than 80% of the total loans and advances outstanding of the overall NBFC sector.

Average cost of borrowings for NBFCs issuing bonds in the last five fiscals

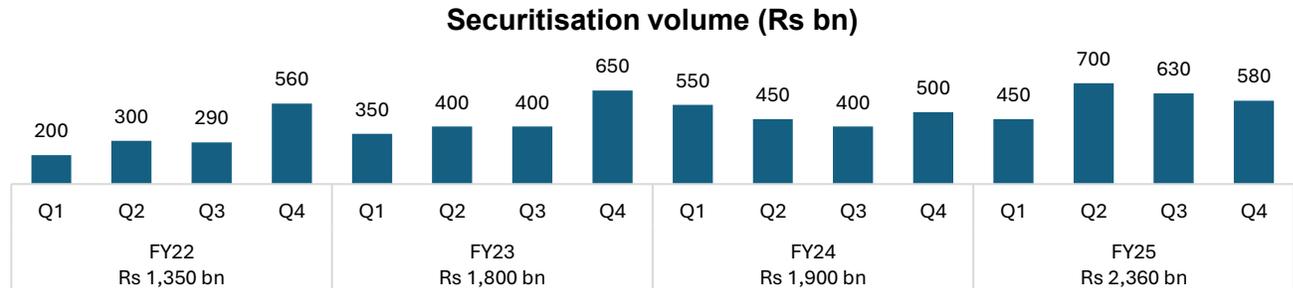


Note: The box represents the number of NBFCs that fall under different rating bands. Source: Crisil Intelligence

Average cost of borrowing for companies primarily increases with deterioration in credit rating. Average cost of borrowings for AAA rating category NBFCs was in the range of 6-8% between FY22 and FY25, whereas average cost of borrowings for A- rating category NBFCs was in the range of 11-12% between FY22 and FY25.

Alternatively, NBFCs have also started exploring several other sources of funds through securitization, there are generally two types of securitization structures, direct assignment (DA) and pass-through

certificate (PTC), the common feature of these two types of transactions is that they both involve pooling of loans and selling them to a counterparty, therefore transferring credit risk. Crisil Intelligence expects, securitisation will continue to remain an important tool for NBFCs to mobilise liquidity.



Source: Crisil Intelligence

Securitisation volumes reach record levels in FY25 led by microfinance loans on account of better performance of post-guardrails disbursements and demand for priority sector loans

Opportunities for NBFCs to diversify source of funds

Partnership based lending (PBL), or Co-lending model (CLM) refers to an arrangement between two parties wherein one of the parties agrees to take over a larger proportion of the loan (usually 80% in PBL and 100% in case of loans originated by business correspondents (BCs)) originated by another party on its books, with the originator taking on the remaining (usually 20% in PBL) on its books. The collections and all the other activities pertaining to the loan are generally done by the originator. Mid and large sized NBFCs and a few banks have been undertaking lending through PBL for the last 3-4 years by leveraging on the distribution, customer segment understanding and/or digital sourcing capabilities of smaller NBFCs and fintech's. The focus in the case of banks is largely to meet their PSL target, while mid and large sized NBFCs aim at earning higher risk-adjusted yields through partnership-based lending. This model allows smaller NBFCs and fintech's to cater to a larger customer base with lesser capital by leveraging the larger balance sheet of their partners.

Various models available with banks to engage with NBFCs to meet the PSL targets

Criteria	Priority Sector Lending Certificates (PSLC)	Securitisation	Business Correspondent (BC)	Lending to NBFCs/MFIs/HFCs	Co-Lending
Bank exposure and risks	No operational and underwriting risks are involved, as	It requires an understanding of the market and the instrument, as there is a	It enables banks to take exposure across multiple regions and	It enables banks to reach last-mile borrowers through NBFCs	It enables banks to take exposure with partner NBFCs

	the underlying asset, along with the risks and rewards, is held by the issuer	transfer of underlying receivables, including risks and rewards	explore newer geographies		
Mark-to-Market and Capital Requirement	No mark-to-market ("MTM") and capital requirement	MTM and capital requirement	No MTM, but requires capital	No MTM, but requires capital	No MTM, but requires capital
Impact on Bank book Size	No impact on the banks' book sizes	Helps banks increase their book sizes	Helps banks increase their book sizes	Helps banks increase their book sizes	Helps banks increase their book sizes
Life Cycle	Has a life cycle only for a particular financial year	It involves large ticket size and have a longer life cycle of around 3-4 years	Involves tie ups with BCs like NBFCs to manage business for longer run	Involves direct lending to NBFCs and has a life cycle depending on loans disbursed by the NBFCs / MFIs / HFCs to the ultimate borrower/s as on the reporting date	Involves partnership with NBFCs for Co-lending for PSL and non-PSL loans
Risk	Involves no credit risk	Credit enhancement is available in case of Pass-through certificates ("PTCs")	Involves a hurdle rate or initial loss-sharing	Risk taken is on NBFCs/MFIs/HFCs	Involves an agreement in which a partner must maintain minimum 20% of the loan on their book
Yields	Yields are not relevant	Yields are relatively lower, as originators bargain with various banks for better pricing	Yields are comparatively higher	Yields are comparatively higher	Yields are comparatively higher
Classification of Assets	A clear classification of assets for buyers	Risk of RBI questioning the classification of assets	Risk of RBI questioning the classification of assets	Detailed RBI guidelines available for classification	Policy to be guided by the RBI guidelines
Challenges	Availability of certificates can be an issue	Application of GST (18%) could be a dampener, as it increases the cost, thus	Difficult for both parties to exit, as it can impact the overall portfolio	Periodic information sharing from NBFCs / Bank lending to NBFCs (other than MFIs) and HFCs are	Difficult for both parties to exit, as a master agreement shall be

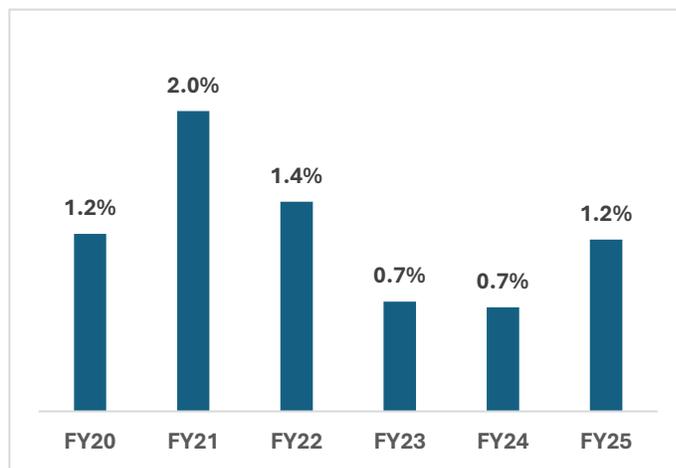
		impacting volume		subjected to a cap of 5% of average PSL achievement of the four quarters of the previous financial year.	formed with the partner
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Source: Crisil Intelligence

4.6 Profitability of NBFCs

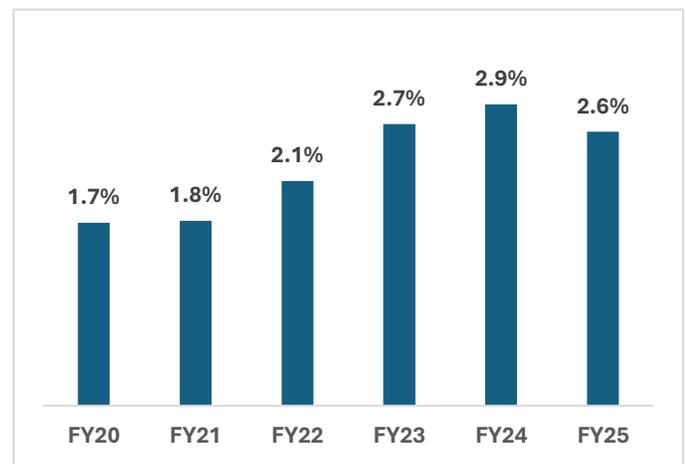
Key ratios of NBFCs

Credit costs moderately higher in Fiscal 2025



Source: Crisil Intelligence

RoA has moderated in Fiscal 2025 for NBFCs



Source: Crisil Intelligence

Note: The analysis is based on data of 100+ NBFCs (including HFCs), which collectively accounted for loans and advances of Rs 30,600 billion as on March 31, 2025. These NBFCs account for more than 80% of the total loans and advances outstanding of the overall NBFC sector.

A moderate decrease in credit costs in FY24 contributed to improved profitability for NBFCs, but this positive momentum was halted in FY25 as the industry faced asset quality challenges, leading to higher credit costs and reduced profitability.

In Fiscal 2024, 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. However, competition from banks and subdued credit demand resulted in NIM compression for the gold segment.

In Fiscal 2025, credit cost have increased due to challenges faced especially in the unsecured loans weighing heavy on the profitability. In the near term, the impact of RBI circular on risk weights on cost of funds and co-lending is expected to favour the NBFCs, thereby NIM and RoA will be a key monitorable.

ROA Tree for NBFCs across asset classes

Asset Class	Financial Metric	FY22	FY23	FY24	FY25	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	11.3%	12.3%	12.2%	12.6%	~12.4-12.5%
	Interest expense	5.8%	6.0%	6.4%	6.6%	~6.4-6.5%
	Credit Cost	2.3%	1.3%	1.3%	1.4%	~1.4-1.5%
	ROA	1.8%	2.8%	2.6%	2.7%	~2.7-2.8%
Housing Loans	Interest income	8.7%	9.2%	10.0%	9.9%	~9.4-9.5%
	Interest expense	5.6%	5.8%	6.3%	6.3%	~5.9-6.0%
	Credit Cost	0.8%	0.6%	0.5%	0.2%	~0.4-0.5%
	ROA	1.5%	1.8%	2.2%	2.3%	~2.0-2.1%
Gold Loans	Interest income	16.4%	14.9%	16.1%	16.6%	~16.2-16.3%
	Interest expense	5.6%	5.2%	5.9%	6.3%	~6.1-6.2%
	Credit Cost	0.2%	0.1%	0.2%	0.7%	~0.5-0.6%

	ROA	5.6%	4.7%	5.2%	5.0%	~5.0-5.1%
Education Loans	Interest income	10.2%	10.6%	10.9%	10.8%	~10.2-10.4%
	Interest expense	5.7%	6.6%	7.2%	7.3%	~6.8-7.0%
	Credit Cost	0.2%	0.2%	0.2%	0.2%	~0.3-0.4%
	ROA	2.2%	2.2%	2.4%	2.6%	~2.0-2.1%
Microfinance	Interest income	15.6%	17.1%	19.8%	19.3%	~19.1-19.2%
	Interest expense	7.3%	7.3%	8.1%	7.8%	~7.4-7.5%
	Credit Cost	3.5%	3.4%	2.7%	8.7%	~6-7%
	ROA	1.1%	2.7%	4.5%	-1.6%	0.0-0.5%

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

Gold Loans have the highest Return on Assets (ROA) at ~5% with lowest credit cost ~0.2-0.5% across all years followed by MSME loans ROA of ~3.5% across all years. ROA for housing loans has seen improvement from 1.5% in FY22 to 2.3% in FY25 along with marginal reduction in credit cost across the same period. Microfinance has witnessed increase in credit cost in FY25 at 8.7% followed by increase in interest income to 19.3% in FY25. The rise was due to factors such as heatwaves and extended rainfall, which were transitory. However, over-leveraging has been a deeper issue, with multiple loans from various institutions being a major cause of slippages.

Profitability of NBFC Players present in the Unsecured Business Loan Segment

NBFCs in the Unsecured Business Loan segment operate with yield in the range of 23-25%, on average. With average cost of funds being in the range of 12-13%, net interest margins (NIMs) for this segment are in the range of 12-16%. Crisil Intelligence estimates the profitability in this segment to improve in Fiscal 2026 owing to improving credit costs and lower cost of borrowings.

Competitive Scenario in the Unsecured Business Loan Segment

Parameter	FY22	FY23	FY24	FY25
Yield on advances	25.7%	24.4%	24.6%	25.6%
Cost of Borrowings	12.4%	12.2%	12.2%	13.0%
Net Interest Margins	12.5%	14.2%	16.9%	15.2%
Return on Assets	-3.2%	2.4%	2.9%	-1.4%

ROE	-11.8%	9.5%	11.7%	-5.7%
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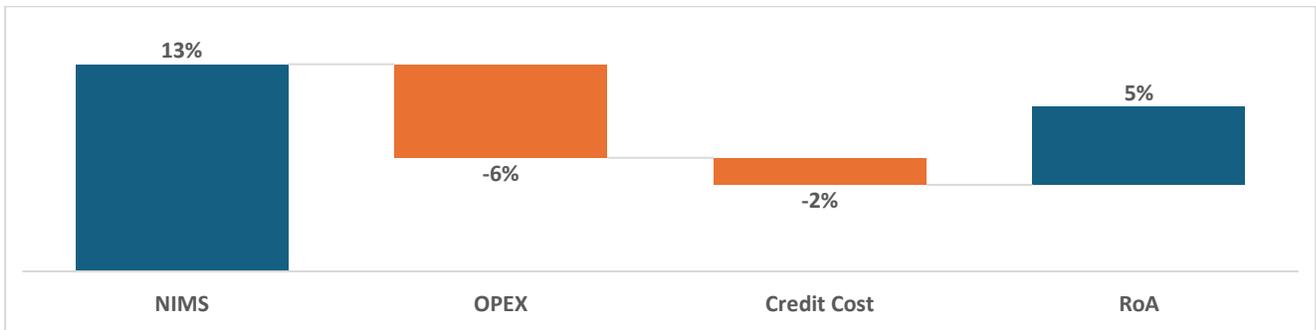
Sources: Company Reports, Crisil Intelligence

NBFCs operating in the Unsecured Business Loan Segment have been able to command higher margins (~15.2%) due to higher yield on advances (25.6%), with cost of borrowings at ~13%. Due to higher credit costs, negative return on assets at recorded at 1.4% for FY25, declining from 2.9% in FY24. Their return on equity stood at -5.7% in FY25, reducing from 11.7% in FY24.

NBFC/HFCs Profitability in LAP (secured business loans) improved in Fiscal 2025

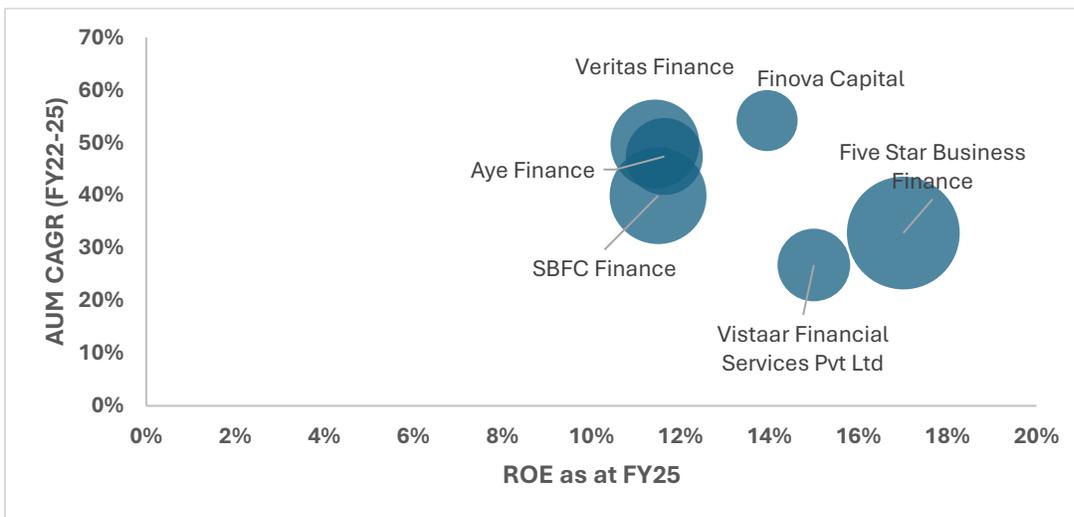
NBFCs in LAP segment operate with yield in the range of 25-28%, on an average. With average cost of funds being in the range of 10-12%, net interest margins (NIMs) for this segment are in the range of 13%.

Profitability of LAP financing NBFCs (FY2025)



Source: Crisil Intelligence; Companies included are Aye Finance, Fivestar Business Finance, SBFC Finance, Veritas finance, Vistaar Financial services Pvt Ltd, Finova Capital

Comparison of various players based on MSME portfolio size, portfolio growth (Fiscal 2022- Fiscal 2025) and RoE (Fiscal 2025)



Note: Size of the bubble denotes relative size of the MSME loan portfolio as of March 2025, Source: Company Reports, Crisil Intelligence

5. MSME Credit in India

5.1 Overview of MSME Sector in India

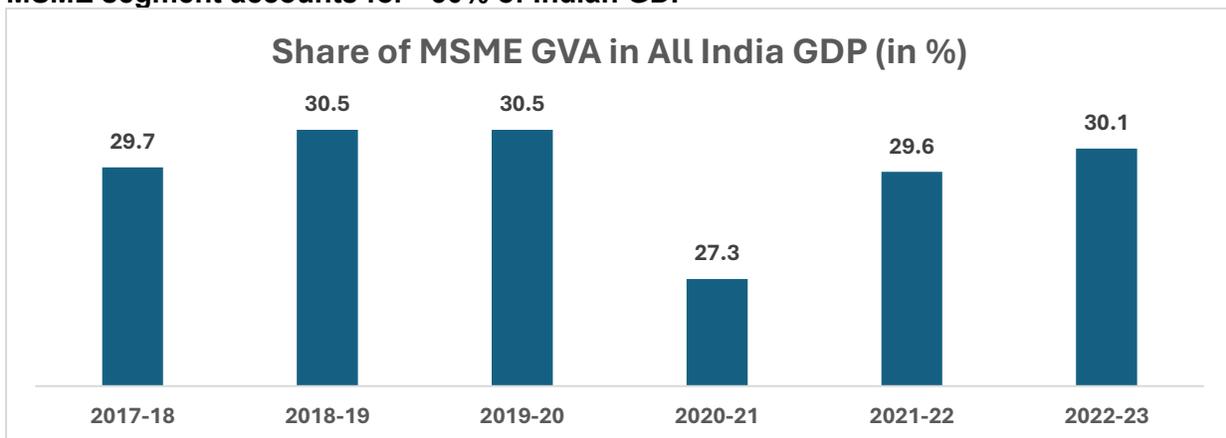
The MSME Development Act 2007 categorizes organizations into three distinct types: micro, small, and medium enterprises. As per the revised definition, which comes into effect from **April 1, 2025**, the classification is as follows:

Enterprise Category	Investment Limit	Turnover Limit
Micro Enterprise	Upto 2.5 crores	Upto 10 crores
Small Enterprise	Upto 25 crores	Upto 100 crores
Medium Enterprise	Upto 125 crores	Upto 500 crores

Source: MSME portal

India has over 57.7 million MSMEs, of which 98% of MSMEs are classified as micro enterprises as per annual report 2024-25 published by Ministry of Micro, Small and Medium Enterprise. MSMEs complement large corporates as suppliers or directly cater to end users. The MSME sector contributes to India's socio-economic development by providing huge employment opportunities in rural and backward areas, reducing regional imbalances, and assuring equitable distribution of national wealth and income. MSMEs in India contribute approximately 30% to the national GDP and faces a substantial unmet credit demand estimated at Rs 103.00 trillion. The Government expects that MSMEs' contribution to GDP to increase from 30% in Fiscal 2023 to 40-50% by Fiscal 2030. Further, the total employment recorded on the Udyam registration portal (since inception 1st July, 2020, to 31st December, 2024) is 244 million.

MSME segment accounts for ~30% of Indian GDP



Source: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2035073>, Crisil Intelligence

As of 31st December 2024, micro enterprises accounted 98.6% of total registered MSMEs in India. Small and medium enterprises accounted for 1.3% and 0.1%, respectively of the total registered MSMEs. Maharashtra tops the list with 13% of the total units registered, followed by Uttar Pradesh and Tamil Nadu at 11% and 8% respectively.

In terms of constitution, close to 95.4% of the entities in the MSME universe in India are estimated to be sole proprietorship firms, wherein a small business undertaking is run and managed by the business owner and the business, and the owner can virtually not be separated.

Behavioural shift in MSMEs

Due to various initiatives and schemes by the Government, MSMEs have witnessed a behavioural shift which is expected to help them in gaining more access to credit. Few examples of behavioural shifts are:

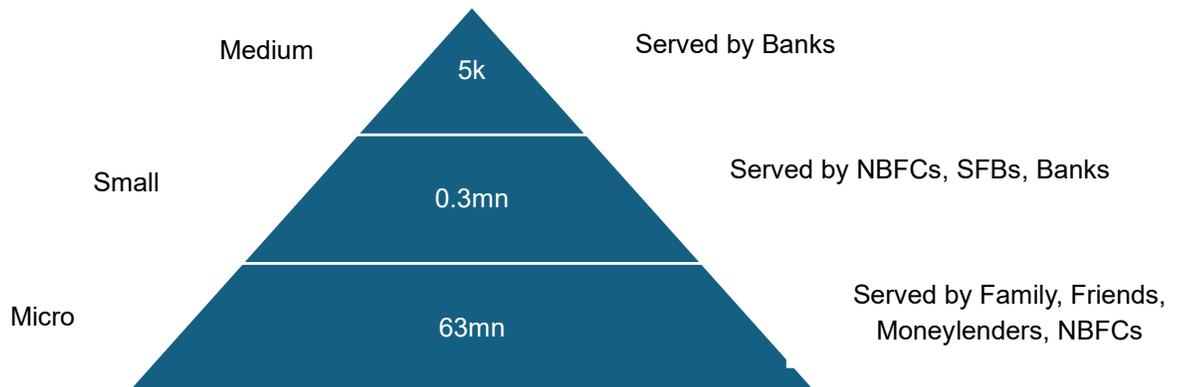
Formalization of MSMEs - Around 50% of total estimated number of MSMEs in India are registered under Udyam System

There has been a large push for formalization of MSMEs in recent years with a ~2332% increase in the number of MSMEs registered on the Udyam portal (similar government portals) from Fiscal 2017 to Fiscal 2025. As of September 2025, close to 6.82 crores MSMEs (~50% of estimated number of total MSMEs in India) are registered on Udyam. Udyam certificate will be required by MSMEs for taking benefit of any scheme of the Central government. The Udyam portal is also integrated with the Government e-Marketplace ("GeM") and the Trade Receivables and Discounting System ("TReDS") so that enterprises can participate in government procurement and have a mechanism for discounting their bills.

Year-wise and MSME category-wise registration of MSMEs

Year / Category	FY17	FY18	FY19	FY20	FY21*	FY22^	FY23\$	FY24	FY25^^
Micro	21,47,908	13,44,612	18,70,932	22,48,730	35,95,577	49,75,082	1,26,17,959	2,62,34,956	5,69,01,755
Small	2,16,558	1,66,259	2,41,187	3,02,299	4,00,525	1,72,432	4,35,885	7,08,216	7,32,782
Medium	8,592	6,584	9,426	11,229	35,541	11,294	39,854	67,481	69,013
Total	23,73,058	15,17,455	21,21,545	25,62,258	40,31,643	51,58,808	130,93,698	270,10,590	5,77,03,550

Note: * Based on UAN and Udyam registrations, ^Based on Udyam registrations, \$ Based on Udyam registrations as on December 2022 as stated in the MSME Annual Report 2022-23; ^^ as of 31st December 2024, MSME Annual report 2024-2025. Source: Development Commissioner Ministry of Micro, Small & Medium Enterprises (DCMSME), Udyam Registrations, Crisil Intelligence

Total MSME registered as at March - 2025


Source: CII, Crisil Intelligence

Top 10 State-wise Udyam registration of MSMEs

The top 6 states together accounted for approximately 50% of the total number of MSMEs registered on Udyam

S. No.	State/UT	Micro	Small	Medium	Total Udyam	IMEs (UAP)	Total MSMEs	% of Total
1	Maharashtra	6,608,324	73,814	6,794	6,688,932	2,627,537	9,316,469	13%
2	Uttar Pradesh	4,327,669	39,748	2,583	4,370,000	3,320,198	7,690,198	11%
3	Tamil Nadu	3,794,939	38,968	2,795	3,836,702	1,881,229	5,717,931	8%
4	West Bengal	1,907,263	23,723	1,745	1,932,731	2,897,556	4,830,287	7%
5	Karnataka	2,337,529	31,186	2,280	2,370,995	2,256,277	4,627,272	7%
6	Madhya Pradesh	2,096,161	19,596	1,176	2,116,933	2,301,271	4,418,204	6%
7	Rajasthan	2,843,948	26,914	1,635	2,872,497	1,166,518	4,039,015	6%
8	Gujarat	2,702,755	53,668	4,195	2,760,618	1,249,983	4,010,601	6%
9	Bihar	1,767,531	11,831	572	1,779,934	2,045,597	3,825,531	5%
10	Andhra Pradesh	1,846,112	16,767	954	1,863,833	1,741,230	3,605,063	5%
Total		4,18,71,387	4,83,698	36,382	4,23,91,467	2,86,65,452	71,056,919	

Source: Udyam Registrations, Crisil Intelligence

5.2 MSME Credit Gap

High risk perception and prohibitive cost of delivering services physically have constrained formal lending to MSMEs. The emerging self-employed individuals and micro, small and medium enterprise segment is largely unaddressed by lending institutions in India.

