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ICRA Survey of Non-banking Financial Companies

FY2026 issuer growth rate expectations mirror FY2025 trends, with some optimism; asset quality and regulatory changes key perceived risks for the sector

APRIL 2025

List of abbreviations

AUM: Assets under management

HFC: Housing finance company

MFI: Microfinance institution

NBFC: Non-banking financial company

NBFC-IFCs: Non-banking financial company – Infrastructure finance company

NBFC-IDFs: Non-banking financial company – Infrastructure debt fund

RoMA: Return on managed assets

YoY: Year-on-year

GS3: Gross stage 3

Highlights

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Lenders expect growth in FY2026 to mirror the FY2025 trend, albeit with some upward bias; 49% of Issuers (by AUM) project AUM expansion to exceed 20% in FY2026

Lenders expect credit costs to remain range-bound and return indicators to stay stable in FY2026 on YoY basis, but lower than the highs seen in FY2024

Asset quality and regulatory changes among key risks perceived by the participants

- ICRA conducted a survey across NBFCs in February and March 2025 to gauge their outlook and expectations for FY2026. The survey (with 43 respondents corresponding to over 60% of industry AUM) revealed that FY2026 issuer growth rate expectations mirror FY2025 trends, with some optimism, though loan quality and regulatory changes could be dampeners.
- In line with past trends, HFCs anticipate a more calibrated growth compared with their other NBFC peers. This is also attributable to the difference in the asset tenures of these players. HFCs have longer tenure exposures compared to other NBFCs.
- With some of the asset quality pain already witnessed in FY2025, lenders expect credit costs to remain range-bound in FY2026.
- With expectations of continuing growth and controlled credit costs, most issuers anticipate that profitability to remain stable or improve in FY2026.
- While on-balance sheet liquidity is proposed to be maintained at the current level, entities would need to diversify their borrowing mix. However, most of the respondents expect the share of bank funding to remain stable in the overall mix. Lenders are not looking to raise capital in the near term.
- Larger entities aiming to diversify their funding mix are likely to have a higher incremental share of capital market borrowings, external commercial borrowings and securitisation. The share of co-lending is expected to remain range-bound at less than 10% of the AUM.
- ICRA projects AUM growth for retail-focused NBFCs (excluding HFCs) to be lower at 16-18% in FY2026 due to asset quality headwinds, regulatory changes and tightening liquidity. The availability of commensurate funding would be critical for achieving the growth target.

Survey sample forms about 60% of the industry AUM

Exhibit: Breakup of sample entities by sector (number)

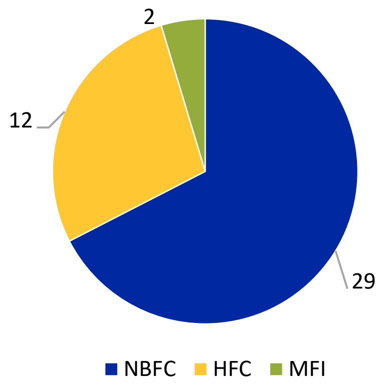
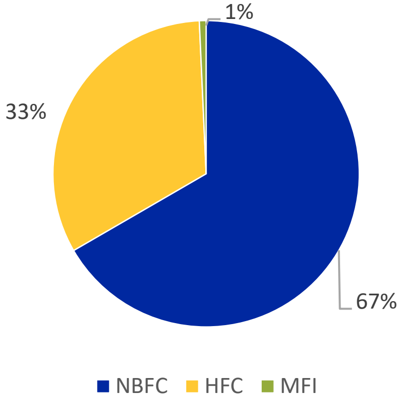
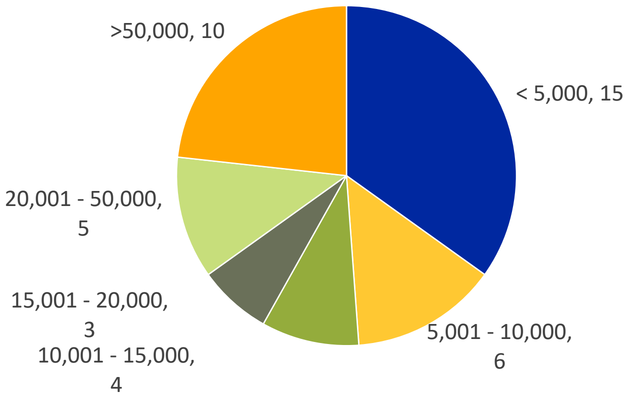