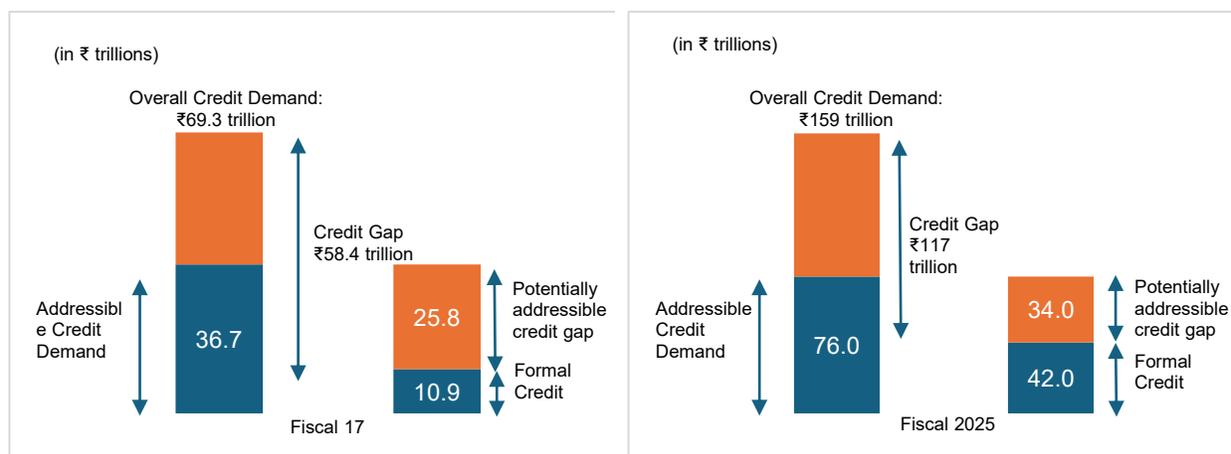
An IFC report titled Financing India's MSMEs (November 2018) estimated the MSME credit demand at ₹69.3 trillion in Fiscal 2017, of which only approximately 16% of demand was met through formal financing

and consequently, the MSME credit gap (defined as the gap between the demand for funds amongst MSMEs and the supply from formal financiers) was estimated at ₹58.4 trillion. This gap was met through informal sources including moneylenders, chit funds and personal sources from friends and relatives. The interest rate for these sources generally ranges between 30-60% per annum.

The credit gap is estimated to have further widened over the last four years due to slower economic growth in Fiscal 2020, followed by the COVID-19 pandemic in Fiscal 2021. In Fiscal 2021, the nationwide lockdown to contain the spread of the COVID-19 pandemic disrupted economic activity, hurt demand, impacted working capital needs and supply chain along with future investments and expansions. Furthermore, government schemes post the COVID-19 pandemic such as the ECLGS scheme provided relief only to MSME units with existing loans from a formal financial institution.

As of Fiscal 2025, the MSME credit demand is estimated to be around ₹159 trillion, of which 27-28% of demand is met through formal financing. Assuming an increase of around 11% annually in the demand for credit and the availability of credit from formal sources, Crisil Intelligence estimates the credit gap to have increased to ₹117 trillion as of Fiscal 2025.

Despite increase in MSME loans outstanding, large credit gap still exists



Note: E: Estimated, Source: IFC report on Financing India's MSMEs dated November 2018, Crisil Intelligence estimates

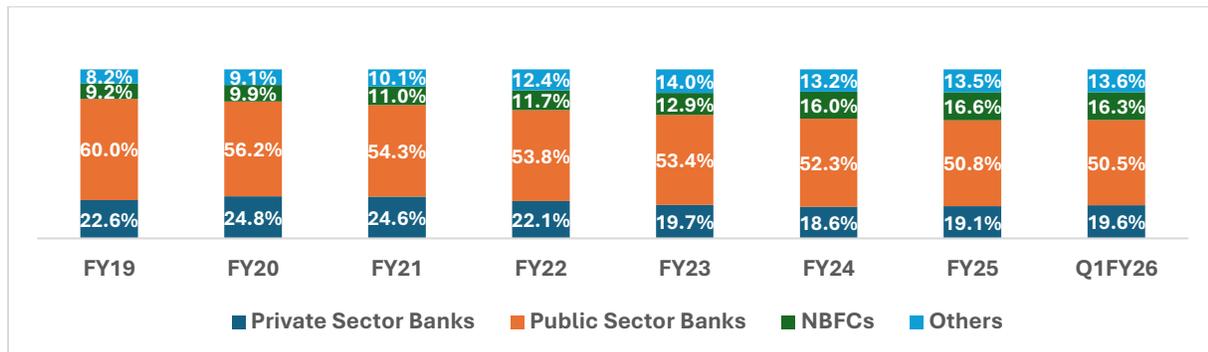
As per the IFC report titled Financing India's MSMEs (November 2018), out of total MSME credit demand of ₹69.3 trillion in Fiscal 2017, the addressable credit demand was at ₹36.7 trillion after removing demand from new MSMEs, commercially unviable MSMEs and micro MSMEs that do not seek formal financing as these types of MSMEs voluntarily go for informal source of credit on account of the process being much faster, some MSMEs are quite young with no operational track record to prove their credit worthiness to the lender and MSMEs which are estimating near term bankruptcy. Out of the total addressable credit demand of ₹36.7 trillion (53% of the total credit demand of ₹69.3 trillion) in Fiscal 2017, formal source accounted for

₹10.9 trillion taking potentially addressable credit demand gap to ₹25.8 trillion (Fiscal 2017), which represented MSME credit gap that could have been addressed by Financial Institutions in the near term.

On the similar lines, as of Fiscal 2025, Crisil Intelligence estimates the total addressable credit demand at approx. ₹76 trillion, out of which current formal financing stands at approx. ₹42 trillion taking the total addressable MSME credit gap to around ₹34 trillion, which needs to be met by Financial Institutions. Crisil Intelligence expects total addressable credit demand to have increased on account of higher bank support; favorable government policies and increased lender focus with tailored products and technological advancements. Technology and use of various data sources are helping lenders analyze cash flow for NTC (New to Credit) MSME customers faster and bring many MSMEs into the formal financing network. Further, this demand is expected to grow as the Government expects MSMEs' contribution to GDP to increase in the coming years.

The two pandemic waves were particularly tough for the MSMEs on account of no or fewer economic activities. The pandemic led to frequent lockdowns and restrictions that interrupted supply chains, demand and hence profitability of the MSMEs. During Fiscal 2023 to Fiscal 2025, the Indian economy normalized, with industrialization and urbanization picking up pace. In line with the overall growth, aggregate MSME credit grew approx. 31% in Fiscal 2024. In Fiscal 2025, overall MSME credit grew by approx. 20% due to higher credit demand from MSMEs and higher focus by lenders on the asset class leading to higher disbursements

Share of NBFCs in MSME credit (Ticket size between Rs. 0.1 Mn – Rs. 0.5 Mn) increased to 16% in Q1FY25



Source: CIBIL, Crisil Intelligence

Sources of finance for MSMEs with credit requirements of Rs 0.1 million to Rs. 0.5 million

Banks have remained the major source of finance for MSMEs with credit requirements of Rs. 0.1 million to 0.5 million. However, the share of NBFCs has increased from 9.2% in fiscal 2019 to 16.6% in fiscal 2025 whereas public sector banks and private sector banks have witnessed decline in their share. Going forward, the share of NBFCs in MSME credit with ticket size of Rs. 0.1 million to Rs. 0.5 million is expected to rise further as NBFCs have been intensifying their focus on the segment.

5.3 Overview of overall MSME credit in India

Modes of funding for MSMEs

MSMEs need credit for various purposes including term loan for expansion of business and working capital for daily operational activities. These credit needs are being fulfilled by banks and NBFCs (including Fintech companies).

Additionally, there are several schemes by the Government and institutions like NABARD and SIDBI which are offered to MSMEs for supporting them in their businesses. Such schemes support MSMEs by facilitating collateral free loans, subsidies on term loans for setting-up and/or expanding the business, promotion of innovation, marketing assistance, technology enhancements, etc.

Banks and NBFCs offer various credit products based on the need of MSMEs. Such products include Loan against property, Supply chain financing, Inventory funding, Unsecured business loans, etc.

- **Loan against property:** It is a secured business loans which is disbursed by financial institutions against the mortgage of property. The property act as collateral / security and therefore the financial institution charges comparatively lesser interest rates than unsecured loans.
- **Secured Hypothecation:** These loans are backed by collateral in the form of movable/working assets such as inventory, machinery, vehicle, or accounts receivables, which remains in the possession of the borrower but are hypothecated to the lender.
- **Inventory funding:** Inventory acts as one of the most important factors for running business smoothly. Inventory financing facilitate MSMEs to buy adequate inventories which could act as collateral for the loan. It helps MSMEs in maintaining optimal stock levels without impacting their cash flows.
- **Supply chain finance (SCF):** SCF consists of financing MSMEs against invoices and receivables as intermittent collaterals. It includes providing cash to suppliers against receivables from buyers.
- **Unsecured Retail:** These loans rely on the creditworthiness of borrower, business cash flow, alternative data rather than physical asset as security. These are typically used for working capital, expansion, and operational needs. These loans have shorter approval times, higher interest rates, and are offered in smaller amounts compared to secured loans.

Note: CRISIL has classified overall MSME loans into three categories – Secured MSME loans, Unsecured MSME loans and MSME Hypothecation loans. The credit portfolio and other related data of MSME loans which are reported to commercial bureau are considered while providing analysis.

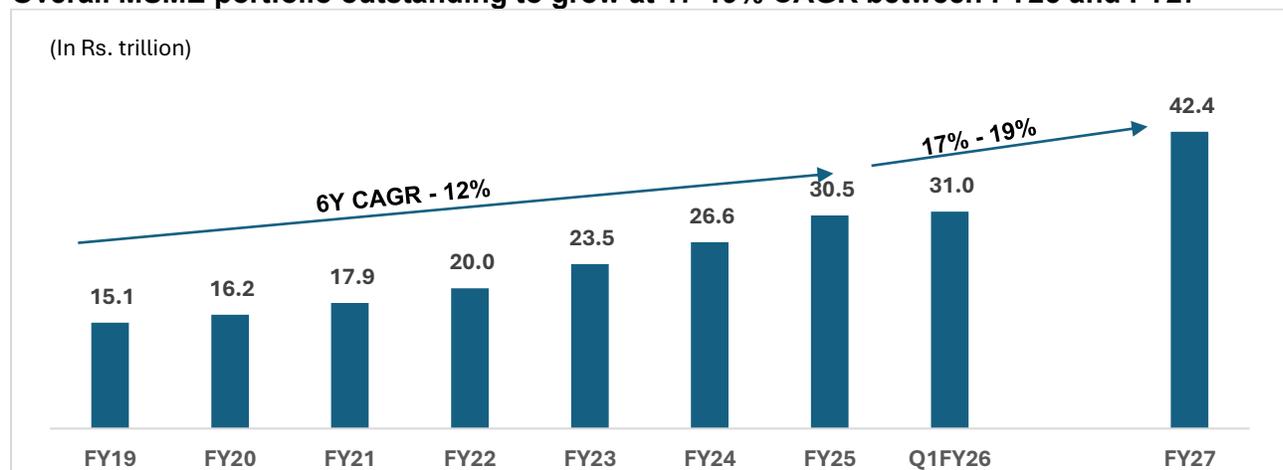
Further, CRISIL considers Loan against Property (LAP) as also secured MSME loans as majority of the loans in this category is obtained by MSMEs for commercial use. The data pertaining to LAP which are reported to Consumer bureau are considered while providing analysis.

Formal Source of Funding being preferred by borrowers

Formal financial institutions such as banks and non-banking financial companies (NBFCs) generally offer lower interest rates than informal lenders, making formal credit more affordable for MSMEs. Formal loans often come with longer repayment periods, which eases the cash flow burden on MSMEs and allows them to allocate resources to business expansion and other needs. Formal loans are regulated by government bodies, ensuring transparency, fairness, and adherence to structured processes, which builds trust among MSMEs. Borrowing from formal sources contributes to the borrower's credit history, which is crucial for accessing future financing at better terms. A good credit score opens opportunities for larger loans or credit lines. Many formal financial institutions are tied to government schemes like the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Priority Sector Lending (PSL), which offer benefits such as reduced collateral requirements or subsidized interest rates. Hence, MSME prefer formal source of funding rather than informal source.

Overall MSME Credit Outstanding

Overall MSME portfolio outstanding to grow at 17-19% CAGR between FY25 and FY27



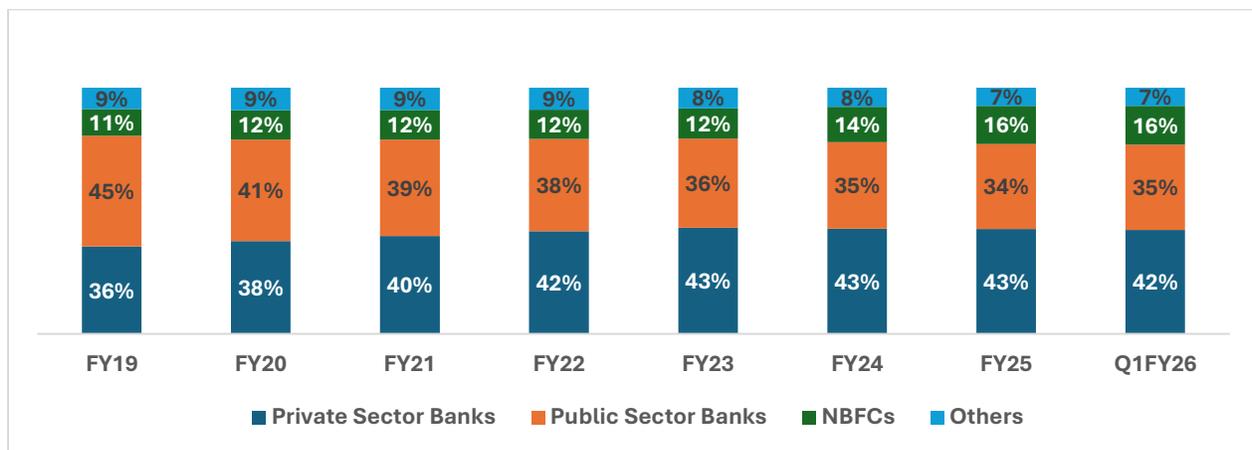
Source: CIBIL, Crisil Intelligence

Crisil Intelligence estimates the total size of MSME lending market across ticket sizes and various player groups (banks, NBFCs, small finance banks, and other formal lenders) to be around Rs 26.6 trillion as of March 2024 and Rs 30.5 trillion as of March 2025 and further to Rs. 31 million as of Jun-25. This market size includes loans taken by MSMEs across various constitution types (sole proprietorships, partnership firms, private and public limited companies, and co-operatives) and the ticket size spectrum, and includes loans extended in the name of the firm/entity/company as well as the individuals in case of micro enterprises or entrepreneurs.

The two pandemic waves were particularly tough for the MSMEs on account of no or fewer economic activities. The pandemic led frequent lockdowns and restrictions interrupted supply chains, demand and

hence profitability of the MSMEs. During fiscal 2023, the Indian economy normalised, with industrialisation and urbanisation picking up pace. As a result, revenue increased to 20% for corporate India, while SMEs revenue grew 11%. In line with the overall growth, aggregate MSME credit grew 17% in fiscal 2023. In Fiscal 2024, overall MSME credit grew by 13% on the back of higher credit demand from MSME's, higher focus of lenders on the asset class leading to higher disbursements. The growth momentum continued at 14% from Fiscal 2024 to 2025.

Private sector banks and NBFCs have grown their market share in overall MSME portfolio. Banks as a whole have a cumulative share of 79% in overall MSME credit as of Q1FY26.



Source: CIBIL, Crisil Intelligence

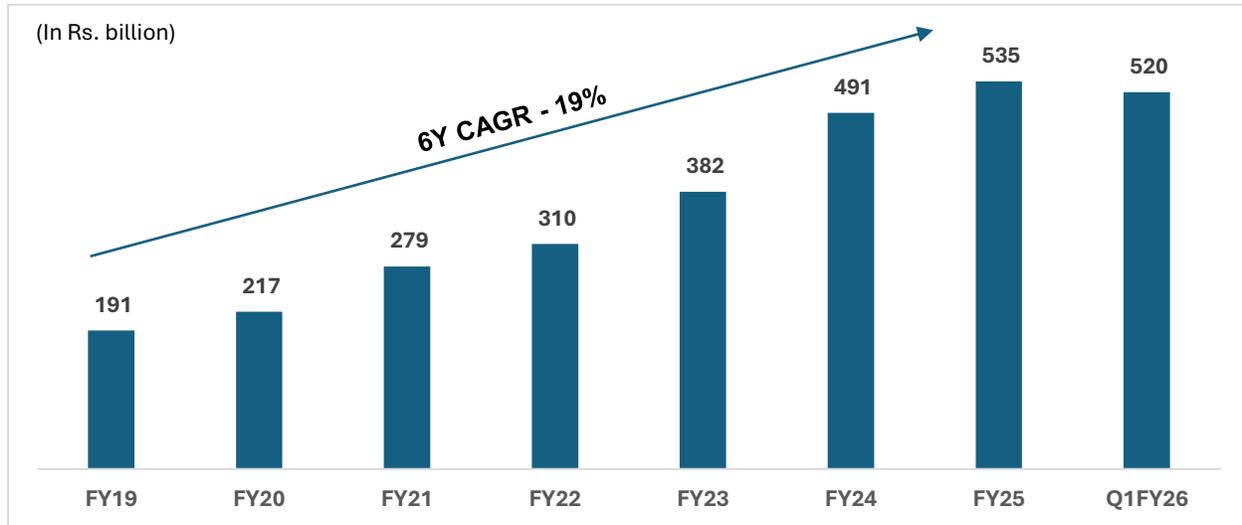
As of FY25 and Q1FY26, private sector banks have the largest share in overall MSME portfolio at 42% whereas public sector banks have 35% share. The share of NBFCs in overall MSME portfolio has increased from 11% as of fiscal 2019 to 16% as of Q1FY26. Overall, banks remain the major source of MSME financing with a share of 77% as of Q1FY26. Going forward, NBFCs are expected to drive the growth of MSME lending and increase its share in overall MSME credit, with banks following closely.

MSME credit for NBFCs with smaller ticket size of less than Rs. 1.0 Mn reached Rs. 535 billion as of FY25 with a CAGR (FY2019-2025) of 19%.

The majority of micro scale businesses require loans with a ticket size of less than Rs 1.0 million representing ~12% of overall MSME credit outstanding (reported to Commercial bureau), highlighting a significant gap in addressing the needs of this segment.

Despite the large demand, only a very limited number of organized NBFCs or banks serve these customers. Barriers to entry in this market include high operational costs for servicing small-ticket loans, nuanced underwriting owing to limited or no available credit histories of borrowers, limited availability of data for underwriting and stringent regulatory requirements, which make it challenging for new entrants to effectively

cater to this underserved segment. These discrepancies present a significant opportunity for financial institutions to address the unmet needs of this sector.



Source: CIBIL, Crisil Intelligence

NBFCs with ticket size less than Rs 1 million								
Product Mix	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
Secured	11.1%	16.5%	17.9%	21.9%	20.5%	18.7%	19.4%	20.4%
Hypothecation	35.6%	28.9%	26.4%	23.0%	21.3%	23.2%	21.3%	21.3%
Unsecured	53.3%	54.5%	55.8%	55.2%	58.2%	58.1%	59.3%	58.3%
Total	100.0%							
Y-O-Y Growth								
Secured	NA	69%	39%	36%	15%	17%	13%	2%
Hypothecation	NA	-8%	17%	-3%	14%	40%	0%	-3%
Unsecured	NA	16%	32%	10%	30%	28%	11%	-4%
Total	NA	14%	29%	11%	23%	29%	9%	-3%
GNPA %								
Secured	3.7%	4.6%	5.7%	6.7%	6.3%	6.0%	8.2%	8.9%
Hypothecation	4.6%	6.7%	7.7%	8.6%	7.9%	10.5%	16.5%	17.3%
Unsecured	7.1%	8.9%	9.4%	14.9%	14.1%	12.2%	18.4%	21.0%
Total	5.8%	7.5%	8.3%	11.7%	11.2%	10.6%	16.0%	17.8%

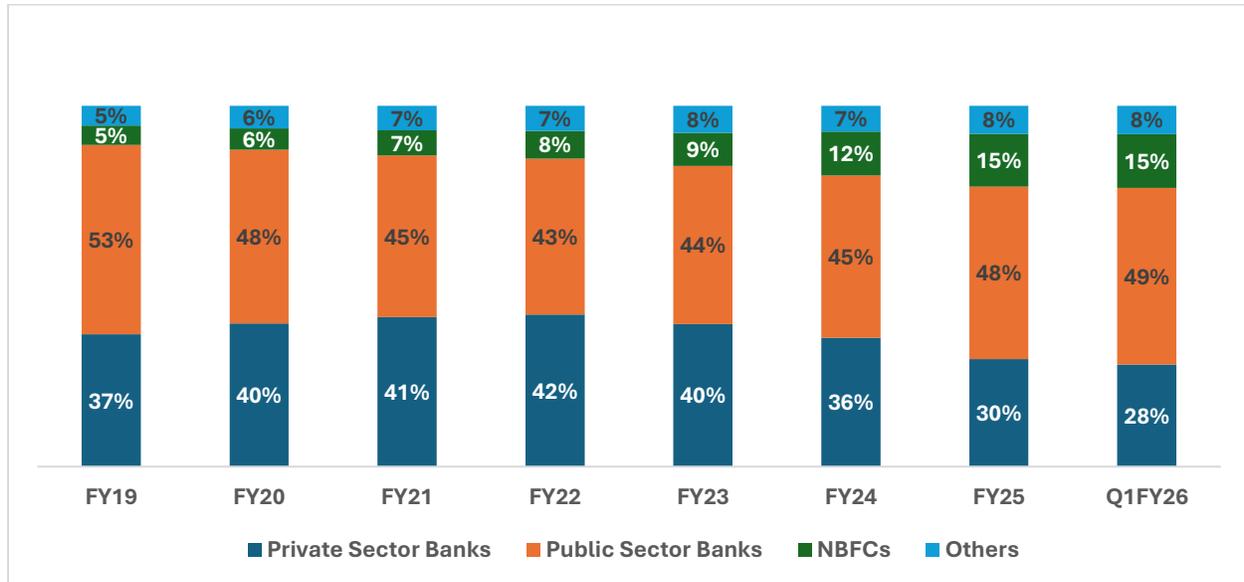
Source: CIBIL, Crisil Intelligence

MSME loans for NBFCs with ticket size less than Rs. 1.0 million witnessed robust CAGR of 19% between fiscal 2019 and 2025 and reached Rs. 535 billion as of FY25. The growth was on account of NBFCs shifting their focus more towards smaller ticket size MSME loans.

In the first quarter of FY26, NBFCs experienced an overall decline of 3% in their portfolio. This contraction was primarily driven by the unsecured loan segment, which accounts for 58% of the portfolio and witnessed a 4% decline during the same period. The unsecured loan sector has been grappling with industry-wide

challenges, including asset quality concerns, over-leveraging issues, and stringent regulatory measures. As a result, NBFCs have been compelled to exercise caution, limiting disbursements and, in some cases, writing off assets, which has consequently led to a reduction in portfolio growth. Also as seen from the above data, unsecured loans have the highest GNPA ratio indicating weak asset quality.

NBFCs' share witnessed a rise in MSME loans portfolio of ticket size less than Rs. 1.0 million



Source: CIBIL, Crisil Intelligence

Share of NBFCs in MSME loans (Ticket size less than Rs. 1.0 million) increased to 15% as of Q1FY26

The share of banks in MSME loans portfolio of ticket size less than Rs. 1.0 million declined from 90% as of fiscal 2019 to 77% as of Q1FY26 as private sector banks shifted their focus towards larger ticket size MSME loans. However, this has led to more opportunities opening for NBFCs in small ticket size MSME loans with market share of NBFCs in MSME loans portfolio of ticket size less than Rs. 1.0 million increasing from 5% as of fiscal 2019 to 15% as of Q1FY26.

Region-wise MSME credit in various ticket sizes as of Q1FY26

Region	Upto 0.5 million	0.5 million to 1 million	1 million to 1.5 million	1.5 million to 2.5 million	More than 2.5 million	Total
Metro	36%	27%	33%	37%	45%	43%
Urban	22%	23%	23%	24%	25%	24%
Semi Urban	23%	28%	26%	24%	19%	20%
Rural	12%	16%	13%	11%	8%	9%
Not identified	7%	5%	4%	3%	3%	3%

Total	100%						
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Note: Above figures are in Rs. Billion as of Q1FY26

Source: CIBIL, Crisil Intelligence

Semi-urban and rural region have cumulative market share of 29% in overall MSME credit as of Q1FY26 (In Rs. Billion)

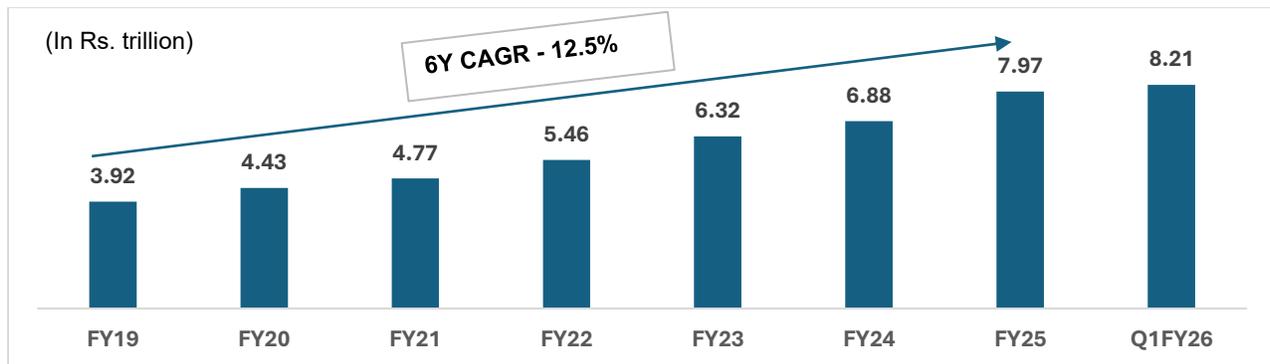
The cumulative market share of semi-urban and rural region in overall MSME credit has increased from 25% as of fiscal 2019 to 29% as of Q1FY25. Rural and semi urban areas have higher share in lower ticket sizes upto Rs. 1.5 million as compared to higher ticket sizes that are above Rs. 1.5 million.

5.4 Secured MSME loans

Secured MSME loans (Commercial) reached Rs. 8.21 trillion as of Q1FY26

Secured MSME loans portfolio increased from Rs. 3.92 trillion as of fiscal 2019 to Rs. 7.97trillion as of fiscal 2025 thereby reporting a CAGR of 12.5% during the same period. As of Q1FY26, Secured MSME loans portfolio has reached Rs. 8.2 trillion. The growth in Overall Secured MSME loans portfolio was driven by growth in loan term loans and property loans.

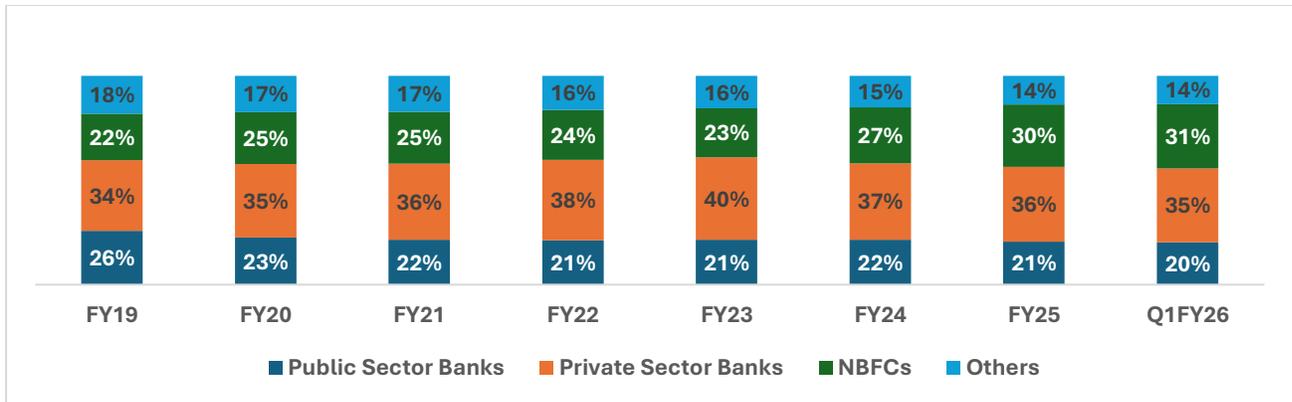
Secured MSME loans grew at CAGR of 12.5% between fiscals 2019 and 2025



Note: Above data includes secured MSME loans reported by lenders to the commercial bureau.

Source: CIBIL, Crisil Intelligence

NBFCs' share in Secured MSME Credit (Commercial) has increased to 31% as of Q1FY26



Note: Above data includes secured MSME loans reported by lenders to the commercial bureau.

Source: CIBIL, Crisil Intelligence

For MSME Secured Credit, share of public banks has declined from 26% in fiscal 2019 to 20% in Q1FY26.

The decline was compensated by increase of NBFCs from 22% to 31% between fiscal 2019-2025.

Private Sector Banks and NBFCs have lowest GNPA% in Secured MSME Credit (Commercial) as of Q1FY26

Players	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
Public Sector Banks	20.0%	20.4%	20.1%	20.3%	17.7%	16.2%	12.9%	13.0%
Private Sector Banks	4.0%	3.8%	4.2%	4.1%	3.6%	3.5%	2.8%	2.7%
NBFCs	4.4%	6.9%	9.0%	9.2%	7.1%	5.5%	4.0%	4.2%
Others	20.7%	21.1%	21.4%	21.8%	20.1%	19.1%	17.4%	17.6%
Overall	11.2%	11.3%	11.8%	11.6%	10.1%	9.1%	7.3%	7.3%

Note: Above data includes secured MSME loans reported by lenders to the commercial bureau.

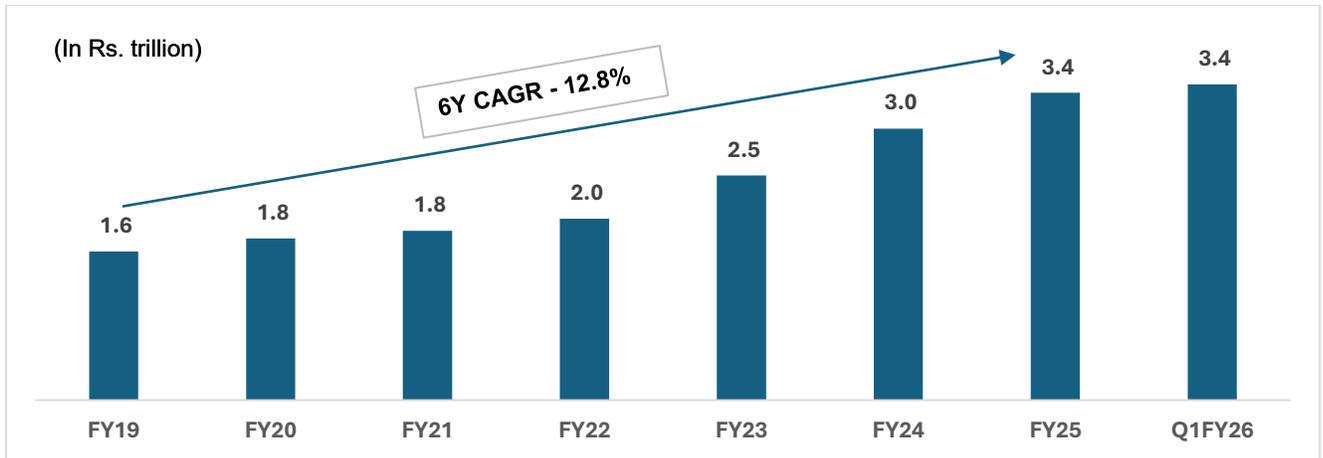
Source: CIBIL, Crisil Intelligence

Public Sector banks have the highest GNPA % for MSME Secured credit. Owing to quality issues, Public sector banks have strategically lowered their share as seen above from 26% to 20% in fiscal 2019-2025.

This can stand as an opportunity for NBFCs to penetrate the market previously serviced by PSUs keeping in mind the asset quality of such borrowers

5.5 MSME Hypothecation loan

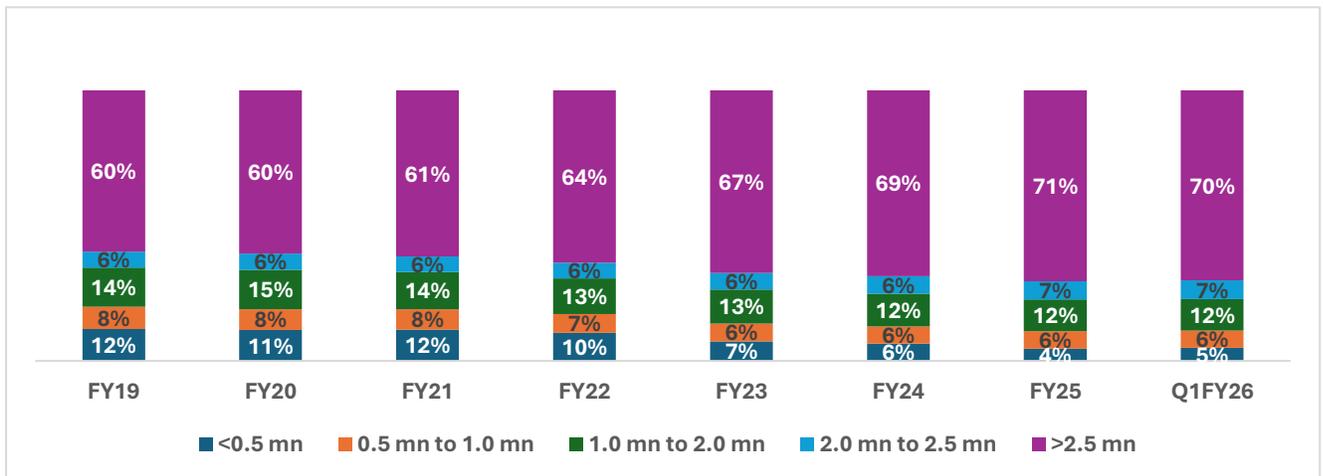
MSME Hypothecation Loans witnessed a CAGR of ~12.8% between FY19 to FY25



Note: MSME hypothecation loan portfolio includes Hypothecated credit products provided to MSMEs and reported to Commercial bureau. Source: CIBIL, Crisil Intelligence

MSME Hypothecation Loan segment, which included Auto Loans, Commercial Vehicle Loan, Equipment Financing, Healthcare Finance, Demand Loan, Export Bill Discounting, Purchased and Advances against, Hire Purchase, Inland Bill Discounting and Purchased, Packing Credit and Seller Financing in India (reported to Commercial bureau), stood at Rs. 3.4 trillion as of FY25, witnessing a CAGR of 12.8% from FY19. As of Q1 FY26, overall Hypothecation Loan segment stands at Rs. 3.4 trillion.

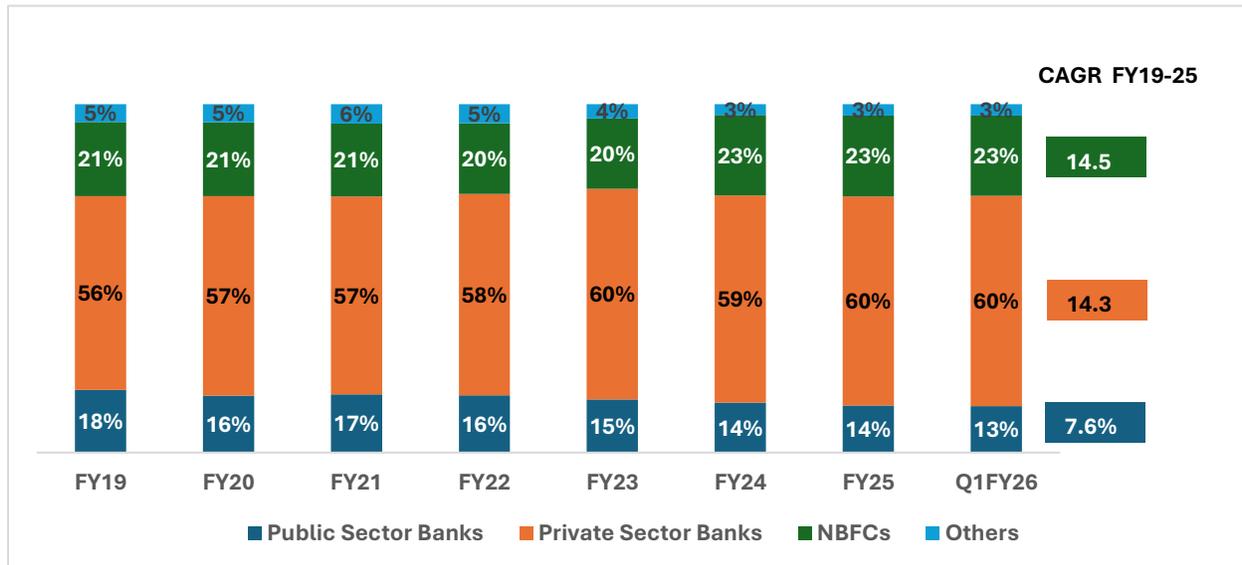
The share of loans more than Rs. 2.5 million increased between fiscal 2019 and fiscal 2025



Note: MSME hypothecation loan portfolio includes Hypothecated credit products provided to MSMEs and reported to Commercial bureau. Source: CIBIL, Crisil Intelligence

Among ticket brackets, the share of loans more than Rs. 2.5 million reached to 70% in Q1 fiscal 2026 from 60% in fiscal 2019.

Private Sector Banks and NBFCs have led the growth in MSME Hypothecation Loan Segment at ~14-15% each between fiscal year 2019 to 2015



Note: MSME hypothecation loan portfolio includes Hypothecated credit products provided to MSMEs and reported to Commercial bureau. Source: CIBIL, Crisil Intelligence

Among lenders, private sector banks and NBFCs witnessed the fastest growth during fiscals 2019-25, growing at a CAGR of ~14-15% in the MSME Hypothecation Loan segment. Private Sector banks accounted for the highest share in credit outstanding with a share of ~60% followed by NBFCs accounting for ~23% share as of Q1FY26.

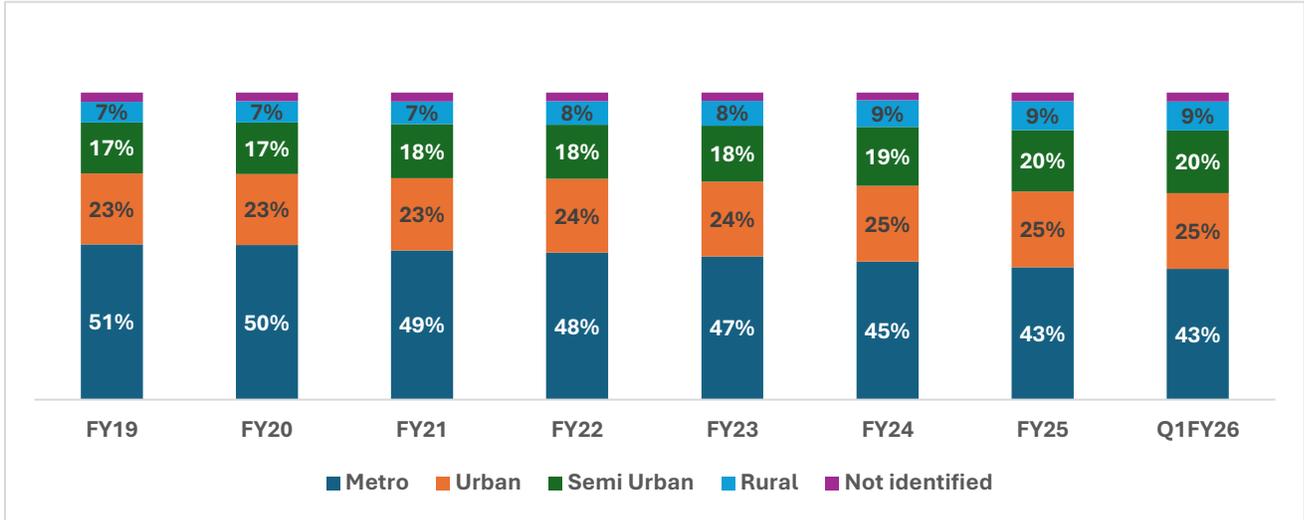
Among lenders, Private Banks had the best asset quality in MSME Hypothecation Loan Segment as of Fiscal 2024

Among lenders, Private had the best asset quality in the MSME Hypothecation Loan segment with 90+ DPD at 2.7% as of FY25 and they dominate the market share for these loans as depicted in the previous chart. NBFCs' 90+ DPD stands at 9.6% as of FY24. Further, Public sector banks have a small market share in these loans and they have the highest gross non performing asset among lenders.

Among lenders, Private Banks had the best asset quality in MSME Hypothecation Loan Segment as of Fiscal 2025 (GNPA - 90+DPD)

Players	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
Public Sector Banks	18.5%	20.8%	19.1%	30.8%	28.6%	24.9%	16.6%	16.4%
Private Sector Banks	3.4%	3.8%	4.6%	4.2%	3.2%	2.7%	2.7%	2.6%
NBFCs	5.3%	9.1%	10.6%	11.9%	10.0%	9.7%	11.5%	11.8%
Others	18.2%	19.0%	18.5%	20.3%	17.0%	15.0%	12.7%	11.7%
Overall	7.3%	8.5%	9.1%	11.0%	9.0%	7.9%	7.0%	6.9%

Note: MSME hypothecation loan portfolio includes Hypothecated credit products provided to MSMEs and reported to Commercial bureau. Source: CIBIL, Crisil Intelligence

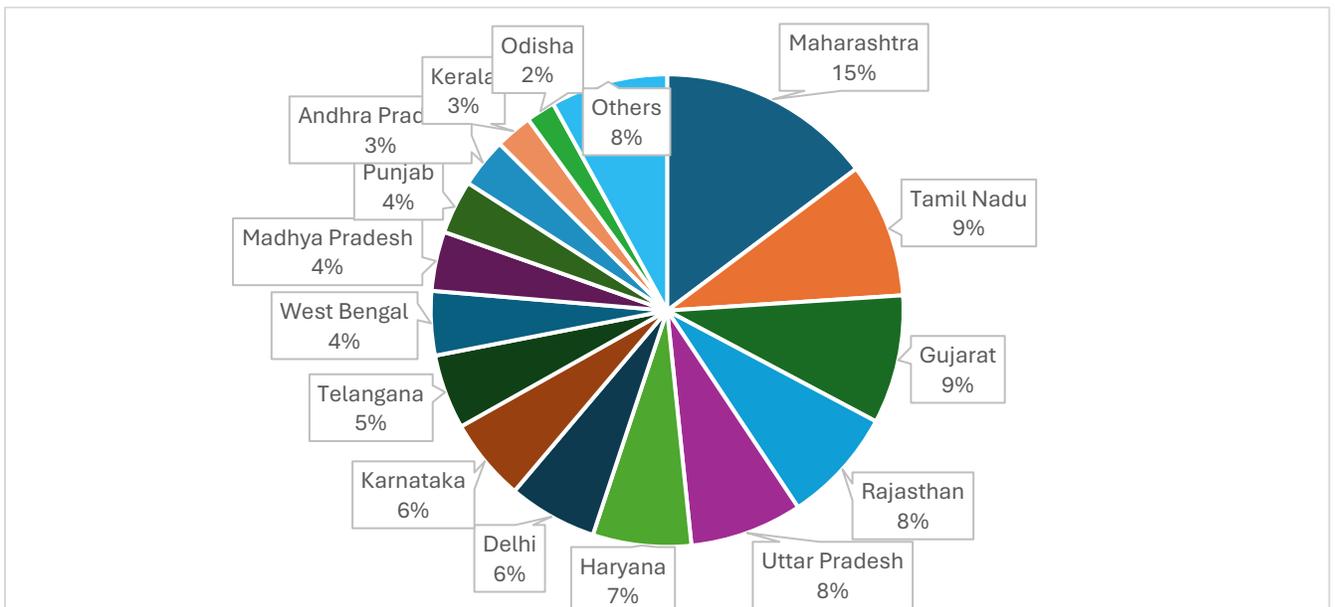


Note: MSME hypothecation loan portfolio includes Hypothecated credit products provided to MSMEs and reported to Commercial bureau. Source: CIBIL, Crisil Intelligence

Semi-Urban and Rural regions held a total share of 24% in Fiscal 2019 which has grown to 29% as of Fiscal 2025 in MSME Hypothecation Loan Segment.

Metro regions accounted for the highest share in MSME Hypothecation Loan Segment, accounting for 43% market share followed by Urban regions accounting for 25% share and semi-urban regions accounting for 20% market share.

Top 5 states accounted for ~47% in MSME Hypothecation Loan Segment credit outstanding

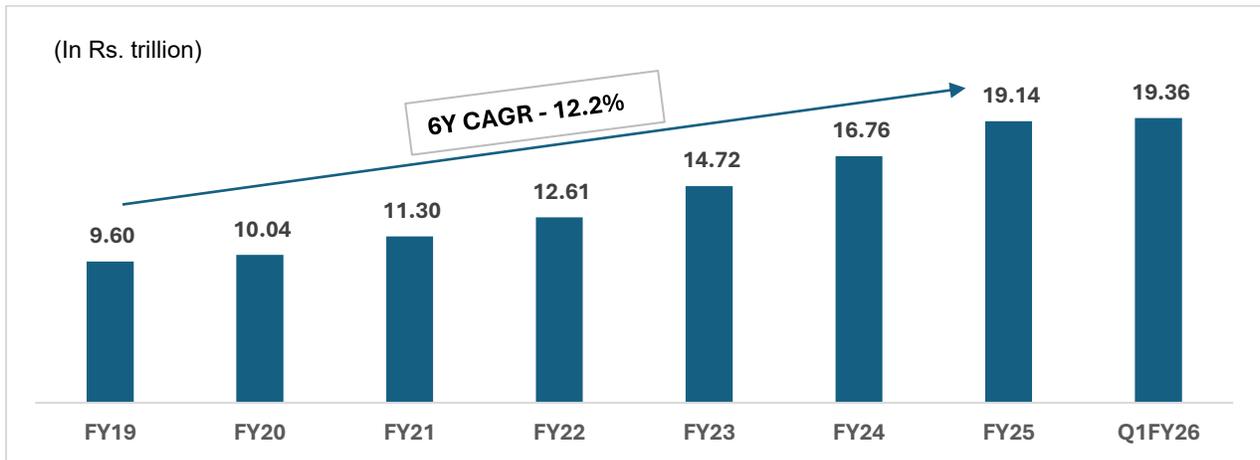


Note: MSME hypothecation loan portfolio includes Hypothecated credit products provided to MSMEs and reported to Commercial bureau. Source: CIBIL, Crisil Intelligence

Among states, Maharashtra accounted for highest share in MSME Hypothecation Loan outstanding accounting for 15% share as of FY25, which was followed by Tamil Nadu accounting for 9% share and Gujarat accounting for 9% credit share. As of FY25, Top 5 states accounted for ~47% share, while top 10 states accounted for ~75% share.

5.6 Unsecured MSME loans

Unsecured MSME Loans witnessed a CAGR of ~12.2% from FY19-25



Note: Unsecured MSME loan portfolio includes unsecured credit products provided to MSMEs and reported to Commercial bureau.

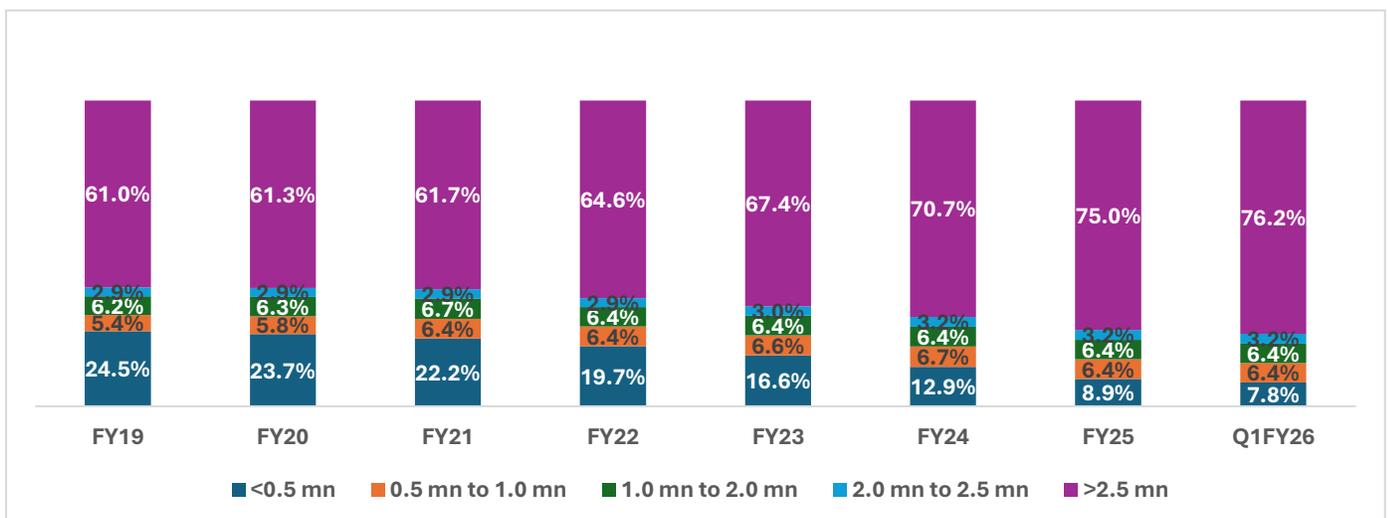
Source: CIBIL, Crisil Intelligence

Overall Unsecured MSME Loan segment in India, stood at Rs. 19.14 trillion as of FY25, witnessing a CAGR of 12.2% from FY19. As of Q1 FY26, overall Unsecured MSME Loan segment stands at Rs. 19.36 trillion

Unsecured MSME - The share of loans more than Rs. 2.5 million increased between fiscal 2019 and fiscal 2025 have grown from 61% to 75%

Among ticket brackets, the share of loans more than Rs. 2.5 million reached to 76% in Q1 fiscal 2026 from 61% in fiscal 2019.

Trend of ticket-wise share



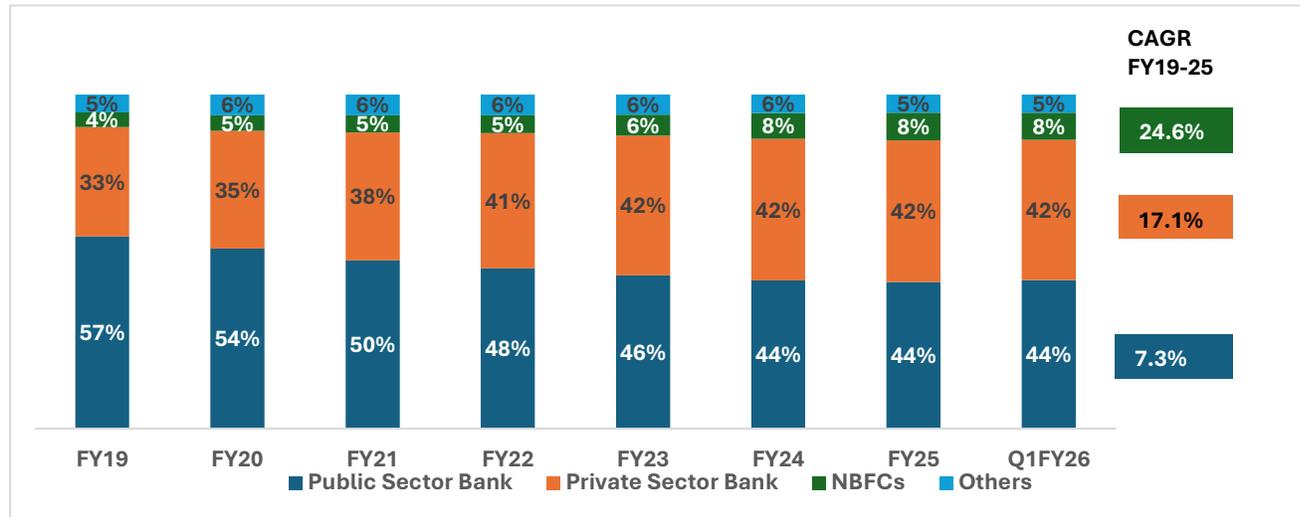
Note: Unsecured MSME loan portfolio includes unsecured credit products provided to MSMEs and reported to Commercial

bureauSource: CIBIL, Crisil Intelligence

NBFCs witnessed the fastest growth among lenders from FY19-25, while public banks accounted for the highest share in overall Unsecured MSME Loan Segment

As of Q1 fiscal 2026, among lenders, Public Sector banks accounted for the highest share in credit outstanding with a share of ~44% followed by Private Sector banks accounting for ~42% share. NBFCs have increased their share from 4% in FY19 to 8% in Q1FY26.

NBFCs witnessed the fastest growth among lenders from FY19-25



Note: Unsecured MSME loan portfolio includes unsecured credit products provided to MSMEs and reported to Commercial bureau.

Source: CIBIL, Crisil Intelligence

Among lenders, Private Banks had the best asset quality (90+ DPD) in Unsecured MSME Loan Segment as of Fiscal 2025

Players	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
Public Sector Bank	14.2%	15.4%	15.6%	17.2%	16.0%	14.4%	11.8%	11.8%
Private Sector Bank	5.9%	6.7%	7.3%	6.6%	5.7%	5.7%	5.7%	5.6%
NBFCs	5.7%	7.9%	8.4%	10.7%	9.0%	7.5%	9.2%	10.1%
Others	9.9%	12.5%	12.9%	11.8%	10.9%	11.4%	9.8%	10.8%
Overall	10.9%	11.8%	11.9%	12.2%	11.0%	10.0%	8.9%	9.0%

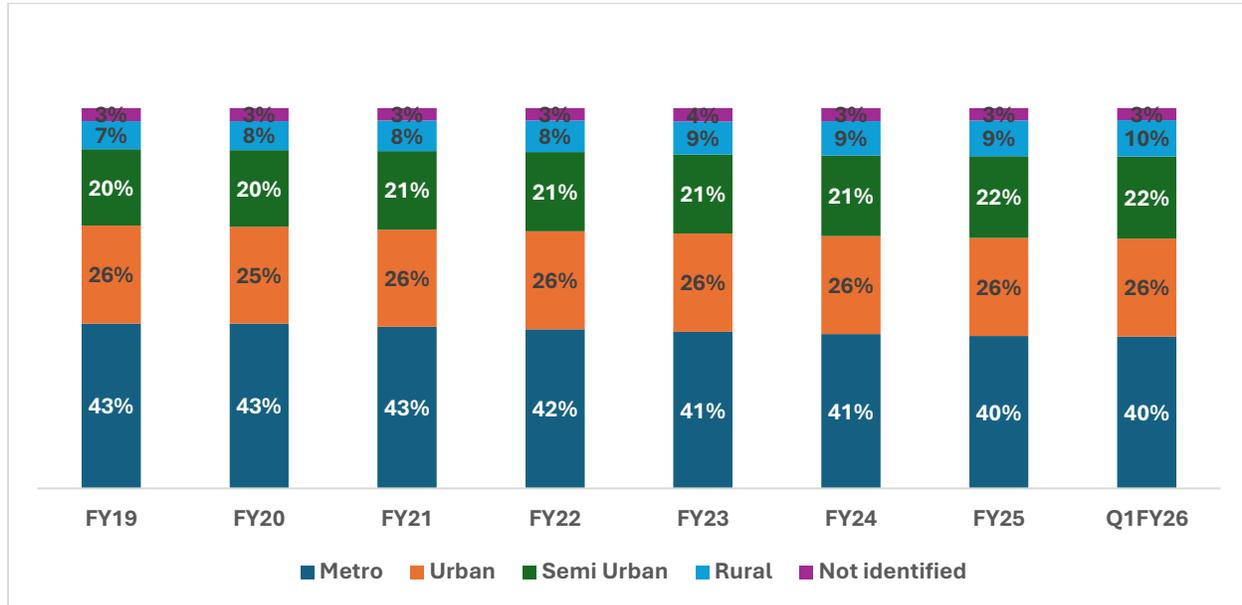
Note: Unsecured MSME loan portfolio includes unsecured credit products provided to MSMEs and reported to Commercial bureau.

Source: CIBIL, Crisil Intelligence

Among lenders, Private Banks had the best asset quality in the Unsecured MSME Loan segment with 90+ DPD at 5.7% as of FY25, this was followed by NBFCs with 90+ DPD at 10.1%. NBFCs have faced industry wide challenges in unsecured loans with asset quality and over leveraging issues which can be seen in the uptick of GNPA % from 7.5% to 9.2% between fiscal FY19-25 and further slightly deteriorated to 10.2% in Q1FY26

Semi-Urban and Rural Regions grew from 27% share in Fiscal 2019 to 31% share in Unsecured MSME Loan Segment as of Fiscal 2025

Metro regions accounted for the highest share in Unsecured MSME Loan Segment, accounting for ~40% market share followed by Urban regions accounting for ~26% share and semi-urban regions accounting for ~22% market share.



Note: Unsecured MSME loan portfolio includes unsecured credit products provided to MSMEs and reported to Commercial bureau.

Source: CIBIL, Crisil Intelligence

5.7 Growth drivers for MSME Credit

Large and increasing credit gap in the MSME segment

As per estimates, less than 15% of approximately 70 million odd MSMEs have access to formal credit in any manner as of March 2022. High risk perception and the prohibitive cost of delivering services physically have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs and self-employed individuals historically. As a result, they resort to credit from informal sources. This untapped market offers huge growth potential for financial institutions. As stated earlier, the credit gap was estimated at around Rs. 58.4 trillion as of 2017 (Source: IFC report named *Financing India's MSMEs* released in November 2018) and is estimated to have widened further to around Rs. 103 trillion as of FY24.

Increased data availability and transparency

With increased digital initiatives by the MSMEs, the shift towards their formalisation and digitisation has created a plethora of data points for lenders that would help improve the efficacy of credit assessment and gradually enable provision of credit to hitherto underserved customer segments. This 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.

Advanced underwriting models powered by technology enabling lenders to serve MSMEs through unsecured loans

Underwriting and technology have become essential growth drivers for unsecured retail loans in MSME sector, fundamentally changing the way lenders assess risk and streamline processes. Modern underwriting models with data analytics leverage alternative data sources such as GST records, bank transaction history, e-commerce sales, digital payment history, utility bills, etc. This wider data set allows lenders to gauge financial health of the borrower without formal credit history. Machine learning algorithms analyse patterns with alternative data to predict default risk, enabling more accurate risk assessments which enables lenders to provide loans to self-employed individuals without collateral. Moreover, new-age credit scoring models integrate data from multiple sources, enabling quick assessment without traditional collateral. These dynamic credit scoring models are particularly beneficial for unsecured lending, where the focus shifts from collateral to creditworthiness.

With the adoption of artificial intelligence and machine learning, lenders are deploying models that continuously adapt from new data, improving their accuracy in predicting borrower behaviour. AI-powered early warning systems help lenders detect sign of potential defaults by continuously monitoring loan portfolios. Moreover, real-time monitoring and post-loan management systems are also enabling lenders to keep a real-time check on the ongoing financial health of the borrower post-disbursal analysing bank account activity, payment transactions, and other digital data. This is helping lenders to stay aware of changes in borrower's financial stability and manage the risk of unsecured loans.

With advanced underwriting models and adoption of technology, lenders have been able to better serve the self-employed with unsecured loans with greater efficiency, accuracy and reach. The ability to assess risk quickly and accurately without collateral has been transformative for MSME financing, helping fill a crucial gap in access to capital and fuelling growth in this segment.

Increasing access and faster TAT

Due to availability of multiple data points and technology solutions, the lending process involving documentation, verification and processing of the transactions has evolved and now takes much lesser time. Technology led enhancements such as use of big data analytics and social media campaigns to acquire customers, use of direct and derived variables for underwriting, automated processes, minimum documentations, Aadhar based e-KYC, Account aggregators, flexible repayment options due to simplified

real-time digital payments system, have helped in reducing hassles, increasing access to credit for borrowers and faster TAT.

Growth in branch network of players offering MSME loans

Over past few years, players offering MSME loans have expanded their branch network with the intent to serve a larger customer base. Share of borrowers from top cities in India has been on a declining trend indicating that lenders are shifting their focus on MSMEs in rural and semi urban areas. In the future also, Crisil Intelligence expects lenders with a strong focus on MSME lending and healthy competitive positioning to continue to invest in branch expansion. With increasing branch network, customer acquisition and credit penetration, share of MSME loans is also expected to increase.

Increasing competition with entry of new players and partnerships between them

Lenders are increasing the use of digital platforms to help automate and digitize loan sanctioning process however the borrower is required to possess documents for the initial clearance as stated by the banks. Incumbent traditional lenders will increasingly leverage the network of their partners and/or digital ecosystem to cross-sell products to existing customers, tap customers of other lenders, and also cater to new-to-credit customers. This will expand the market for MSME loans.

Robust government support

The government has special focus on the MSME sector on account of its economic contribution to the economy and number of people employed in the sector. MSMEs in India come under the purview of Government of India, Ministry of MSME, Khadi Village and Coir Industries Commission (KVIC). The government launched Udyam Assist Platform (UAP) on 11th January 2023 to enhance formalization of the economy. As of 28th June 2024, 19 million informal micro enterprises have joined UAP to come under the formal economy.

Relaxation in the threshold under SARFAESI Act from Rs. 5 million to Rs. 2 million for NBFCs

In the Union Budget 2021-22, for NBFCs with a minimum asset size of Rs. 1 billion, the minimum loan size eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) Act, 2002 was proposed to be reduced from the existing level of Rs. 5 million to Rs. 2 million. This relaxation is expected to facilitate recovery from stressed books, help the NBFCs to improve their ability to recover smaller loans and strengthen their overall financial health.

Inclusion of retail and wholesale trade under MSME category

In July 2021, the Ministry of Micro, Small and Medium enterprises decided to include Retail and Wholesale trade as MSMEs for the purpose of Priority Sector Lending and they would be allowed to be registered on Udyam Registration Portal. The move is structurally positive from long-term perspective, as it will enable

entities operating in the segment to register on Government's Udyam portal, participate in government tenders and also avail financing options/ benefits available to the category.

Prime Minister's Employment Generation Programme (PMEGP) providing margin money to MSMEs

PMEGP is a credit linked subsidy scheme to provide employment opportunities by establishing new micro enterprises in the non-farm sector where margin money is provided to MSMEs availing loan from banks to set up new enterprises. The maximum margin money provided under the scheme for setting up a new project is Rs 5 million for manufacturing sector and Rs. 2 million for service sector. Geo-tagging for the products and services of the units set up under this scheme has been initiated. This will help the enterprises with creating market linkages.

Credit Guarantee Fund Scheme extended to cover NBFCs

The government launched the Credit Guarantee Fund Scheme under the aegis of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to make collateral-free credit available to micro and small enterprises. In January 2017, the scheme was extended to cover systemically important NBFCs as well.

Other government initiatives addressing structural issues in the MSME market

Some of the other government and regulatory initiatives are detailed below:

- **Stand-up India:** It facilitates bank loans between Rs. 1 million and Rs. 10 million to at least one scheduled caste or scheduled tribe borrower and at least one-woman borrower per bank branch for setting up a greenfield enterprise.
- **Make in India:** Launched with an intention to make India a global manufacturing hub, which in turn will provide employment to numerous youths in India
- **Mudra loans: Pradhan Mantri Mudra Yojana (PMMY)** is an initiative by the government to provide affordable and collateral-free credit to the non-corporate, non-farm small and micro-enterprises. PMMY provides loans under three categories: *Shishu* loans upto Rs. 50,000 for startups or new ventures; *Kishore* loans between Rs. 50,000 to Rs. 5,00,000 for businesses that need further growth; and *Tarun* loans between Rs. 5,00,000 to Rs. 10,00,000 for business expansion. Mudra loans have relatively low interest rates and entails a quick and easy processing of loans.
- **59-minute loan:** Online marketplace that provides in-principal approval to MSME loans up to Rs. 10 million in 59 minutes.
- **Unified Payments Interface 2.0 (UPI 2.0):** Real-time system for seamless money transfer from account

- **Trade Receivables Discounting System (TReDS):** Institutional mechanism to facilitate financing of trade receivables of MSMEs from corporates and other buyers through multiple financiers.
- **Factoring Regulation:** In an amendment to Factoring Regulation Act, 2011, the Lok Sabha passed the Factoring Regulation (Amendment) Bill in July 2021

Further, there have been several schemes by the government such as Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship, Scheme of Fund for Regeneration of Traditional Industries, Micro and Small Enterprises-Cluster Development Programme, MSME Champions Scheme, etc.

Lending to micro-enterprises remains a huge opportunity

Lending to micro-enterprises provides a significant growth opportunity due to high demand for small scale credit, especially among businesses that lack access to traditional financing. These micro enterprises are often unable to get financing from banks due to lack of documents pertaining to income proof, business registration, GST registration, income tax filings, and bank statements. However, NBFCs who specialise in underwriting such businesses have been able to bridge this gap by offering tailored financial products, faster loan processing, unsecured loans, and flexible repayment terms. Usage of digital lending platforms is increasing which use data-driven models to assess creditworthiness, allowing the lenders to offer loans to micro-enterprises with more accurate risk management. This segment is poised for growth due to several other factors such as:

- Government initiatives like Pradhan Mantri Mudra Yojana (PMMY) which provides small ticket loans to promote self-employment
- Digitalization is streamlining loan processing and reach underserved regions
- Increased investor interest in fintech and other financing ventures, which are actively working to extend credit access

However, maintaining low NPAs and provisioning requirements remains challenging, particularly when lending to MSMEs, which often lack verifiable credit histories, formal business records, and adequate documentation. Moreover, the small loan sizes of MSMEs create difficulties in managing operational and credit risks effectively.

As the landscape of micro-enterprise financing evolves, continuous monitoring and adaptation are essential to maintaining resilience and promoting financial inclusion. NBFCs, however, are better positioned to address this gap through their flexibility, regional presence and innovative lending approaches.

5.8 Key success factors for NBFCs offering MSME Loans

- **Ability to dive into deeper geographies with a strong branch network:** Players need to have a clear and deeper understanding of their target customer segment, the markets they operate in and develop a strong local network. The deeper understanding and presence of inhouse sales team for direct sourcing within the segment also leads to lower customer churn.
- **Focussed approach to tap underserved niche borrower segments:** MSME focussed lenders need to build a portfolio with deep understanding of the target segment and market. Specific tailor-made lending products for MSMEs with easier data availability to help lenders take a focussed approach.
- **Strong underwriting capabilities:** MSMEs tend to generally be more impacted by vagaries of the business cycle given their limited financial wherewithal and/or reliance on larger buyers. On account of limited data to support credibility of the MSME borrower, lenders are now using alternate methods of underwriting like cash flow analysis to strengthen their underwriting capabilities.
- **On-the-ground presence to manage collections and maintain portfolio quality:** Additionally, given that players in the segment also cater to a relatively riskier profile, a strong focus on collections and monitoring risk of default at customer level is vital to manage asset quality. Direct Sourcing allows control over the quality of customers and processes involved for disbursement, which can lead to better asset quality, as compared to other methods of customer acquisition.
- **Collateral risk management:** Properties that are used as collateral for MSME loans sometimes lack proper property titles, especially in the outskirts of large cities, semi-urban and rural areas.
- **Physical presence:** It is vital to have physical presence to cater to underserved and underbanked segments like MSMEs which still prefers to have in-person interactions and understand various nuances which are involved in lending. Physical presence with some extent of digitization will enable NBFCs to grow and serve in the market.

Lending to MSMEs involves challenges such as limited financial records, small loan sizes, restricted access to traditional banks and financial institutions, and reluctance to provide property as collateral for smaller loans, making it difficult to underwrite loans for such customers.

Building expertise in cluster-based approach requires considerable investment of time and resources and presents a notable challenge for new entrants to replicate in this sector.

Digital penetration

The lenders have been increasingly leveraging technology solutions and alternative data to source and underwrite MSME loans. Such changes in MSME lending have been 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 MSME lending
- Low-cost internet data availability: Facilitating increase in internet penetration

- Business solutions focussed on MSME such as digitising accounting, workflows, operations, etc leading to better data availability

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
- **Credit cards for micro enterprises:** ₹5 lakh limit for registered MSMEs; 10 lakh cards to be issued in the first year.
- **Scheme for first-time entrepreneurs:** Loans up to ₹2 crore for 5 lakh entrepreneurs, including

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

Above are some of the broad initiatives in the market which are assisting lenders to facilitate growth in MSME lending market by leveraging technologies and alternate data points. Additionally, such technological changes have led to innovative, simple, and cost-effective processes. This has led to the rise of digital banking transforming the traditional banking model.

The growing liberalization of the financial sector in India is expected to bring new entrants, both domestic and foreign banks, NBFCs, and other entities operating in the financial services sector offering a wider range of products and services and increasing competition across the board. Additionally, consumer-facing companies with vast data repositories, such as e-commerce and payment service providers, are likely to enter the lending market, further intensifying the competitive landscape. Further, competitive landscape is expected to intensify in mortgage-based lending to businesses as well as individuals and in unsecured consumer lending.

Customer acquisition/Sourcing: Lenders can use 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 can use 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 can lead to sanctioning of loans to underserved and new-to-credit customers within minutes.

Collection: Flexible repayment options can be provided with initiatives such as e-NACH, UPI and other digital payment options which make the collection process easier and increase 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.

6. Secured MSME (LAP)

6.1 Secured MSME (LAP) portfolio

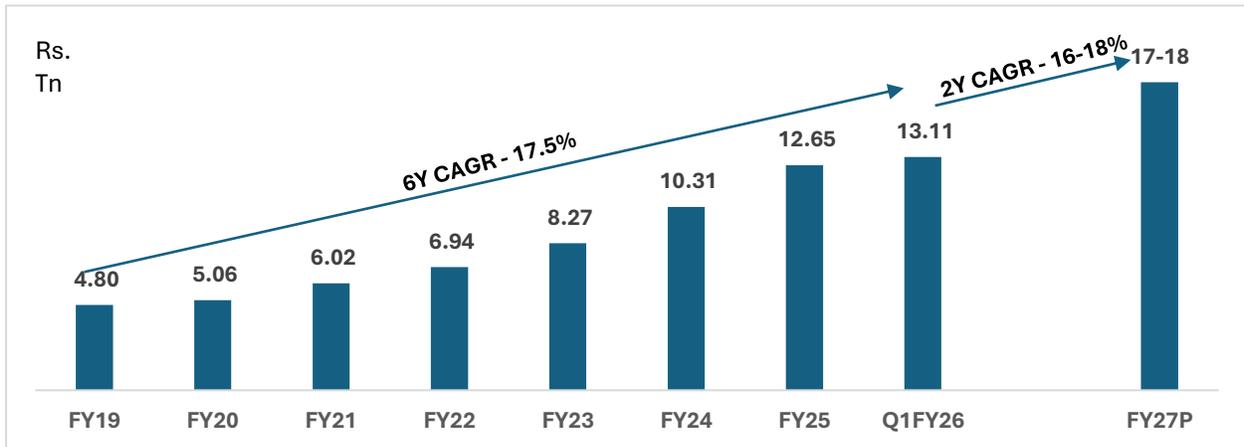
The LAP segment grew at a strong pace with portfolio outstanding registering a CAGR of ~16% from FY19 to FY25. LAP portfolio increased from Rs. 4.8 trillion as of fiscal 2019 to Rs. 12.6 trillion as of fiscal 2025 and reached Rs. 13.1 trillion as of Q1FY26.

A secured MSME (LAP) loan can be obtained by mortgaging residential or commercial real estate with the lender. The loan product can be used for personal or business objectives, and both salaried and self-employed individuals are eligible to apply. The main purpose of the loan is not strictly regulated as it offers the financier security in the form of real estate. LAP offers a lower interest rate than a personal or corporate loan. Self-employed borrowers are provided unsecured MSME loans in the absence of collateral.

In Fiscal 2022, secured MSME (LAP) loan portfolio outstanding grew at a slower rate of ~12% year on year as MSMEs needed cash for day-to-day activities in the backdrop of global and domestic uncertainties. NBFCs moved towards niche credit assessments without the requirement of property collateral to help provide credit and meet the rapid demand from MSMEs. In Fiscal 2023, secured MSME (LAP) loan segment bounced back with ~23% year on year growth as economic activity normalized through support of RBI and center's promotion of Aatmanirbhar Bharat. In Fiscal 2024, overall secured MSME portfolio grew at ~25% year on year backed by robust economic conditions and increase in domestic consumption and growth. The growth rate continued in FY25 where MSME LAP grew at 23% year on year.

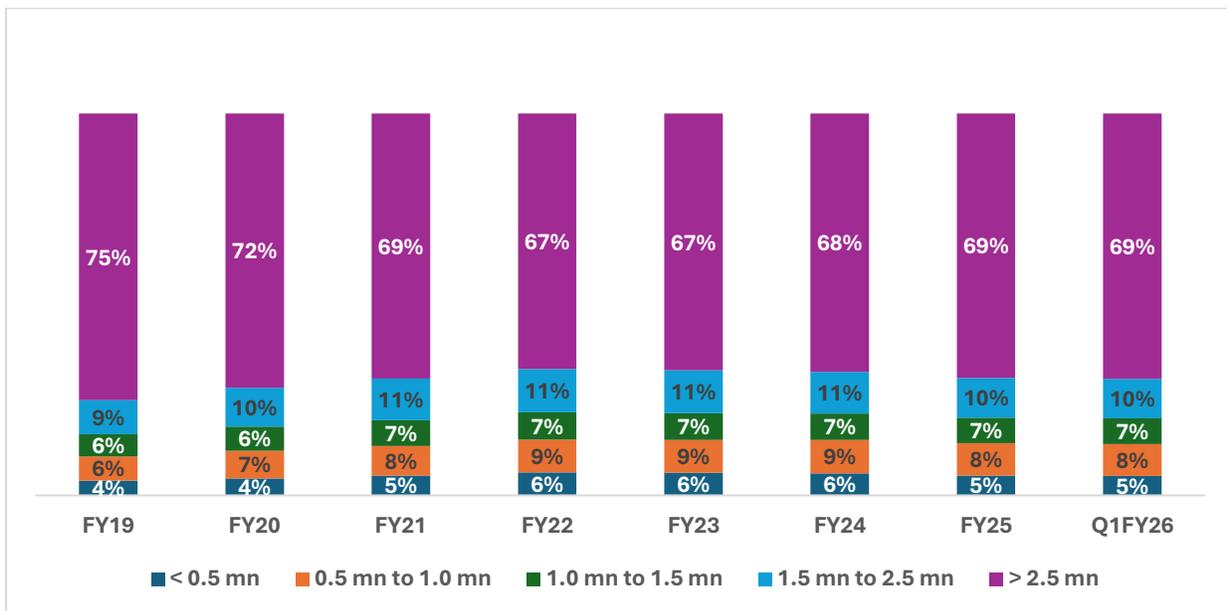
Over the last few years, expansion in branch network, more data availability and government initiatives like GST, Udyam, and increasing formalization of the MSME segment has led to increasing focus of lenders, especially the NBFCs, on this space. NBFCs (including HFCs, NBFC-Fintech) enjoy a market share of 40% as of March 2025 in overall secured MSME portfolio outstanding. Crisil Intelligence expects the growth rate to moderate in coming fiscals albeit with a high growth of 16-18% CAGR till FY27 where LAP portfolio outstanding will be ~17-18 trillion

Secured MSME (LAP) portfolio outstanding is projected to grow by 16-18% over Fiscals 2025-27



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

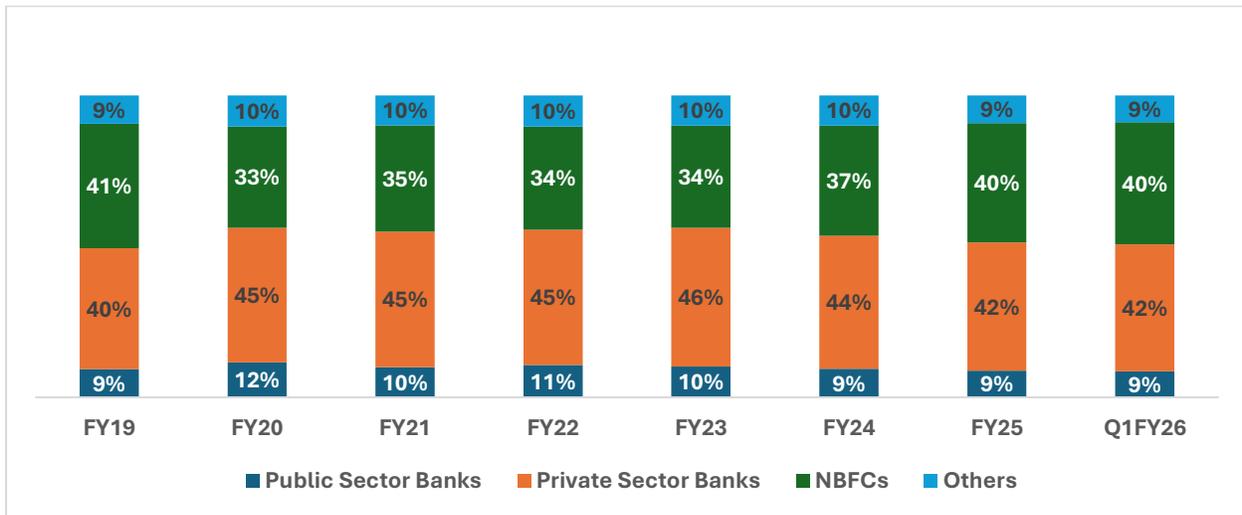
Share of LAP outstanding with ticket size < Rs. 1.5 million has been increasing in the overall pie



Source: CIBIL, Crisil Intelligence

The share of ticket size less than Rs. 1.5 million in overall LAP portfolio outstanding has increased from 16% as of fiscal 2019 to 20% as of Q1FY26. Ticket size greater than Rs. 2.5 million has declined from 75% as of fiscal 2019 to 69% as of Q1FY26 which reflects growing demand for small ticket size loans against property.

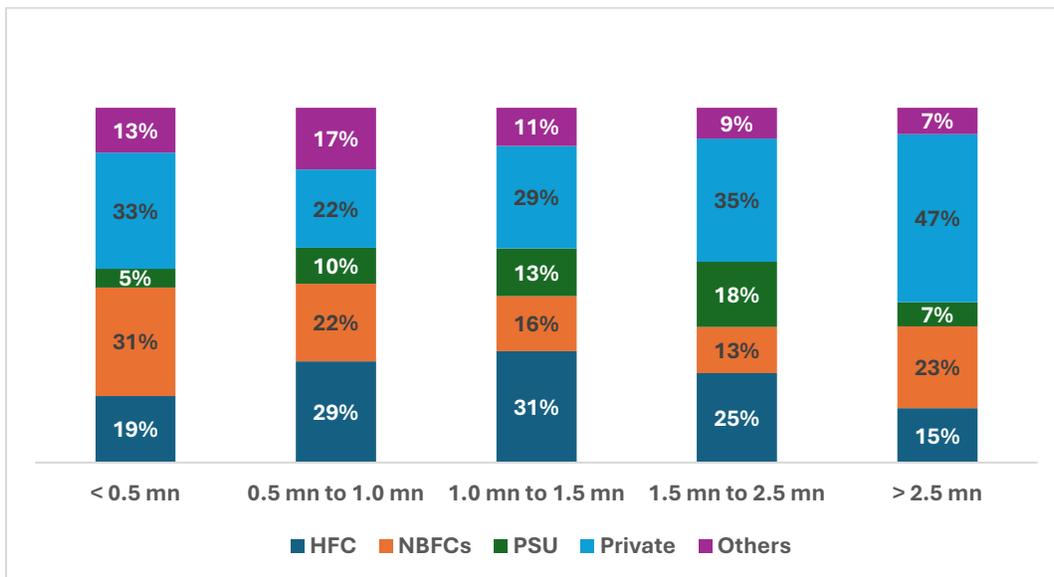
Private banks have the highest share of LAP portfolio outstanding



Note: NBFCs include NBFC-Fintechs Source: CIBIL, Crisil Intelligence

The lender-wise portfolio for Loan Against Property (LAP) has remained relatively stable across all players. However, NBFCs experienced a temporary setback in FY20 due to the COVID-19 pandemic, resulting in a loss of market share. Nevertheless, they have since regained momentum, and their share in the LAP market has rebounded to 40% in Q1FY26, returning to pre-pandemic levels.

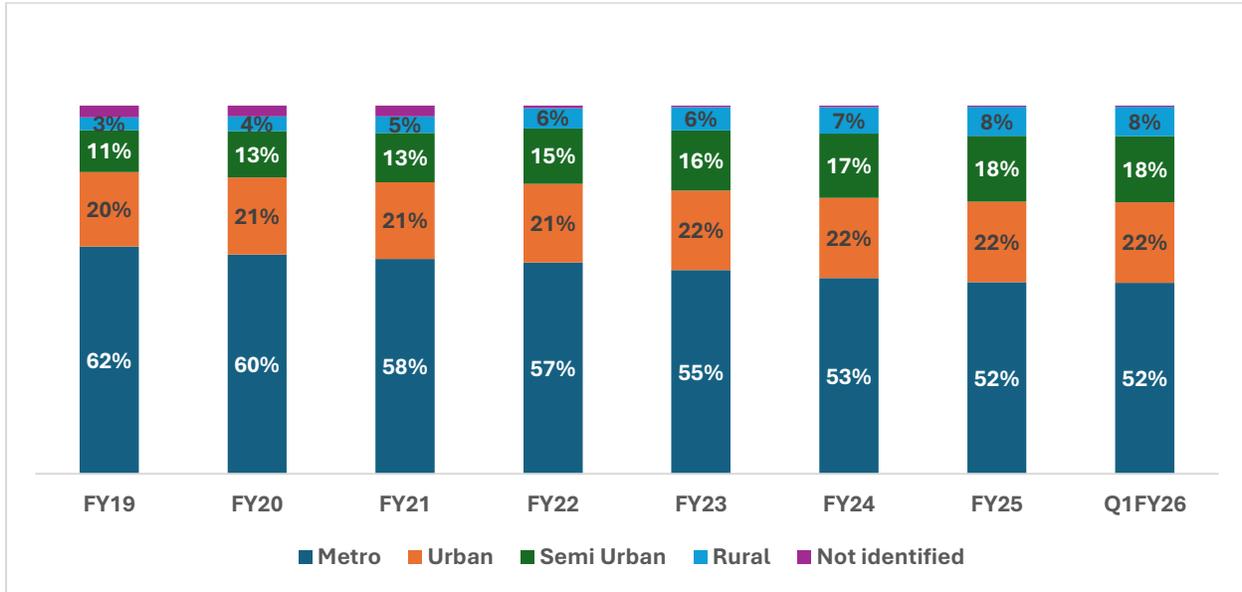
Private sector banks and NBFCs have highest share in LAP portfolio with ticket size < Rs. 0.5 million as of Q1FY26



Note: NBFCs include NBFC-Fintechs Source: CIBIL, Crisil Intelligence

Among various ticket sizes of LAP portfolio, NBFCs have their highest share in smaller ticket size loans of less than Rs. 0.5 million at 31% as of Q1FY26. However, private sector banks remain dominant in all the ticket sizes especially in the ticket size bucket of more than Rs. 1.5 million considered in the LAP portfolio as of Q1FY26.

Share of semi-urban and rural areas in LAP portfolio outstanding has been increasing while share of private banks have remained range bound

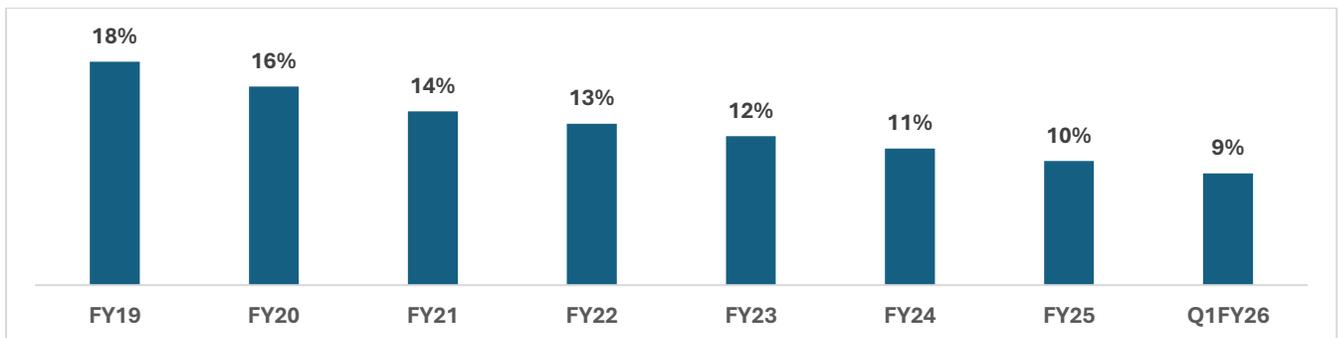


Source: CIBIL, Crisil Intelligence

NTC customers comprised of 9% in MSME Secured (LAP) portfolio in Q1FY26

Lenders are utilizing technologies like AI, ML, and alternative credit scoring mechanisms to determine customer’s creditworthiness. These non-traditional data points are assisting in the underwriting process for customers with limited credit history. The share of MSMEs obtaining secured loans who are new to credit is 9% in Q1FY26 indicating the increasing penetration levels in this target segment.

Trend in NTC customers for LAP portfolio from fiscal 2019 to Q1FY26



Source: CIBIL, Crisil Intelligence

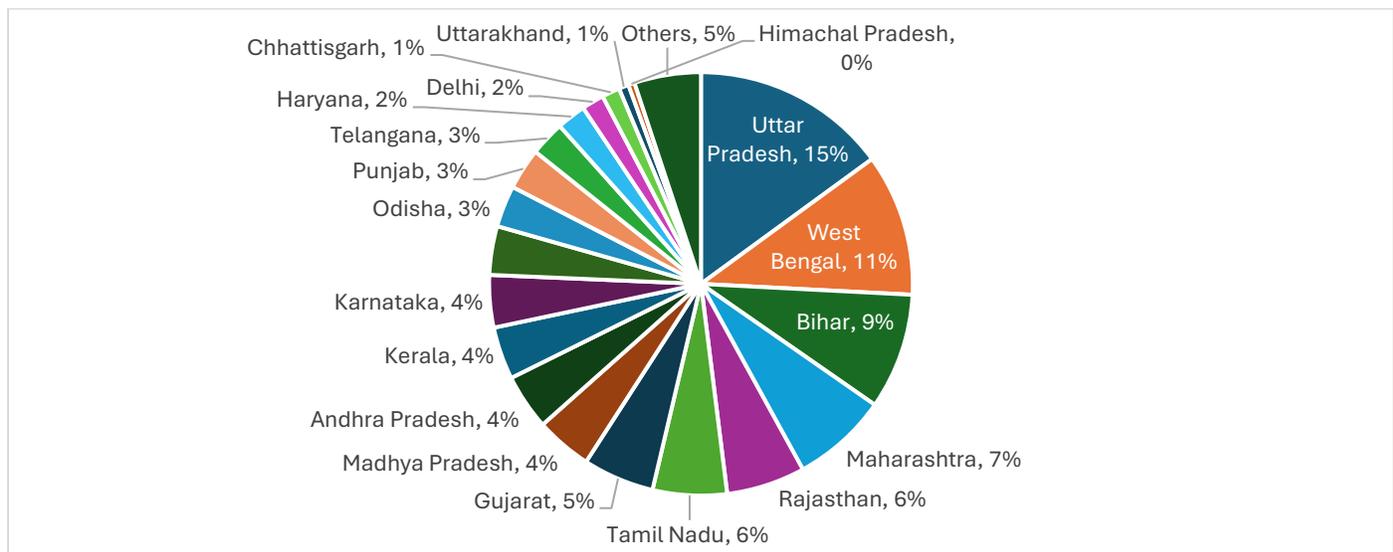
State wise split of addressable market (SORP) basis National Sample Survey (NSS) 73rd round conducted during 2015-16

Top 15 states	Total households ('000)	Total Non-Agri Self Employed households ('000)	Total Non-Agri Self Employed-Households - SORP ('000)	Total Non-agri Self Employed-Households - SORP - Pucca + Semi Pucca ('000)	Secured MSME Addressable Market Size with ATS < Rs 0.5 million (Rs billion)	% of secured MSME addressable market size with ATS < Rs 0.5 million	Market share of secured MSME < Rs. 5 lakhs as of FY24
Uttar Pradesh	38,224	7,776	7,023	6,674	3,337	14.96%	4.36%
West Bengal	23,781	5,923	5,143	4,849	2,424	10.86%	2.12%
Bihar	19,960	4,498	4,270	3,953	1,976	8.86%	0.55%
Maharashtra	24,120	4,353	3,316	3,270	1,635	7.33%	13.87%
Rajasthan	13,384	3,075	2,743	2,685	1,342	6.01%	8.86%
Tamil Nadu	20,200	3,715	2,584	2,523	1,262	5.66%	15.04%
Gujarat	13,064	3,188	2,471	2,428	1,214	5.44%	8.58%
Madhya Pradesh	15,251	2,360	1,988	1,922	961	4.31%	6.03%
Andhra Pradesh	14,279	2,677	1,956	1,895	947	4.24%	9.11%
Kerala	8,577	1,988	1,795	1,789	895	4.01%	7.45%
Karnataka	14,928	2,740	1,822	1,786	893	4.00%	9.11%
Assam	6,740	1,965	1,702	1,660	830	3.72%	0.30%
Odisha	10,401	1,909	1,647	1,415	707	3.17%	0.80%
Punjab	5,922	1,636	1,415	1,409	705	3.16%	2.05%
Telangana	9,793	1,788	1,205	1,188	594	2.66%	5.23%
Haryana	5,216	1,174	1,000	997	499	2.23%	2.12%
Delhi	4,255	1,122	766	760	380	1.70%	1.54%
Chhattisgarh	5,664	748	624	613	306	1.37%	0.86%
Uttarakhand	2,129	426	340	335	167	0.75%	0.84%
Himachal Pradesh	1,735	259	214	214	107	0.48%	0.18%
Others	13,485	2,856	2,373	2,261	1,131	5.08%	1.00%
All India	2,71,105	56,115	46,397	44,624	22,312	100%	100%

Note: States are arranged in order of Addressable market size,

Source: NSS 73rd round (July 2015 – June 2016) and NSS 76th round (July 2018 – December 2018), Periodic Labour Force Survey (PLFS) dated July 2019-June 2020, Crisil Intelligence

Uttar Pradesh, West Bengal and Bihar accounts for ~35% of secured MSME (SORP) addressable market size with ATS < Rs 0.5 million



Source: Crisil Intelligence

Large addressable market exists in Uttar Pradesh, West Bengal, Bihar, Maharashtra, Rajasthan, Tamil Nadu, Gujarat, Madhya Pradesh, Andhra Pradesh, Kerala, Karnataka and Assam accounting for almost 79% of the total secured MSME (SORP) addressable market with average ticket size less than Rs 0.5 million.

Average ticket size (ATS) increased for all lenders from Fiscal 2019 to Q1FY26

During Fiscal 2025, NBFCs recorded the average ticket size of Rs. 2.20 and 2.65 million respectively, trailed by Private Banks, HFCs and Public sector banks.

Trend in average ticket size of LAP for all lenders from fiscal 2019 to Q1FY26

ATS (In Rs. Mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
Public sector banks	1.98	1.95	1.75	2.59	1.86	2.13	2.22	2.70
Private sector banks	2.14	2.05	1.78	2.69	2.02	2.18	2.62	3.03
NBFCs	2.48	1.58	1.75	2.36	1.96	2.07	2.20	2.62
HFCs	2.55	2.03	1.59	2.00	1.58	1.58	1.67	1.93
Others	2.04	1.93	1.35	1.73	1.62	1.86	1.76	1.80
Industry	2.25	1.94	1.68	2.33	1.86	1.99	2.17	2.50

Note: NBFCs include NBFC-Fintechs, Average ticket size is calculated as sum of sanctioned amount divided by number of trades during a given fiscal year.

Source: CIBIL, Crisil Intelligence

Private banks had the best asset quality among major lenders with 90+ DPD at 1.4% as of Q1FY26

Asset quality for all lenders deteriorated in Fiscal 2021 due to the pandemic where income of the borrowers was impacted which led to rise in GNPA numbers. With continued improvement in economic activity, better collection efficiency and strong credit growth, GNPA level started improving. As of Fiscal 2025, the GNPA ratio for LAP industry stood at 3.2%. Private Banks and NBFCs exhibited better asset quality compared to the industry level.

NBFCs' LAP NPA% is lower than the industry as of Q1FY26

Players	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
HFC	2.3%	4.5%	6.6%	8.0%	4.7%	4.9%	3.3%	3.8%
NBFC	5.1%	7.3%	7.3%	8.0%	5.1%	3.7%	3.0%	3.2%
Public Sector Banks	6.7%	7.3%	7.8%	7.7%	6.9%	5.4%	4.4%	4.6%
Private Sector Banks	2.1%	2.2%	3.1%	2.3%	2.1%	1.8%	1.5%	1.4%
Others	4.7%	7.1%	12.6%	12.3%	14.8%	10.2%	9.8%	11.6%
Overall	3.4%	4.4%	5.8%	5.9%	4.8%	3.9%	3.2%	3.4%

Source: CIBIL, Crisil Intelligence

GNPAs (90+ DPD) of LAP portfolio for ticket size bucket less than Rs. 0.5 million is the highest among all the ticket sizes

Notably, while the Gross Non-Performing Assets (GNPA) of the Loan Against Property (LAP) portfolio with a ticket size of less than Rs 0.5 million remains the highest. The gap among all ticket sizes has narrowed substantially from FY23, suggesting a return to pre-pandemic norms as the Covid-19 impact subsides. The highest improvement can be noted in ticket size less than 0.5 million. The asset quality has slightly deteriorated in Q1FY26 for all ticket sizes.

Smaller ticket size loans are typically given to individuals or businesses with limited credit history, stable income source or established financial background. Moreover, the borrowers in this segment are often vulnerable to economic shocks such as job loss, medical emergencies, economic downturns, etc. which adds to deterioration of the asset quality in small ticket size loans portfolio. However, improved credit scoring models, detailed cash flow analysis, enhanced monitoring and early warning systems, adoption of artificial intelligence and machine learning, alternative data sources, digitization, improved recovery mechanisms, partnership and risk sharing models are enabling the lenders in keeping the NPAs of small ticket loans portfolio range bound.

Asset quality: 90+ Days Past Due (“DPD”) across various ticket sizes

Players	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
<0.5 mn	5.3%	6.2%	7.5%	7.8%	7.3%	5.3%	5.6%	6.4%
0.5 mn to 1.0 mn	3.5%	4.3%	5.2%	5.2%	5.7%	4.7%	3.7%	4.5%
1.0 mn to 1.5 mn	2.8%	3.6%	4.6%	4.3%	4.0%	3.7%	3.0%	3.4%
1.5 mn to 2.5 mn	2.8%	3.6%	4.8%	4.5%	4.0%	3.1%	2.8%	3.1%
> 2.5 mn	3.4%	4.5%	6.1%	6.2%	4.7%	3.8%	3.0%	3.1%
Overall	3.4%	4.4%	5.8%	5.9%	4.8%	3.9%	3.2%	3.4%

Source: CIBIL, Crisil Intelligence

7. Business loans – Secured and Unsecured

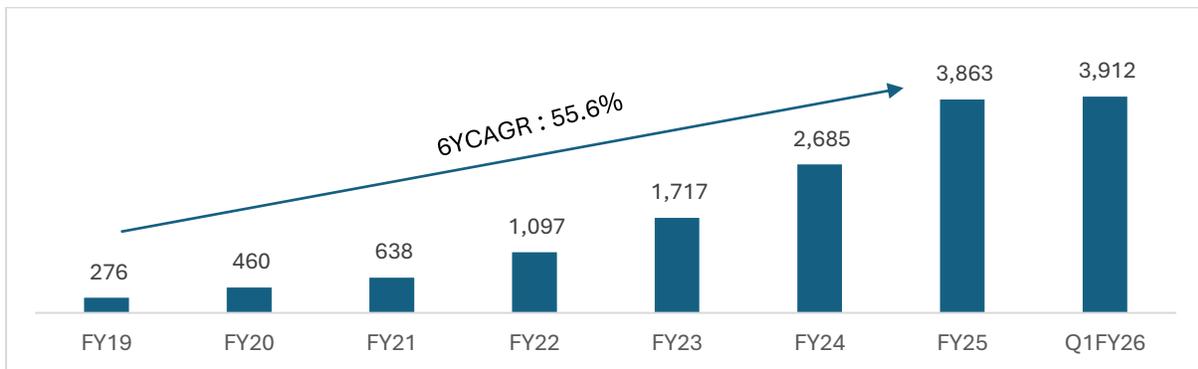
Note: Business loans considered in this section are business loans – secured, business loans – unsecured and business loans – general which are reported to consumer bureau. For the analysis, CRISIL has considered Business loan – unsecured and business loan – general as unsecured business loans.

7.1 Secured business loans

Secured Business Loans has witnessed robust growth in India

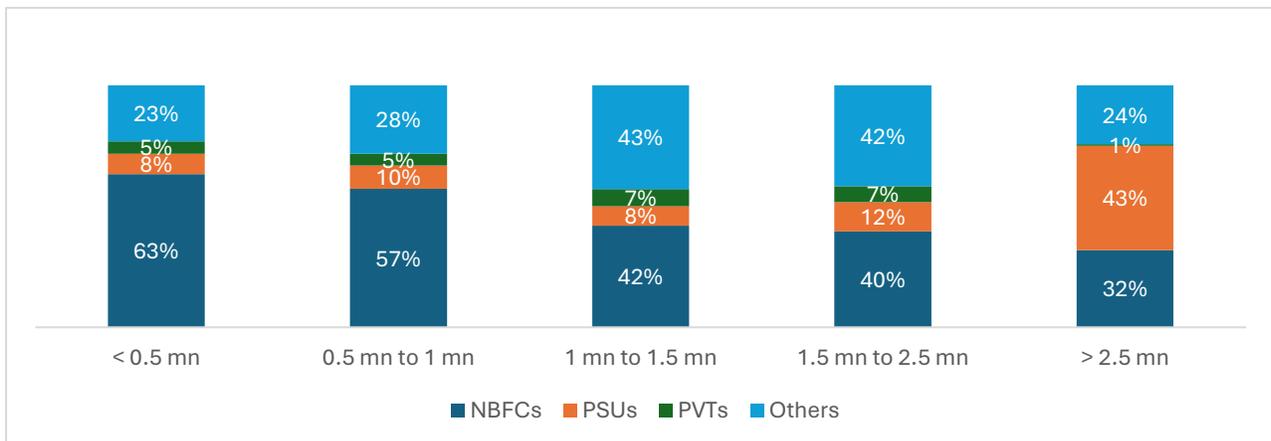
Secured Business Loans grew exponentially from Rs. 276 billion as of fiscal 2019 to Rs. 3,863 billion as of fiscal 2025, recording a CAGR of 55.6% during the same period. This growth is being driven by increasing demand for business loans among the growing number of entrepreneurs, startups and established businesses. Moreover, easy access to funds, multiple financing options and digitization are also driving the growth of this segment.

Secured Business Loans grew at CAGR of 55% between fiscals 2019 and 2025



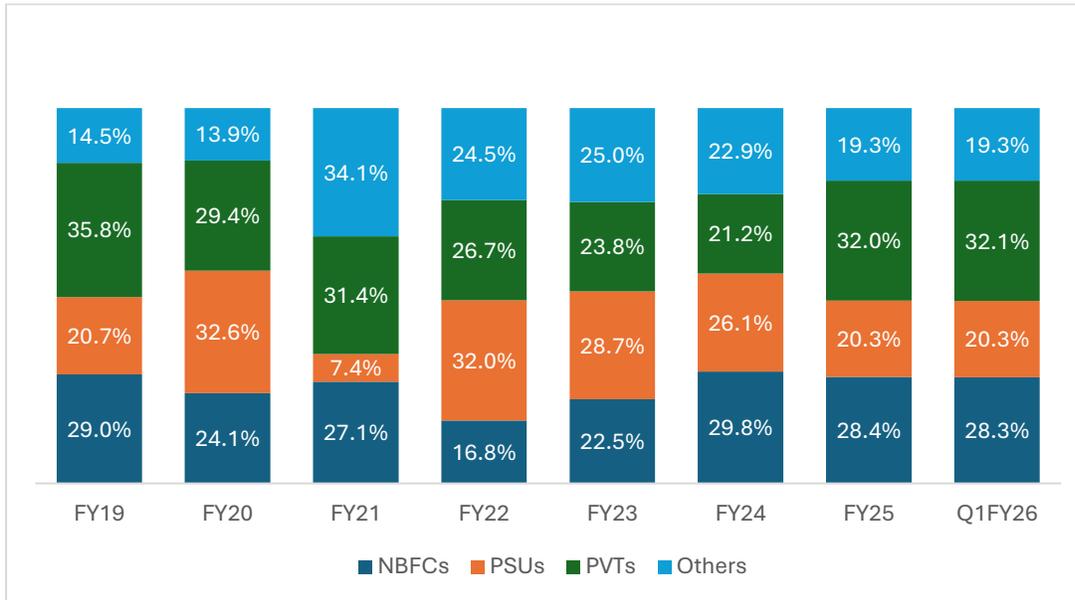
Source: CIBIL, Crisil Intelligence

NBFCs have the largest share in secured business loans for all ticket sizes up to Rs 2.5 million (Q1FY26)



Note: NBFCs include HFCs Source: CIBIL, Crisil Intelligence

NBFCs' share in Secured Business Loans has increased to 28% as of Q1FY26



Note: NBFCs include HFCs Source: CIBIL, Crisil Intelligence

GNPA% of NBFCs in Secured Business Loans has reduced from 22.9% as of fiscal 2019 to 5.3% as of Q1FY26. Private Banks have the best asset quality with GNPA at 2.4% as of Q1FY26

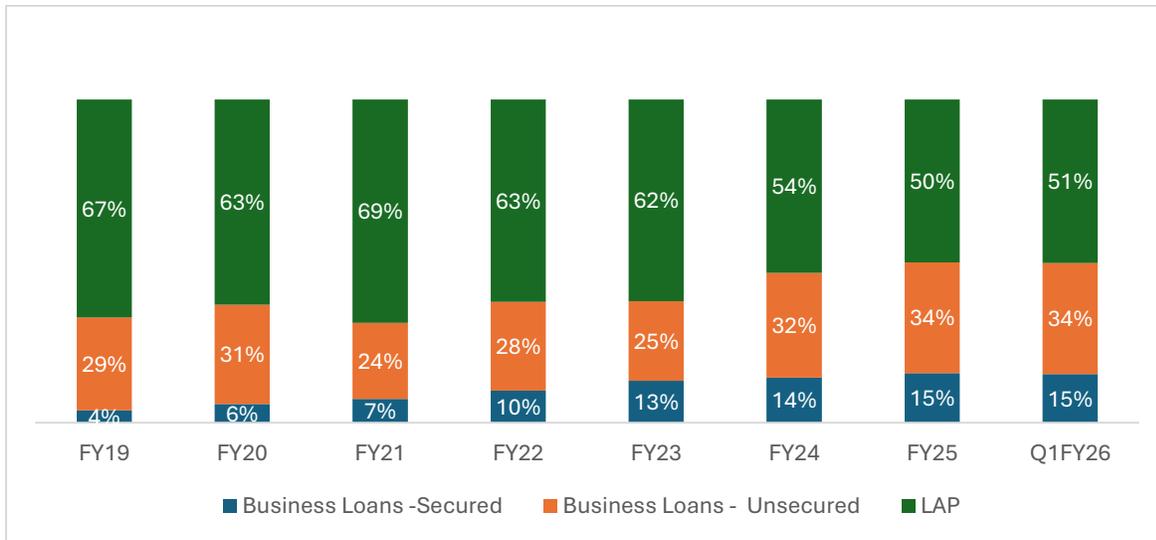
Lender	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
NBFCs	22.9%	22.4%	20.5%	21.0%	12.2%	5.4%	5.2%	5.3%
PSUs	13.4%	25.6%	30.4%	40.1%	34.7%	29.4%	17.9%	18.0%
Private Banks	32.9%	4.8%	5.7%	4.1%	4.8%	4.1%	2.9%	2.4%
Others	17.5%	22.0%	13.5%	17.1%	16.5%	8.9%	9.0%	10.1%
Industry	23.7%	18.2%	14.2%	21.5%	17.2%	11.8%	7.6%	7.6%

Source: CIBIL, Crisil Intelligence

7.2 Unsecured business loans

Unsecured business loans are preferred by borrowers for ticket size less than Rs. 0.5 Mn

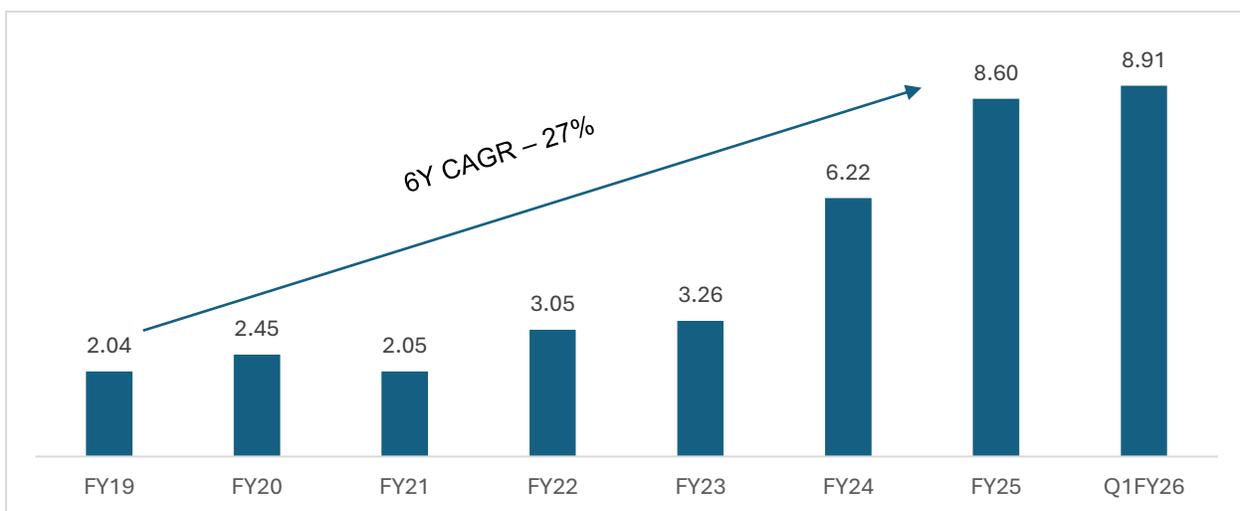
As of Q1FY26, 51% of loans with ticket size less than Rs. 0.5 million are unsecured business loans, followed by loans against property at 31% and secured business loans at 19%. Although during covid pandemic, share of loans against property increased but as economic activities resumed with full throttle post fiscal 2023 and income of MSMEs stabilized, the share of unsecured business loans reached its pre pandemic levels.



Note: Business loans – Unsecured includes Business Loans – General

Source: CIBIL, CRISIL INTELLIGENCEIntelligence

Unsecured Business loans witnessed a CAGR of ~27% from FY19-25



Note: Unsecured Business Loan portfolio includes business loan general and business loan unsecured reported to Consumer bureau.

Source: CIBIL, Crisil Intelligence

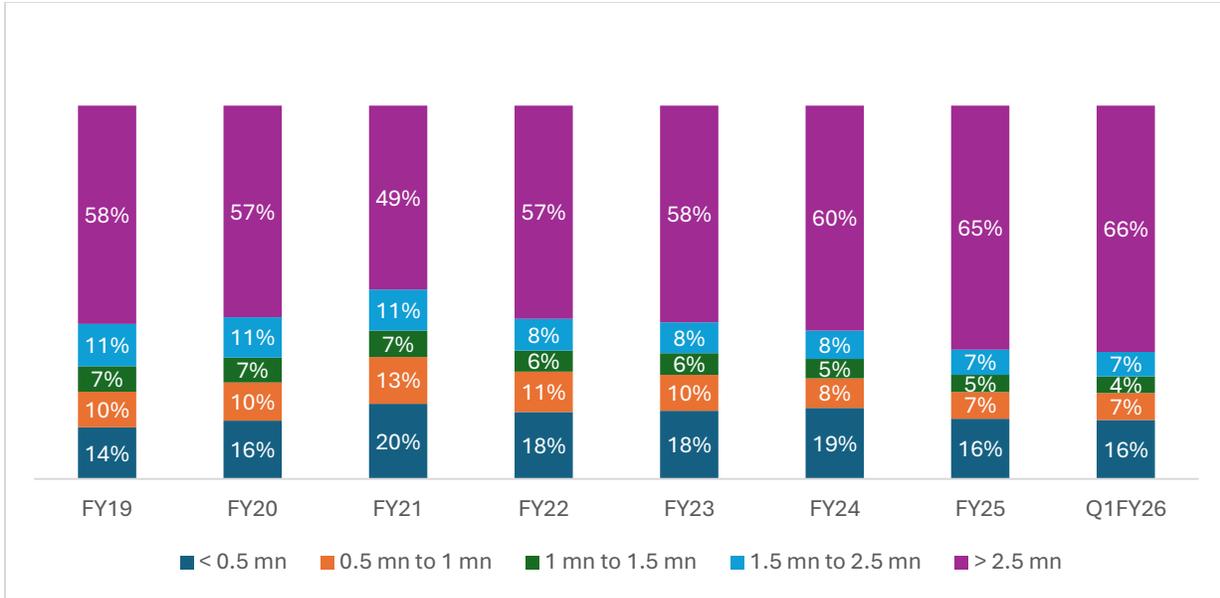
Overall Unsecured Business Loan segment, types of loan undertaken for business related purposes without any security and collateral, which included general business loans and Unsecured Business loans in India, stood at Rs. 8.6 trillion as of FY25, witnessing a CAGR of 27% from FY19. As of Q1 FY26, overall Unsecured Business Loan segment stands at Rs. 8.9 trillion. The segment has witnessed continuous growth across fiscals, with the fastest year-on-year growth in outstanding witnessed in FY25, Going forward, as per Crisil Intelligence estimates, it is expected that the segment will grow at a CAGR of 18-20% till FY27 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. 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.

Around 66% of unsecured business loans are targeted at large ticket sizes of over Rs 1.5 million as of Q1FY26

Among ticket brackets, the share of loans less than Rs. 0.5 million reached to 16% in fiscal 2025 from 14% in fiscal 2019.

This reflects that borrowers prefer unsecured business loans for ticket size less than Rs. 0.5 million over LAP and secured business loans. Over the years, preference of unsecured business loans for small ticket size loans have remained high among MSMEs.

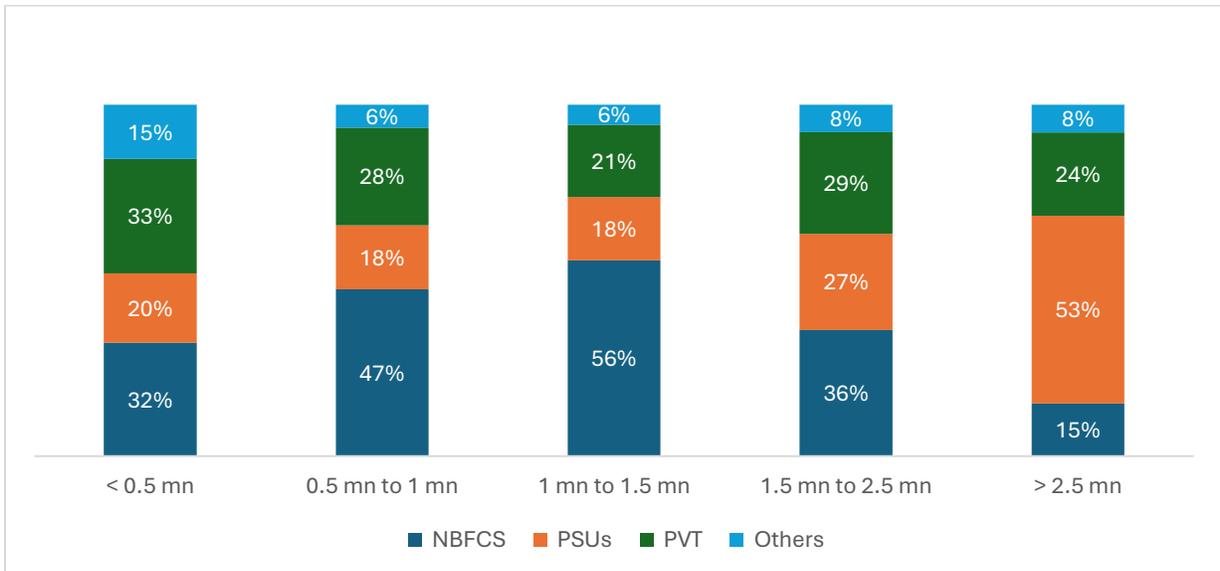
Trend of ticket-wise share



Note: Unsecured Business Loan portfolio includes business loan general and business loan unsecured reported to consumer bureau.

Source: CIBIL, CRISIL INTELLIGENCE

Ticket-size wise share of lenders in Unsecured Business Loans as of Q1FY26



Note: Unsecured Business Loan portfolio includes business loan general and business loan unsecured reported to consumer bureau.

Source: CIBIL, Crisil Intelligence

NBFCs witnessed the CAGR growth of 33% from FY19-FY25, while accounting for the 25% share in overall Unsecured Business Loan Segment

Among lenders in the Unsecured Business Loan segment, NBFCs witnessing a CAGR of ~33.0%. as of fiscal 2025, among lenders, Public Sector banks accounted for the highest share in credit outstanding with a share of ~42% followed by NBFCs accounting for ~25% share and Private Banks with 25% share.

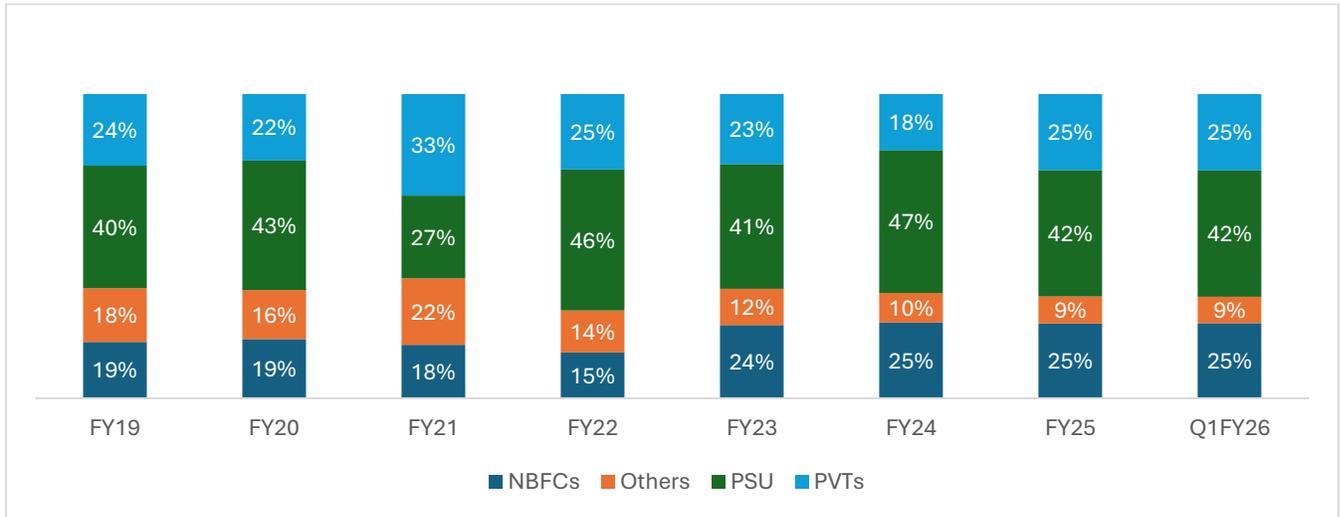
Public Sector Banks witnessed the fastest growth among lenders from FY19-25, while accounting for the highest share in overall Unsecured Business Loan Segment

Portfolio O/s (Rs. Tn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26	CAGR
NBFCs	0.38	0.48	0.36	0.46	4.42	6.82	2.11	2.20	33%
Private Banks	0.36	0.40	0.45	0.42	2.19	2.64	0.76	0.78	13%
PSU	0.82	1.04	0.56	1.41	7.52	12.87	3.57	3.70	28%
Others	0.48	0.54	0.68	0.76	4.24	5.04	2.15	2.24	28%

Note: Unsecured Business Loan portfolio includes business loan general and business loan unsecured reported to consumer bureau.

Source: CIBIL, Crisil Intelligence

Trend of Lender-wise share



Note: Unsecured Business Loan portfolio includes business loan general and business loan unsecured reported to Consumer bureau.

Source: CIBIL, Crisil Intelligence

Among lenders, Private Banks had the best asset quality in Unsecured Business Loan Segment as of Fiscal 2025

Among lenders, Private Banks had the best asset quality in the Unsecured Business Loan segment with 90+ DPD at 8.9 as of Q1FY26, this was followed by NBFCs with 90+ DPD at 12.3%.

Among lenders, NBFCs had the best asset quality in Unsecured Business Loan Segment as of Fiscal 2025

Lenders	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Q1FY26
NBFCs	8.0%	11.5%	17.1%	19.5%	12.8%	11.1%	11.3%	12.3%
Others	6.4%	8.4%	16.8%	18.9%	19.1%	19.5%	18.9%	20.7%
PSU	33.4%	44.8%	29.5%	35.8%	25.9%	21.6%	18.1%	18.1%

Private Banks	5.8%	7.5%	11.6%	12.0%	10.1%	10.5%	8.2%	8.9%
Industry	17.4%	24.3%	18.6%	25.1%	18.3%	16.8%	14.0%	14.6%

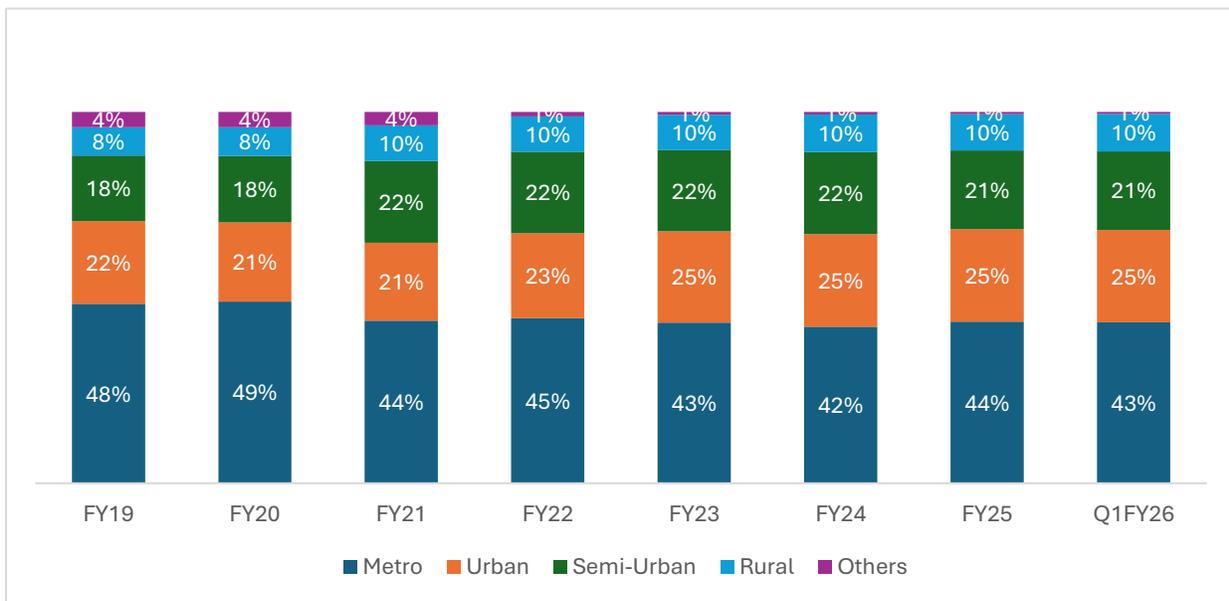
Note: Unsecured Business Loan portfolio includes business loan general and business loan unsecured reported to consumer bureau.

Source: CIBIL, Crisil Intelligence

Semi-Urban and Rural Regions accounted for 26% share in Fiscal 2019 and grew to 31% share as of Fiscal Q1FY26 in Unsecured Business Loan Segment

Metro regions accounted for the highest share in Unsecured Business Loan Segment, accounting for ~43% market share followed by Urban regions accounting for ~25% share and semi-urban regions accounting for ~22% market share.

Semi-Urban and Rural Regions accounted for 32% share in Unsecured Business Loan Segment as of Fiscal 2025



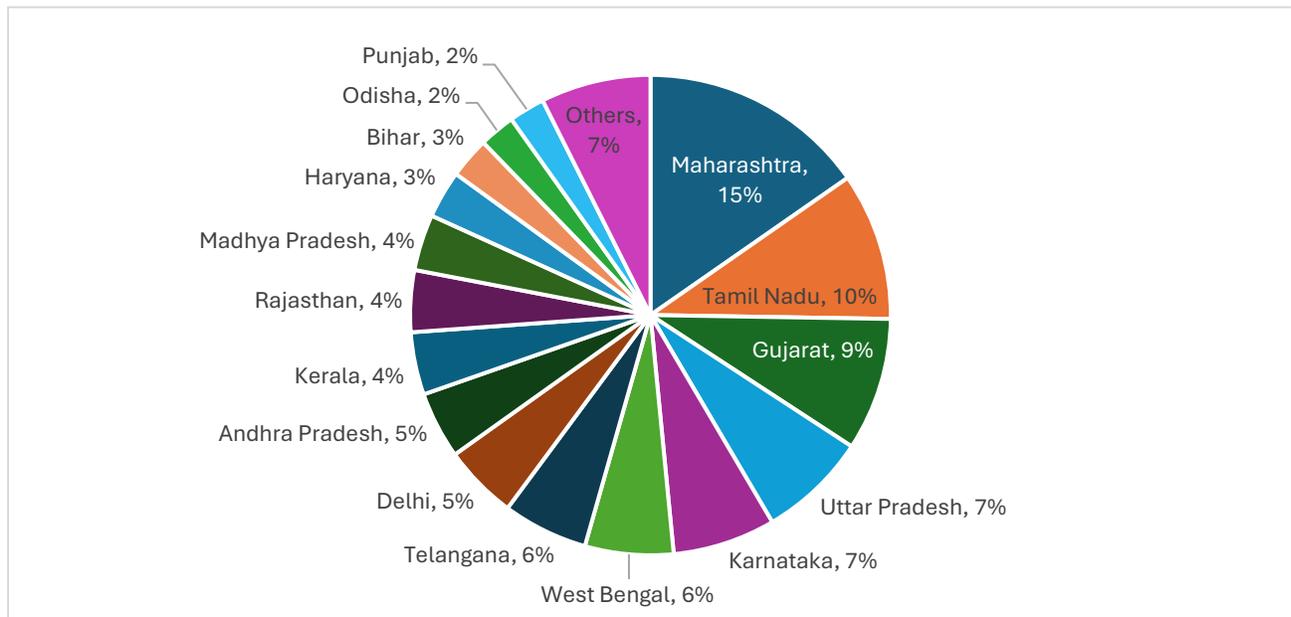
Note: Unsecured Business Loan portfolio includes business loan general and business loan unsecured reported to consumer bureau.

Source: CIBIL, Crisil Intelligence

Top 5 states accounted for ~48% in Unsecured Business Loan Segment credit outstanding

Among states, Maharashtra accounted for highest share in Unsecured Business Loan outstanding accounting for ~15% share as of Q1FY26, which was followed by Tamil Nadu accounting for ~10% share and Gujarat accounting for ~9% credit share. As of Q1FY26, Top 5 states accounted for ~48% share, while top 10 states accounted for ~73% share.

Maharashtra accounted for the highest share in Unsecured MSME Business Loan Segment as of Fiscal 2025



Note: Unsecured Business loan portfolio includes business loan general and business loan unsecured reported to consumer bureau.

Source: CIBIL, Crisil Intelligence

Profitability of NBFC Players present in the Unsecured Business Loan Segment

NBFCs in the Unsecured Business Loan segment operate with yield in the range of 24-26%, on average. With average cost of funds being in the range of 12-13%, net interest margins (NIMs) for this segment are in the range of 12-17%. Crisil Intelligence estimates the profitability in this segment to have turned negative in Fiscal 2025 owing to higher credit costs faced by unsecured players of over leveraging and asset quality. Going forward, profitability to improve on the back of growth in loan book and increasing operating efficiency.

Key metrics for Unsecured Business Loan Segment

Parameter	FY22	FY23	FY24	FY25
Yield on advances	25.7%	24.4%	24.6%	25.6%
Cost of Borrowings	12.4%	12.2%	12.2%	13.0%

Net Interest Margins	12.5%	14.2%	16.9%	15.2%
Return on Assets	-3.2%	2.4%	2.9%	-1.4%
ROE	-11.8%	9.5%	11.7%	-5.7%

Sources: Company Reports, Crisil Intelligence

NBFCs operating in the Unsecured Business Loan Segment have been able to command higher margins (~15.2%) due to higher yield on advances (25.6%), with cost of borrowings at ~13%. However due to higher credit costs in Fiscal 2025, negative ROA of 1.4% was noted.

Key Success Factors in the Unsecured Business Loan Landscape

Higher Interest Rate Margins: Unsecured 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 Unsecured Business Loan 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.

8. Peer Benchmarking

In this section, Crisil Intelligence has compared the financial and operating performance of NBFCs based on the fiscal 2023, fiscal 2024, fiscal 2025 and first half of fiscal 2026 (H1'FY26). For analysis, CRISIL has considered the following MSME focused NBFCs as peers: Five-Star Business Finance Limited, SBFC Finance Limited, Veritas Finance, Aye Finance, Vistaar Financial Services and Finova Capital.

Aye Finance reported highest 2.5Y CAGR among its peers at 37.4% from FY23-H1FY26.

Aye Finance reported a notable 37.4% compounded growth in AUM from Fiscal Year 2023-H1FY26 reaching a total of Rs.60,276 million. Aye Finance has recorded highest CAGR for 2.5 years of 37.4% followed by Veritas Finance at 36.9% and Finova Capital at 36.6%.

Aye Finance has emerged as a leading NBFC in India, demonstrating impressive yoy growth in its Assets Under Management (AUM) between Fiscal 2025 and Fiscal 2024, with a growth rate of 21.04%. The company's strategic focus on catering to the underserved micro and small enterprise segment has driven its expansion and growth, despite facing challenges such as elevated credit costs and increased asset quality pressure during FY25. Aye Finance's innovative products and services, strong distribution network, and last-mile connectivity have enabled it to reach a large number of customers in rural and semi-urban areas, providing a significant growth opportunity. Although the growth rate is slower compared to the preceding fiscal year, the company is expected to continue its growth trajectory, driven by its strategic focus and expansion plans, and is well-positioned to emerge as a leading player in the NBFC sector, with a strong outlook for future growth and profitability..

Assets under management (AUM)

Assets under Management (in Rs. million)	FY23	FY24	FY25	YoY Growth (in %)*	H1FY25	H1FY26	2.5Y CAGR	YoY Growth (%) (H1)
Aye Finance	27,216	44,633	55,339	23.9%	49,798	60,276	37.4%	21.0%
Five Star Business Finance	69,148	96,406	118,770	23.2%	109,272	128,471	28.1%	17.6%
SBFC Finance	49,428	68,219	87,470	28.2%	77,150	99,380	32.2%	28.8%
Veritas Finance	35,337	57,238	73,487	28.3%	65,170	77,460	36.9%	18.9%
Vistaar Financial Services#	31,325	40,545	49,300	21.5%	45,750	50,470	21.0%	10.3%
Finova Capital#	16,288	26,560	34,770	30.9%	28,180	35,535	36.6%	26.1%

Note: N.A. – Not Available; (*) - YoY growth from FY24 to FY25 is denoted; Source: Company reports, #Credit Report, Crisil Intelligence

Aye Finance has second highest disbursement growth of 7% yoy from FY24-25 with Vistaar Financial Services being at highest yoy growth of 8%.

The company's disbursement growth was a key highlight, with loan disbursements reaching Rs. 22,335 million in H1FY26, representing CAGR of ~-2.1% between FY23 and H1FY26. This aggressive expansion has enabled Aye Finance to establish a strong foothold in its niche, demonstrating the company's ability to navigate challenging market conditions and capitalize on emerging opportunities. By leveraging its expertise and strategic focus, Aye Finance has successfully differentiated itself from its peers and reinforced its position in the MSME sector.

Disbursements

Disbursements (in Rs. million)	FY23	FY24	FY25	YoY Growth (in %)*	H1 FY25	H1 FY26	2.5Y CAGR	YoY Growth (%) (H1)
Aye Finance	23,570	39,304	42,045	6.7%	19,883	22,324	-2.1%	12.3%
Five Star Business Finance	33,914	48,814	49,700	1.8%	25,689	24,860	-11.7%	-3.2%
SBFC Finance*	22,768	27,930	26,710	-4.4%	12,060	16,240	-12.6%	34.6%
Veritas Finance	22,447	37,024	39,331	6.2%	18,380	NA	NA	NA
Vistaar Financial Services	13,835	16,872	18,290	8.4%	NA	NA	NA	NA
Finova Capital	8,973	13,490	13,969	3.6%	NA	NA	NA	NA

Note: N.A. – Not Available; (*) For secured MSME product
Source: Company reports, Crisil Intelligence

Aye Finance's Secured Loan Portfolio: A Dominant Share of AUM

As of H1FY26, Aye Finance's AUM continued to demonstrate a strong growth trajectory with a diversified portfolio comprising primarily of secured MSME loans, unsecured MSME loans and other loans. The AUM mix for H1FY26 was reported as follows: Secured MSME loans accounted upto 62.0% of the total AUM. Unsecured MSME loans accounted for upto 37.9% of the total AUM.

Aye Finance is a leading NBFC providing business loans to micro-scale enterprises in India with 503,219 active unique customers across 18 states and 3 union territories. With its diversified portfolio and strong customer base, Aye Finance is well-positioned to maintain its leadership in the NBFC space. The company's unique positioning in the micro enterprise lending space, offering a full product line (secured and unsecured) to serve a large unaddressed customer segment, sets it apart from its peers, including Five-Star Business Finance, SBFC Finance, Veritas Finance, and Vistaar Financial Services.

AUM Mix (H1FY26)

AUM Mix as of Fiscal H1FY26	Secured MSME	MSME Unsecured	Others
Aye Finance	62%	38%	-
Five Star Business Finance	100%	-	-
SBFC Finance	83%	-	17%
Veritas Finance	56%	7%	37%
Vistaar Financial Services	76.7%	23.3%	-
Finova Capital	79%	13%	8%

Note:; 1) Others include gold loan, unsecured (personal) loan, consumer durable loan etc.
Source: Company reports, Crisil Intelligence

Aye Finance offers granularity in their portfolio with a strong focus on lower ticket size loans

Aye Finance is technology-enabled pan-India player offering small-ticket loans with an average ticket size of Rs 0.1-0.18 million to micro enterprises in semi-urban areas across India, primarily for working capital and business expansion needs against hypothecation of working assets or against the security of property.

Average Ticket Size as of FY25

Players	Average Ticket Size
Aye Finance	Rs 0.10 - 0.18 million
Five-Star Business Finance	Rs 0.3 million - 0.5 million
SBFC Finance*	Rs 0.95 million
Veritas Finance	Rs 0.2 - 5 million
Vistaar Financial Services	Rs 2 – 10 million
Finova Capital	Rs 0.4 million

Note: N.A. – Not Available; * - For Secured MSME; Company reports, Crisil Intelligence

Aye Finance has the second highest number of branches as of H1FY26 among the peer set

Aye Finance had the second highest number of branches at 568 as of H1FY26 among the peers considered and it has grown the network at 15% CAGR from Fiscal 2023 to H1FY26. Five-Star Finance Business saw the highest growth of ~36% in branch growth from Fiscal 2023 to H1FY26 having highest number of

branches at 800. Aye Finance's growth in employee strength is commensurate to the branch growth between Fiscal 2023 and Fiscal 2025.

Number of branches and number of employees

Players	Branches					
	FY23	FY24	FY25	H1FY25	H1FY26	2.5Y CAGR
Aye Finance	398	478	526	499	568	15.3%
Five-Star Business Finance	373	520	748	660	800	35.7%
SBFC Finance	152	183	205	192	220	15.9%
Veritas Finance	287	382	438	NA	NA	NA
Vistaar Financial Services	211	212	265	NA	NA	NA
Finova Capital	200	400+	393	NA	NA	NA

Source: Company reports, Crisil Intelligence

Players	Employees					
	FY23	FY24	FY25	H1FY25	H1FY26	2.5Y CAGR
Aye Finance	5,724	6,825	9,102	8,388	10,459	27.3%
Five-Star Business Finance	7,347	9,327	11,934	10,366	13,074	25.9%
SBFC Finance	2,822	3,758	4,294	4,062	4,484	20.3%
Veritas Finance	4,432	6,299	7,796	NA	NA	NA
Vistaar Financial Services	2,446	2,468	3,187	NA	NA	NA
Finova Capital	1,988	3,664	4,483	NA	NA	NA

Source: Company reports, Crisil Intelligence

Aye finance has the highest geographic diversity among peers with presence in maximum number of states

Aye Finance maintained a balanced and well-diversified pan-India presence across all 4 geographies viz. North, East, South, and West, making them the fastest growing (in terms of year-on-year growth in AUM in Fiscal 2025) pan-India MSME lender among the peers considered.

Aye Finance's growth strategy is built around a branch-based, high-touch lending model that caters to underserved micro-enterprises with a focus on a "phygital" approach to attract and underwrite borrowers who lack formal financial documents.

Aye Finance is the most geographically diversified lender among the MSME focused peers considered with top 3 states accounting for 41.3% and 42.6% of total AUM as of March 2025 and September 2025, as compared to other peers among the peers considered. Aye Finance's AUM has the most diversified footprint in terms of top state concentration, with no state having more than 15% AUM concentration as of March

2025, which is the lowest among the peer set SBFC Finance is focusing on secured MSME lending with the next highest presence in India covering 18 states, and the top state contributing to 16% of the AUM as of Sept 2025

Share of top states in AUM as of Sept 2025

H1FY26				
Players	Presence in total Number of States#	Share of top states by AUM		
		Top State	Top 3 states	Top 5 states
Aye Finance	21	15.8%	42.6%	57.0%
Five-Star Business Finance	11	37.0%	84.0%	98.0%
SBFC Finance*	18	16.4%	40.9%	58.2%
Veritas Finance**	10	43.0%	71.0%	N.A.
Vistaar Financial Services	12	37.0%	76.0%	81.0%
Finova Capital	16	N.A	N.A	N.A.

FY25				
Players	Presence in total Number of States#	Share of top states by AUM		
		Top State	Top 3 states	Top 5 states
Aye Finance	21	15.0%	41.3%	55.6%
Five-Star Business Finance	11	38.0%	86.0%	99.0%
SBFC Finance*	18	15.3%	40.4%	87.1%
Veritas Finance**	11	43.0%	71.0%	N.A.
Vistaar Financial Services	12	28.0%	63.0%	77.0%
Finova Capital	16	54.0%	74.0%	N.A.

FY24				
Players	Presence in total Number of States#	Share of top states by AUM		
		Top State	Top 3 states	Top 5 states
Aye Finance	21	14.1%	40.0%	53.5%
Five-Star Business Finance	9	37.0%	87.0%	98.0%
SBFC Finance*	18	15.3%	40.4%	87.1%
Veritas Finance**	10	41.0%	68.0%	N.A.
Vistaar Financial Services	12	39.0%	77.0%	87.0%
Finova Capital	16	N.A.	N.A.	N.A.

FY23				
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Players	Presence in total Number of States#	Share of top states by AUM		
		Top State	Top 3 states	Top 5 states
Aye Finance	21	14.9%	40.0%	55.1%
Five-Star Business Finance	9	35.0%	88.0%	99.0%
SBFC Finance*	18	15.3%	40.4%	87.1%
Veritas Finance**	9	43.0%	71.0%	N.A.
Vistaar Financial Services	12	28.0%	60.1%	77.7%
Finova Capital	16	N.A.	N.A.	N.A.

Note: N.A. – Not Available; *: Mix based on number of branches; # States include UTs ** Top 4 states Source: Company reports, Crisil Intelligence

Aye Finance has seen the highest reduction in the cost to income ratio from Fiscal 2023 (66%) to Fiscal 2025 (50%)

Aye Finance saw a substantial reduction in cost to income ratio from Fiscal 2023 to Fiscal 2025 to the extent of 16%, which was the highest reduction among the peers considered. Aye Finance is achieving economies of scale through an increasing customer base thereby enabling the lowering of cost to income from Fiscal 2023 to Fiscal 2025. However, the ratio slightly increased to 53% in H1FY26. Aye Finance's risk-based pricing strategy helps mitigate the impact of high operating expenses, which can be attributed to Aye Finance's focus on high-touch lending to micro-enterprises with smaller ticket sizes, which inherently increases operational costs due to the more personalized and resource-intensive nature of this business model. Despite this, Aye Finance's risk-based pricing model helps offset its high operating expenses, although profitability was impacted by elevated credit costs in FY25. In comparison to its peers, Aye Finance's cost-to-income ratio remains on the higher side, provided that Aye Finance has higher number of branches and customers to cater to at a lower ticket size when compared to its peers.

Cost to Income for players

Players	Average Ticket Size as of FY25	Active Customer Base (FY23)	Active Customer Base (H1FY26)
Aye Finance	Rs 0.10 - 0.18 million	305,524	586,825
Five Star Business Finance	Rs 0.3 million - 0.5 million	293,954	NA
SBFC Finance	Rs 0.95 million - Secured MSME	88,000	184,424
Veritas Finance	Rs 0.2 - 5 million	116,403	216,000
Vistaar Financial Services	Rs 0.3 – 10 million	39,517	NA
Finova Capital	Rs 0.4 million	48,562	NA

Players	Cost to Income (%)				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	66.0%	51.0%	50.1%	48%	53%
Five Star Business Finance	34.7%	32.2%	30.9%	30.3%	32.0%
SBFC Finance	49.7%	45.7%	40.0%	40.2%	38.2%
Veritas Finance	45.5%	48.1%	47.9%	51.1%	50.8%
Vistaar Financial Services	52.7%	48.7%	39.2%	43.1%	NA
Finova Capital	43.2%	44.6%	48.3%	NA	NA

Note: N.A. – Not Available; 1) Cost to Income ratio calculated as operating expenses for the relevant fiscal year / period divided by total income minus interest expense. Operating Expenses include employee expenses, depreciation and amortization, other expenses and fees and commission expense; * - Investor presentation of respective companies; Source: Company reports, Crisil Intelligence

Aye Finance recorded the highest growth in AUM per branch and highest growth in AUM per employee between Fiscal 2023 and Fiscal 2025

Aye Finance's AUM per branch grew at a CAGR of 24% between Fiscal 2023 and 2025 which was the highest amongst the peers. Also, for FY23-H1FY26 its CAGR for AUM per branch stood at 19% Further,

Aye Finance also achieved the fastest growth in AUM per employee at a CAGR of 13% between Fiscal 2023 and Fiscal 2025 during the same period. Also, FY23-H1FY26 CAGR AUM per employee is at 8%.

Aye Finance's relatively lower absolute AUM per branch and AUM per employee are strategic outcomes of its business model. The company's specialization in lending micro-enterprises with informal credit histories requires a large on-the-ground team for customer acquisition and collections. To boost productivity metrics, Aye Finance is focusing on increasing its AUM per branch by growing its mortgage loan portfolio which will naturally improve AUM per branch and per employee.

AUM per branch and AUM per employee

Players	AUM per branch (in Rs. million)					
	FY23	FY24	FY25	2.5Y CAGR	H1FY25	H1FY26
Aye Finance	68.4	93.4	105	19.2%	99.8	106.1
Five Star Business Finance	185.4	185.4	158.8	-5.6%	165.6	160.6
SBFC Finance	325.2	372.8	426.7	14.0%	401.8	451.7
Veritas Finance	123.1	149.8	167.8	NA	NA	NA
Vistaar Financial Services	148.5	191.3	186	NA	NA	NA
Finova Capital	81.4	88.5	88.5	NA	NA	NA

Players	AUM per employee (in Rs. million)					
	FY23	FY24	FY25	2.5Y CAGR	H1FY25	H1FY26
Aye Finance	4.8	6.5	6.1	7.6%	5.9	5.8
Five Star Business Finance	9.4	10.3	10	1.8%	10.5	9.8
SBFC Finance	17.5	18.2	20.4	9.9%	19.0	22.2
Veritas Finance	8	9.1	9.4	NA	NA	NA
Vistaar Financial Services	12.8	16.4	15.5	NA	NA	NA
Finova Capital	8.2	7.2	6.3	NA	NA	NA

Note: N.A. – Not Available; 1) AUM per branch calculated as AUM for the relevant fiscal year divided by numbers of branches for the relevant fiscal year, 2) AUM per employee calculated as AUM for the relevant fiscal year divided by numbers of employees for the relevant fiscal year.

Source: Company reports, Crisil Intelligence

Aye Finance recorded the highest growth in disbursement per branch and disbursement per employee growing from Rs. 59.2 million to Rs. 79.9 million between Fiscal 2023 and Fiscal 2025

Aye Finance' disbursement per branch showed a robust growth between Fiscal 2023 and Fiscal 2025 which was the highest amongst the peers considered, followed by Veritas Finance. In terms of Disbursements per employee, Aye finance disburses INR 4.6 million as of FY25

Disbursement per branch and Disbursement per employee

Players	Average Ticket Size as of Sep 2025	Disbursement per branch (in Rs. million)				
		FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	Rs 0.10 - 0.18 million	59.2	82.2	79.9	39.8	39.3
Five Star Business Finance	Rs 0.35 million	90.9	93.9	66.4	38.9	31.1
SBFC Finance*	Rs 0.94 million - Secured MSME	149.8	152.6	130.2	62.8	73.8
Veritas Finance	Rs 0.3 - 5 million	78.2	96.9	89.8	NA	NA
Vistaar Financial Services	Rs 0.3 – 10 million	65.6	79.6	69.0	NA	NA
Finova Capital	Rs 0.4 million	44.9	45.0	35.5	NA	NA

Note: N.A. – Not Available; 1) Disbursements per branch calculated as Disbursement for the relevant fiscal year divided by numbers of branches for the relevant fiscal year

Source: Company reports, Crisil Intelligence

Players	Disbursement per employee (in Rs. million)				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	4.1	5.8	4.6	2.4	2.1
Five Star Business Finance	4.6	5.2	4.2	2.5	0.9
SBFC Finance*	8.1	7.4	6.2	3.0	3.6
Veritas Finance	5.1	5.9	5.0	NA	NA
Vistaar Financial Services	5.7	6.8	5.7	NA	NA
Finova Capital	4.5	3.7	NA	NA	NA

Note: N.A. – Not Available; (*) Disbursements for secured MSME product; 1) Disbursement per employee calculated as Disbursements for the relevant fiscal year divided by numbers of employees for the relevant fiscal year.

Source: Company reports, Crisil Intelligence

Aye Finance disbursed 4.6 million per employee as of FY25 . SBFC Finance has the highest amount of loan per employee at Rs. 6.2 million per employee

Aye Finance recorded highest number of loans disbursed per employee amongst the peers considered for Fiscal 2025 and H1FY26

Number of loans disbursed per employee as of Fiscal 2025

Players	Number Loans Disbursed per Employee (Number of Loans Disbursed / Number of Employees)
Aye Finance*	29.3
Five Star Business Finance	11.9
SBFC	6.6
Veritas Finance	12.6
Vistaar Financial Services *	5.7
Finova Capital	7.8

Note: N.A. – Not Available; Number of Loans Disbursed is calculated as Total Disbursement / Average Ticket Size; (*) – Average ticket size computed from range of ticket size; Source: Company reports, Crisil Intelligence

Number of loans disbursed per employee as of H1FY26

Players	Number Loans Disbursed per Employee (Number of Loans Disbursed / Number of Employees)
Aye Finance*	12.05
Five Star Business Finance	4.91
SBFC	3.74
Veritas Finance	NA
Vistaar Financial Services Ltd*	NA
Finova Capital	NA

Aye finance witnessed the highest 2.5Y CAGR of PAT of 16.8% amongst the peers considered.

Aye Finance's profit after tax witnessed a staggering growth of 292% from FY23 to FY24. However, Y-O-Y growth of profit after tax was muted to 2.1% in Fiscal 2025. Aye finance has the highest 2.5Y CAGR of 16.8% albeit on smaller base.

Profit after tax

Profit After Tax (in Rs. million)	FY23	FY24	FY25	H1FY25	H1FY26	YoY Growth (in %)*	2.5Y CAGR
Aye Finance	438.5	1,716.8	1,752.5	1,078.0	651.2	2.1%	16.8%
Five Star Business Finance	6,035.0	8,359.2	10,724.9	5,195.0	5,524.4	6.3%	-3.5%
SBFC Finance	1,497.9	2,370.2	3,451.7	1,626.9	2,100.3	29.1%	14.5%
Veritas Finance	1,764.0	2,450.5	2,951.1	1,331.1	1,293.0	-2.9%	-11.7%
Vistaar Financial Services	1,000.3	1,471.0	2,210.5	940.5	NA	NA	NA
Finova Capital	883.7	1,515.1	1,850.0	NA	NA	NA	NA

Note: N.A. – Not Available; (*) –YoY growth from FY24 to FY25 is denoted; Source: Company reports, Crisil Intelligence

Net worth

Net worth (in Rs. million)	FY23	FY24	FY25	H1FY25	H1FY26	2.5Y CAGR
Aye Finance	7,580.0	12,361.0	16,588.7	15,931.7	17,273.7	39.0%
Five Star Business Finance	43,395.0	51,962.0	63,046.1	57,233.0	68,067.0	19.7%
SBFC Finance	17,273.0	27,783.0	31,901.3	29,678.3	34,342.5	31.6%
Veritas Finance	15,913.0	23,296.0	27,831.7	26,106.5	29,211.5	27.5%
Vistaar Financial Services	8,851.0	13,677.0	24,458.2	14,617.4	NA	NA
Finova Capital	10,094.0	11,627.0	19,443.6	NA	NA	NA

Note: N.A. – Not Available; * - CAGR is from FY23-H1FY26; 1) Net worth includes Equity share capital and reserves and surplus
Source: Company reports, Crisil Intelligence

Aye Finance grew at a highest CAGR of 29% in Pre-Provision Operating Profit (PPOP) between Fiscal 2023 and H1FY26, highest amongst the peers considered

Aye Finance has achieved a remarkable milestone, posting the highest growth rate among its peers with a staggering CAGR of 29% in PPOP between FY23 and H1FY26. This exceptional growth trajectory underscores the company's robust financial performance and its ability to consistently deliver strong results, outpacing its competitors and solidifying its position as a leading player in the industry, followed by SBFC Finance (~16%).

PPOP

PPOP (in Rs. million)	FY23	FY24	FY25	H1FY25	H1FY26	2.5Y CAGR
Aye Finance	1,513	3,654	5,175	2,518	2,863	29.0%
Five Star Business Finance	8,249	11,713	15,196	9,572	6,132	-11.2%
SBFC Finance	2,335	3,631	5,322	2,490	3,374	15.9%
Veritas Finance	2,797	4,194	5,597	2,425	2,913	1.6%
Vistaar Financial Services	1,549	2,254	3735	1561	NA	NA
Finova Capital	1,469	2,210	2905	NA	NA	NA

Note: N.A. – Not Available; * - CAGR is from FY23-H1FY26; Source: Company reports, Crisil Intelligence

Aye Finance's yield on net advances stood at 29.1% - which was the highest among the peer set considered as of Fiscal 2025.

Aye Finance's yield on gross and net advances stood at 27.2% and 28.4% - both of which were the highest among the peer set considered as of H1FY26. PPOP stood at 8.5 % being the highest for the peers considered for H1FY26. Meanwhile, NIMs stood at 14.1% being second highest amongst its peers during H1FY26.

Key Financial Ratios (H1FY26)

H1FY26	Yield on Net Advances	Yield on Gross Advances	NIMs	Risk adjusted NIM	Net total income
Aye Finance	28.4%	27.2%	14.1%	8.9%	23.3%
Five Star Business Finance	23.8%	24.7%	15.6%	14.3%	16.6%
SBFC Finance	18.0%	17.7%	10.4%	9.2%	13.5%
Veritas Finance	22.5%	22.8%	12.6%	9.9%	15.9%
Vistaar Financial Services	Na	na	na	na	na
Finova Capital	na	na	na	na	na

H1FY26	Cost of Borrowing	Credit Cost	Opex - Overall(%)	Opex – Employee (%)	Opex – Non-Employee(%)	PPOP (%)
Aye Finance	10.6%	5.1%	9.5%	7.0%	2.4%	8.5%
Five Star Business Finance	9.0%	1.3%	5.3%	4.0%	1.3%	4.1%
SBFC Finance	8.9%	1.2%	4.5%	3.1%	1.4%	7.3%
Veritas Finance	9.5%	2.7%	6.8%	5.4%	1.4%	6.6%

Vistaar Financial Services	na	na	na	na	na	na
Finova Capital	na	na	na	na	na	na

Key Financial Ratios (Fiscal 2025)

FY25	Yield on Net Advances	Yield on Gross Advances	NIMs	Risk adjusted NIM	Net total income
Aye Finance	29.1%	28.0%	15.3%	10.2%	23.2%
Five Star Business Finance	25.2%	23.0%	16.1%	15.4%	20.6%
SBFC Finance	17.5%	17.2%	9.9%	9.0%	13.3%
Veritas Finance	23.0%	22.0%	13.3%	11.0%	16.8%
Vistaar Financial Services	19.9%	19.1%	10.2%	8.5%	15.0%
Finova Capital	23.4%	23.1%	14.5%	13.3%	18.6%

FY25	Cost of Borrowing	Credit Cost	Opex - Overall(%)	Opex – Employee (%)	Opex – Non-Employee(%)	PPOP (%)
Aye Finance	11.7%	5.2%	9.3%	6.8%	2.5%	9.2%
Five Star Business Finance	9.4%	0.7%	5.2%	4.0%	1.2%	11.6%
SBFC Finance	9.1%	0.9%	4.5%	3.2%	1.3%	6.8%
Veritas Finance	10.1%	2.3%	6.9%	5.5%	1.4%	7.5%
Vistaar Financial Services	10.5%	1.7%	4.9%	3.6%	1.3%	7.5%
Finova Capital	9.4%	1.1%	7.3%	5.9%	1.4%	7.8%

Source: Company reports, Crisil Intelligence

Key Financial Ratios (Fiscal 2024)

FY24	Yield on Net Adv	Yield on Gross Adv	NIM	Risk adj NIM	Net total inc.
Aye Finance	28.4%	27.7%	15.5%	12.3%	22.7%
Five Star Business Finance	25.1%	24.7%	16.2%	15.6%	20.9%
SBFC Finance	16.9%	16.6%	8.9%	8.1%	13.1%
Veritas Finance	22.6%	22.2%	14.1%	12.4%	17.6%
Vistaar Financial Services	18.2%	17.9%	9.7%	8.9%	13.1%

FY24	COB	Credit Cost	Opex - Overall(%)	Opex - Empl (%)	Opex - Non-Empl (%)	PPOP (%)
Aye Finance	11.3%	3.3%	9.5%	6.9%	2.6%	9.1%
Five Star Business Finance	8.9%	0.5%	5.4%	4.2%	1.2%	11.5%
SBFC Finance	9.1%	0.7%	4.8%	3.4%	1.4%	5.7%
Veritas Finance	9.8%	1.7%	7.4%	5.6%	1.8%	7.9%
Vistaar Financial Services	9.3%	0.8%	5.6%	4.4%	1.2%	5.9%

Source: Company reports, Crisil Intelligence

Key Financial Ratios (Fiscal 2023)

FY23	Yield on Net Adv	Yield on Gross Adv	NIM	Risk adj NIM	Net total inc
Aye Finance	26.2%	25.5%	13.5%	10.8%	21.0%
Five Star Business Finance	24.5%	24.1%	16.4%	16.1%	21.2%
SBFC Finance	16.1%	15.8%	7.4%	6.7%	12.5%
Veritas Finance	22.6%	22.2%	14.4%	13.0%	18.3%
Vistaar Financial Services	18.1%	17.8%	9.1%	8.4%	12.6%
Finova Capital	22.9%	22.6%	13.5%	11.9%	20.3%

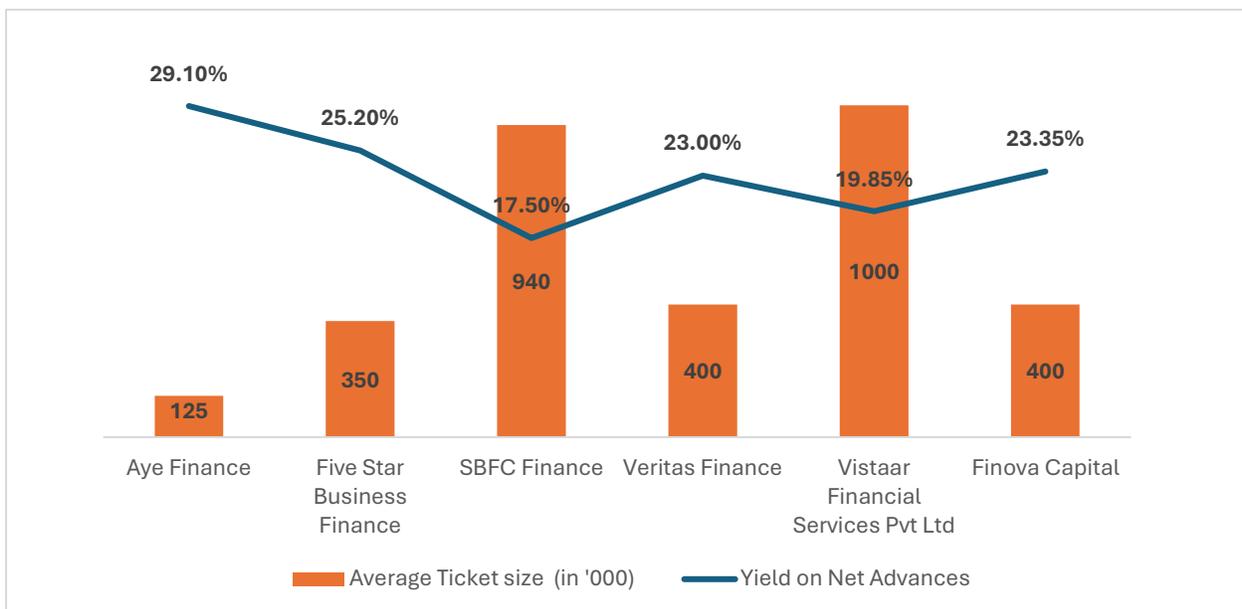
FY23	COB	Credit Cost	Opex - Overall (%)	Opex - Empl (%)	Opex - Non-Empl (%)	PPOP (%)
Aye Finance	10.4%	2.7%	10.8%	7.8%	3.0%	5.6%

Five Star Business Finance	7.8%	0.3%	5.8%	4.6%	1.2%	11.0%
SBFC Finance	8.3%	0.6%	4.5%	3.1%	1.4%	4.6%
Veritas Finance	9.4%	1.4%	6.9%	5.0%	2.0%	8.3%
Vistaar Financial Services	9.3%	0.6%	5.6%	4.3%	1.3%	5.0%
Finova Capital	8.9%	1.6%	6.1%	5.0%	1.1%	8.0%

Source: Company reports, Crisil Intelligence

Note: 1) Yield on net advances calculated as Interest earned on loans and advances divided by average of total net advances on book, 2) Yield on gross advances calculated as Interest earned on loans and advances divided by average of total gross advances on book, 3) Cost of borrowing (COB) calculated as total interest paid divided by average of deposits and borrowings, Borrowings include debt securities, borrowings other than debt securities, subordinated liabilities and deposits, 4) Net Interest Margin (NIM) calculated as total interest income subtracted by total interest paid divided by average of total assets on book, 5) Risk adjusted net interest margin calculated as net interest margins subtracted by credit cost of the company for the relevant fiscal year, 6) Net Total Income calculated as Total Income (-) Interest Expense divided by average of total net advances on book, 7) Opex calculated as Operating expenses divided by total average assets at the end of the financial year, Operating Expenses include employee expenses, depreciation and amortization, other expenses and fees and commission expense, 8) PPOP calculated as pre provision operating profit divided by average of total assets, 9) Credit cost calculated as provision/impairment divided by average total assets on book

Comparison of average ticket size as of March 2025 and Yield on Net Advances as of Fiscal 2025



Source: Company reports, Crisil Intelligence

Aye Finance's restructured portfolio was the lowest among peers considered

Aye Finance reported a restructured portfolio of 0.09% as of March 2025 which was the lowest among peers considered, with Vistaar Financial Services Pvt. Ltd. being with a second lowest among its peers at 0.14% as of March 2025 .

Restructured Book

Restructured Portfolio				
Players	H1FY26	FY25	FY24	FY23
Aye Finance	0.12%	0.09%	0.14%	0.71%
Five-Star Business Finance	0.23%	0.30%	0.52%	0.86%
SBFC Finance	NA	0.67%	1.09%	2.04%
Veritas Finance*	NA	0.36%	1.60%	2.30%
Vistaar Financial Services Pvt Ltd	NA	0.14%	0.58%	1.25%
Finova Capital	NA	NA	NA	NA

Note: N.A. – Not Available, Source: Company reports, Crisil Intelligence

Aye Finance NNPA as of Fiscal 2025 stood at 1.4% with the highest provision coverage ratio as of Fiscal 2025

Aye Finance's NNPA was at 1.4%, while Veritas Finance had an NNPA of 1.1%, preceded by Five Star Business Finance with the lowest NNPA of 0.88% as of Fiscal 2025. Aye Finance recorded the highest provision coverage ratio of 72.1% as of fiscal 2025, followed by Five Star Business Finance with 50.8% as of fiscal 2025.

Asset quality

Players	GNPA				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	2.5%	3.2%	4.2%	3.3%	4.9%
Five Star Business Finance	1.4%	1.4%	1.8%	1.5%	2.6%
SBFC Finance*	2.6%	2.4%	2.7%	2.7%	2.8%
Veritas Finance	2.2%	1.8%	1.8%	2.0%	2.9%
Vistaar Financial Services **	3.7%	2.7%	2.9%	2.7%	NA
Finova Capital	1.0%	1.8%	2.4%	NA	NA

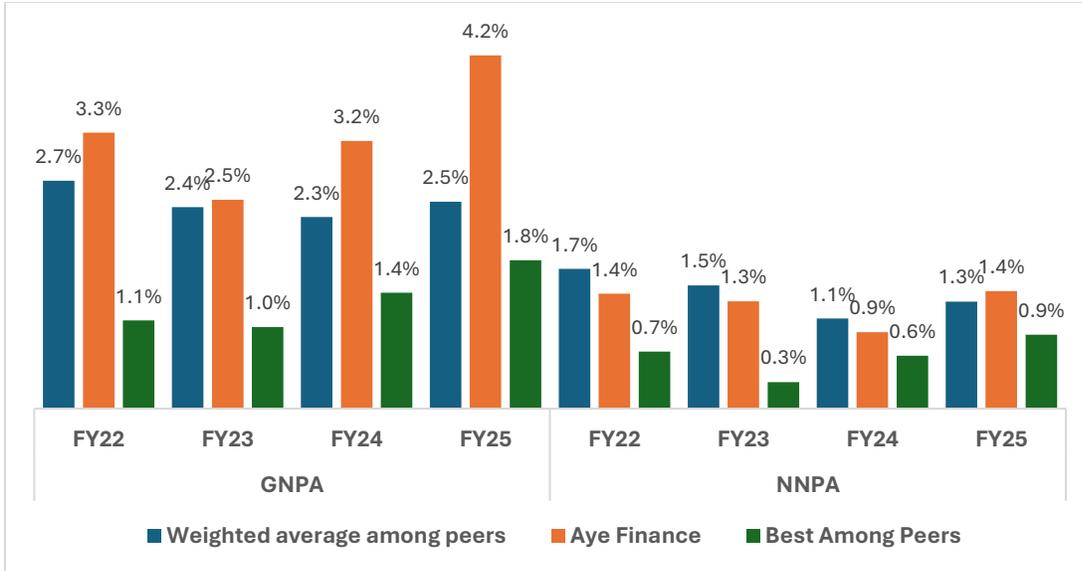
Source: Company Reports, Crisil Intelligence

Players	NNPA				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	1.28%	0.91%	1.40%	1.15%	1.78%
Five Star Business Finance	0.69%	0.63%	0.88%	0.71%	1.46%
SBFC Finance*	1.58%	1.36%	1.51%	1.63%	1.51%
Veritas Finance	1.26%	0.85%	1.10%	0.97%	1.61%
Vistaar Financial Services **	2.42%	1.33%	1.9%	1.6%	NA
Finova Capital	0.32%	0.99%	NA	NA	NA

Players	Provision Coverage Ratio				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	59.1%	49.8%	72.1%	66.1%	64.5%
Five Star Business Finance	49.3%	54.4%	50.8%	51.7%	44.7%
SBFC Finance*	38.5%	44.0%	44.9%	39.4%	45.5%
Veritas Finance	42.8%	53.1%	50.5%	50.8%	45.9%
Vistaar Financial Services	35.3%	51.5%	33.7%	42.8%	NA
Finova Capital	67.4%	45.0%	41.4%	NA	NA

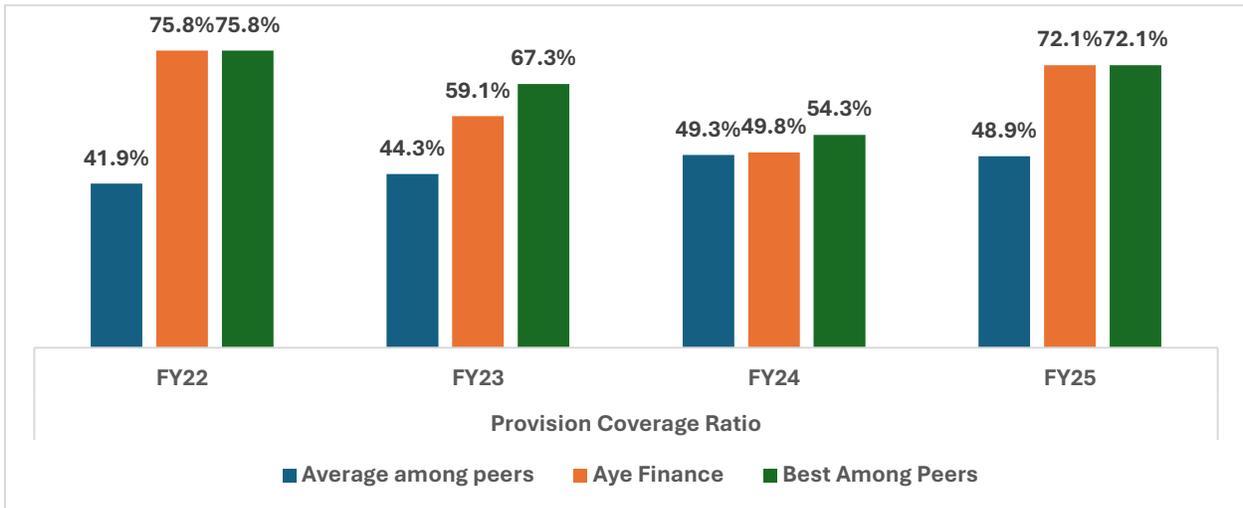
Note: N.A.- Not Available; Provisioning Coverage Ratio is as reported by the company for the relevant fiscal year; (*) After impact of RBI circular; PCR calculated as $(GNPA - NNPA) / GNPA$ for the relevant fiscal year
 Source: Company reports, Crisil Intelligence

Comparison of GNPA - Weighted Average among peers, Aye Finance and the Best among peers



Note: Weighted Average among peers is calculated using sum product of GNPA and Gross Advances of peers divided by Gross Advances of peers; Best among peers is considered as lowest values across peers for Fiscal 2022, Fiscal 2023, Fiscal 2024 and Fiscal 2025; Source: Company reports, Crisil Intelligence

Comparison of Provision Coverage Ratio - Average among peers, Aye Finance and the Best among peers



Note: Best among peers is considered as highest values across peers for Fiscal 2022, Fiscal 2023, Fiscal 2024 and Fiscal 2025; Source: Company reports, Crisil Intelligence

Aye Finance had the lowest Stage 2 Portfolio as percentage of total gross loans among the peers considered as of H1FY26

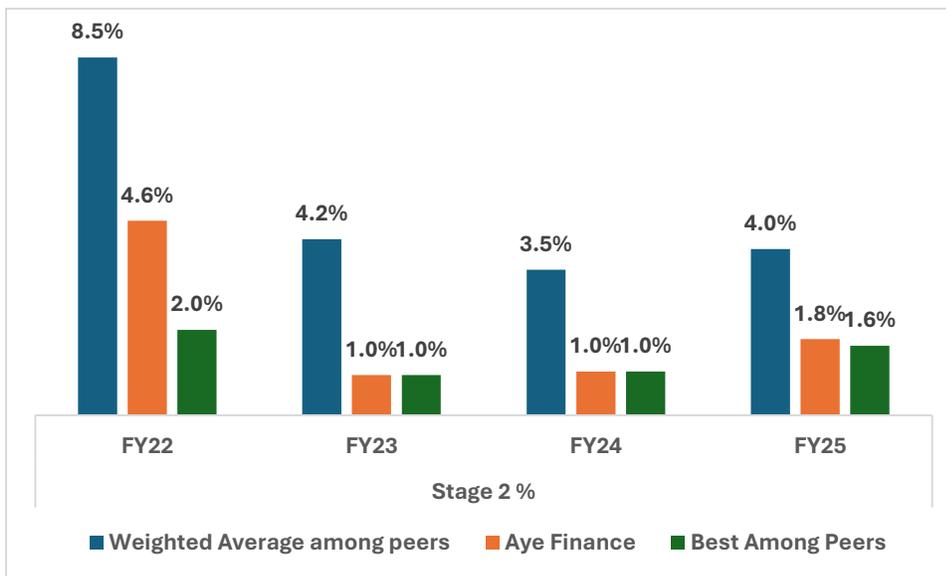
Aye Finance’s stage 2 assets as a percentage of total gross loans was at 1.5% as of H1FY26, lowest among the peers considered, followed by SBFC with 3.7%.

Stage 2 Portfolio

Players	Stage 2 Portfolio (%)				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	1.0%	1.0%	1.8%	1.7%	1.7%
Five Star Business Finance	9.1%	6.5%	7.9%	7.0%	9.5%
SBFC Finance	4.0%	4.4%	6.1%	3.2%	3.7%
Veritas Finance	2.2%	1.5%	1.6%	N.A.	N.A.
Vistaar Financial Services	1.5%	1.6%	2.6%	N.A.	N.A.
Finova Capital	1.6%	1.4%	2.5%	N.A.	N.A.

Note: N.A. - Not Available; Source: Company reports, Crisil Intelligence

Comparison of Stage 2 Portfolio - Weighted Average among peers, Aye Finance and the Best among peers



Note: Weighted Average among peers is calculated using sum product of Stage 2 (%) and Gross Advances of peers divided by Gross Advances of peers; Best among peers is considered as lowest values across peers for Fiscal 2022, Fiscal 2023, Fiscal 2024 and Fiscal 2025; Source: Company reports, Crisil Intelligence

Aye Finance had the 2nd highest total assets to equity ratio as of fiscal 2025

Aye finance has the highest debt to equity ratio of 2.8x and highest total assets to equity ratio of 3.8x as of Mar-25. Five Star business Finance had the lowest Debt to Equity ratio and Total assets to equity ratio of 1.3x and 2.3x respectively, followed by Vistaar Financial services where the ratios stood at 1.4x and 2.4x respectively.

Debt to equity and total assets to equity ratio

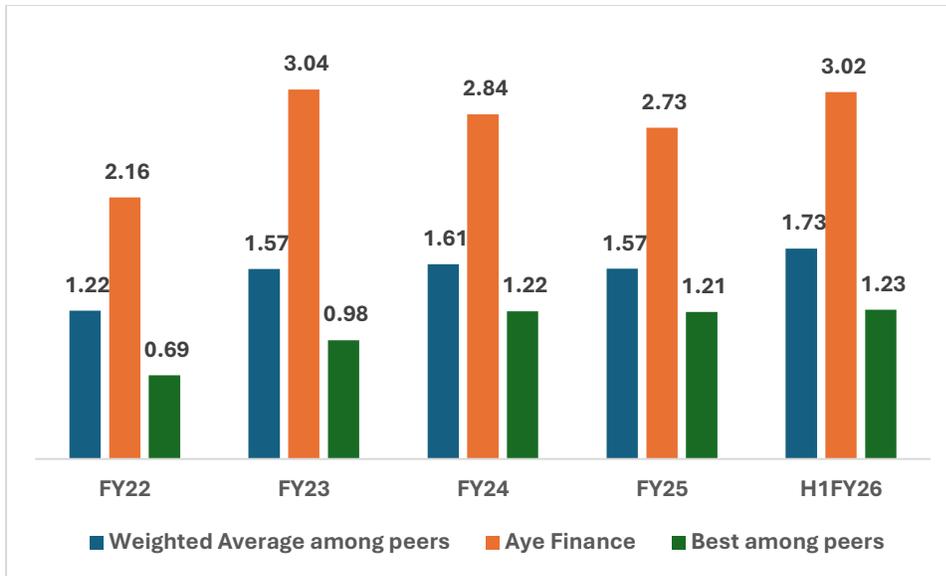
Players	Debt to Equity (in times)
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	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	3.0	2.8	2.8	2.7	3.2
Five Star Business Finance	1.0	1.2	1.3	1.2	1.2
SBFC Finance	2.2	1.4	1.7	1.5	1.8
Veritas Finance	1.5	1.7	2.1	1.9	2.1
Vistaar Financial Services	2.7	2.1	1.4	NA	NA
Finova Capital	1.0	1.6	1.6	NA	NA

Players	Total Assets to Equity (in times)				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	4.1	3.9	3.8	3.7	4.1
Five Star Business Finance	2.0	2.2	2.3	2.2	2.3
SBFC Finance	3.3	2.5	2.7	2.5	2.9
Veritas Finance	2.6	2.8	3.1	2.9	3.1
Vistaar Financial Services	3.8	3.2	2.4	NA	NA
Finova Capital	2.1	2.7	3.7	NA	NA

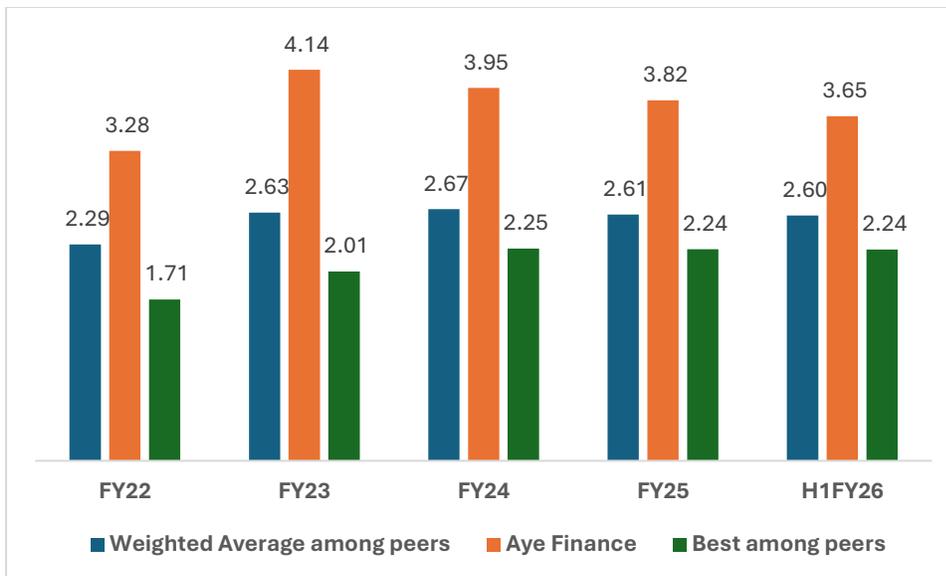
Note: 1) Debt to Equity ratio calculated as total borrowings divided by total shareholder equity of the company, 2) Total Assets to Equity ratio calculated as total assets divided by total shareholder equity of the company
Source: Company reports, Crisil Intelligence

Comparison of Debt-Equity Ratio - Weighted Average among peers, Aye Finance and the Best among peers



Note: Weighted Average among peers is calculated using sum product of Debt-Equity Ratio and Net worth of peers divided by Net worth of peers; Best among peers is considered as lowest values across peers for Fiscal 2022, Fiscal 2023, Fiscal 2024, Fiscal 2025 and H1FY26; Source: Company reports, Crisil Intelligence

Comparison of Total Assets-Equity Ratio - Weighted Average among peers, Aye Finance and the Best among peers



Note: Weighted Average among peers is calculated using sum product of Total Assets-Equity Ratio and Net worth of peers divided by Net worth of peers; Best among peers is considered as lowest values across peers for Fiscal 2022, Fiscal 2023, Fiscal 2024, Fiscal 2025 and H1FY26; Source: Company reports, Crisil Intelligence

As of FY25, Aye Finance's financial performance has been impacted by higher credit costs resulting in a decline in profitability.. This has led to a significant decline in the ROA and ROE. The company's management has stated that it has made prudent write-offs to clean up portfolio stress and noted that credit

costs began to trend downward in Q4 FY25 continuing into H1FY26. With a current AUM of Rs. 553.4 bn in FY25 and a focus on efficient asset utilization Aye Finance aims to navigate the challenges and improve its financial performance in the coming quarters building on its solid top-line growth and effective financial leverage while maintaining its position among the top performers in the peer set.

Return on assets and return on equity

Players	ROA				
	FY23	FY24	FY25	H1FY25*	H1FY26*
Aye Finance	1.6%	4.3%	3.0%	4.0%	1.9%
Five Star Business Finance	8.0%	8.2%	7.4%	8.5%	7.2%
SBFC Finance	2.9%	3.7%	4.6%	4.5%	4.5%
Veritas Finance	5.2%	4.7%	3.9%	3.8%	4.7%
Vistaar Financial Services	3.2%	3.8%	4.5%	4.1%	NA
Finova Capital	4.8%	5.8%	4.9%	NA	NA

Players	ROE				
	FY23	FY24	FY25	H1FY25*	H1FY26*
Aye Finance	6.0%	17.2%	11.6%	15.3%	7.7%
Five Star Business Finance	15.0%	17.5%	17.0%	19.0%	16.9%
SBFC Finance	9.9%	10.5%	11.5%	11.3%	12.7%
Veritas Finance	11.8%	12.5%	11.4%	10.8%	9.1%
Vistaar Financial Services	12.0%	13.1%	11.6%	13.3%	NA
Finova Capital	9.2%	14.0%	11.9%	NA	NA

Note: N.A – Not Available; 1) RoA calculated as profit after tax divided average of total assets on book of the company, 2) RoE calculated as profit after tax divided average of shareholder equity of the company; (*) – Annualised figures
 Source: Company reports, Crisil Intelligence

Aye Finance was adequately leveraged as of Fiscal 2025 and H1FY26

Five Star Business Finance Ltd. has reported the highest capital adequacy ratio of 51% as of H1FY26. Aye Finance reported a capital adequacy ratio of 32% for H1FY26, which is well above the mandatory requirement.

Capital Adequacy ratio for players

Players	Capital Adequacy Ratio				
	FY23	FY24	FY25	H1FY25	H1FY26
Aye Finance	31.1%	32.8%	35.0%	37.6%	32.3%

Five Star Business Finance	67.2%	50.5%	50.1%	48.7%	51.0%
SBFC Finance	31.9%	40.5%	36.1%	38.6%	34.1%
Veritas Finance	45.0%	41.5%	37.8%	40.9%	36.7%
Vistaar Financial Services	26.4%	33.4%	51.4%	31.1%	NA
Finova Capital	59.1%	40.7%	47.2%	NA	NA

Note: N.A – Not Available; Source: Company reports, Crisil Intelligence

Borrowing mix for companies (H1FY26)

Players	NCD	Term Loans	Securitization	Subordinated Liabilities	ECB
Aye Finance	29%	40%	20%	-	12%
Five Star Business Finance*	10%	69%	20%	-	1%
SBFC Finance	14%	50%	2%	17%	18%
Veritas Finance*	7%	72%	12.1%*	-	3%
Vistaar Financial Services *	9%	76%	-	-	15%
Finova Capital*	0%	90%	10%	0%	0%

Note: (*) Data as of June 2024; NCD: Non-convertible debentures, ECB: Exchange commercial borrowings; Short term borrowings include cash credit and overdraft facilities, Source: Company reports, Crisil Intelligence

Share of Digital Collections

Players	Digital collection share (%) as of June 2025
Aye Finance*	93.5% ACH Activation Rate
Five-Star Business Finance	80%
SBFC Finance	99%
Veritas Finance	Collections are done majorly through automatic clearing house (ACH) payments/direct debit mandate (DDM), and through digital payment modes.
Vistaar Financial Services	N.A.
Finova Capital	Collections are done majorly through automatic clearing house (ACH) payments/direct debit mandate (DDM), and through digital payment modes

Note: N.A. – Not Available; (*) – Data as of Sept-25 Source: Company reports, Crisil Intelligence

Sourcing Mix as of Sept 2025

Players	DSA	Non-DSA
Aye Finance		100%
Five-Star Business Finance	-	100%
SBFC Finance	-	100%
Veritas Finance	N.A.	N.A.
Vistaar Financial Services	NA	NA
Finova Capital	N.A.	N.A.

Note: N.A. – Not Available; (*) – As of June 2025; Source: Company reports, Crisil Intelligence

Aye Finance reported a customer base of 586,825 as of Sept 2025

As of Sept 2025 Aye Finance had a active base of **586,825** active customers, which makes them the MSME lender among the peer set considered with the largest customer base in India.

Customer Profile

Players	Active Customers as of Sept 2025	Customer Profile
Aye Finance	586,825	Micro businesses like kiranas/general stores, dairies, manufacturers and traders with an annual turnover of Rs. 10 lakh -1 crore
Five-Star Business Finance	460,756*	Small enterprises/self-employed, many first-time borrowers, customers from lower income groups
SBFC Finance	184,424	Over 87% AUM from customers with CIBIL >700 (MAR-25); msme segment customers in majority; Focus on services/ trading/ retailing businesses
Veritas Finance	216,000	MSME segment people in India which has remained largely underserved despite several initiatives.
Vistaar Financial Services	NA	Textiles, Small Manufacturing Units, Hotel/Bakery, Kirana/Retail Shops
Finova Capital	NA	Micro-entrepreneurs and semi-skilled professionals who have limited or no access to lending from formal financing institutions

Note: (*) – FY25. fig.; Source: Company reports, Crisil Intelligence

Aye Finance saw an improvement in outstanding long-term credit rating as of July 2025

Aye's credit rating has been positively impacted by its enhanced capital structure, resulting from a successful equity raise in FY25. The company's funding profile has also become more diversified with a notable increase in bank funding which now constitutes a larger share of its overall funding mix. Furthermore, Aye's loan portfolio exhibits a favorable mix of secured and unsecured loans, complemented by a seasoned loan book and bolstered profitability buffers.

Credit rating of companies (Latest Available Ratings)

Players	Long Term Credit Rating
Aye Finance	IND A
Five-Star Business Finance	ICRA AA-
SBFC Finance	ICRA AA-, CARE AA-
Veritas Finance	CARE AA-
Vistaar Financial Services	CARE A+
Finova Capital	ACUITE A+

Source: Company reports, CRISIL Intelligence

List of Formulae

Parameters	Formula
Cost to Income Ratio	Operating expenses for the relevant fiscal year divided by total income minus interest expense
Operating Expense	Operating Expenditure (Employee Expenses + Depreciation and amortization expense + Fees and commission expense+ Other expenses)
Opex to total average assets	Operating expenses divided by total average assets at the end of the financial year
RoA	Profit after tax / average of total assets on book
RoE	Profit after tax / average net worth
NIMs	(Interest income on loans and advances – interest paid) / average of total assets on book
Yield on net advances	Interest earned on loans and advances / average of total net advances on book
Yield on gross advances	Interest earned on loans and advances / average of total gross advances on book

Cost of borrowings	Interest paid / (average of deposits and borrowings)
Credit cost	Provisions / average total assets on book
Stage 2 assets	Stage 2 Assets for the fiscal year / total gross loans
Stage 2 and 3 assets	(Stage 2 Assets + Stage 3 Assets for the fiscal year) / total gross loans
Provisioning Coverage Ratio	Provisioning Coverage Ratio calculated as GNPA subtracted by NNPA and divided by GNPA for the relevant fiscal year
Debt to Equity Ratio	Total Borrowings / Total shareholder equity of the same fiscal
PPOP %	Pre provisioning operating profit (Total income – Interest expenses – Operating expenditure)/ Average total assets
Net Total Income %	(Total Income – Interest Expense)/ Average total advances on book

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