Exhibit: Breakup of sample entities by sector (AUM share)



Source: ICRA Research

Exhibit: Breakup of sample entities based on AUM (Rs. crore)

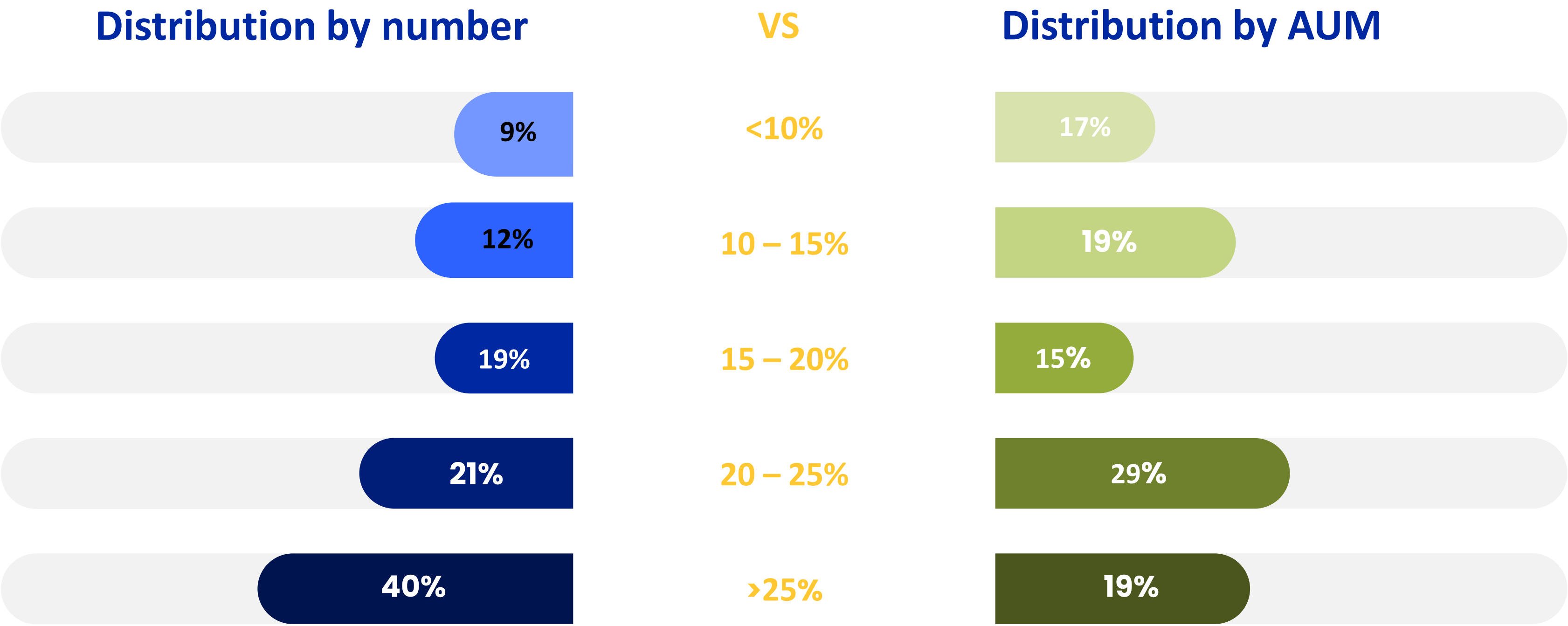


Source: ICRA Research

- The analysis presented in the following slides is based on the aggregate results of ICRA's survey of various NBFCs/HFCs/MFIs conducted in February and March 2025. These 43 entities constitute about 60% of the NBFC-Retail AUM (excluding NBFC-IFCs and NBFC-IDFs).

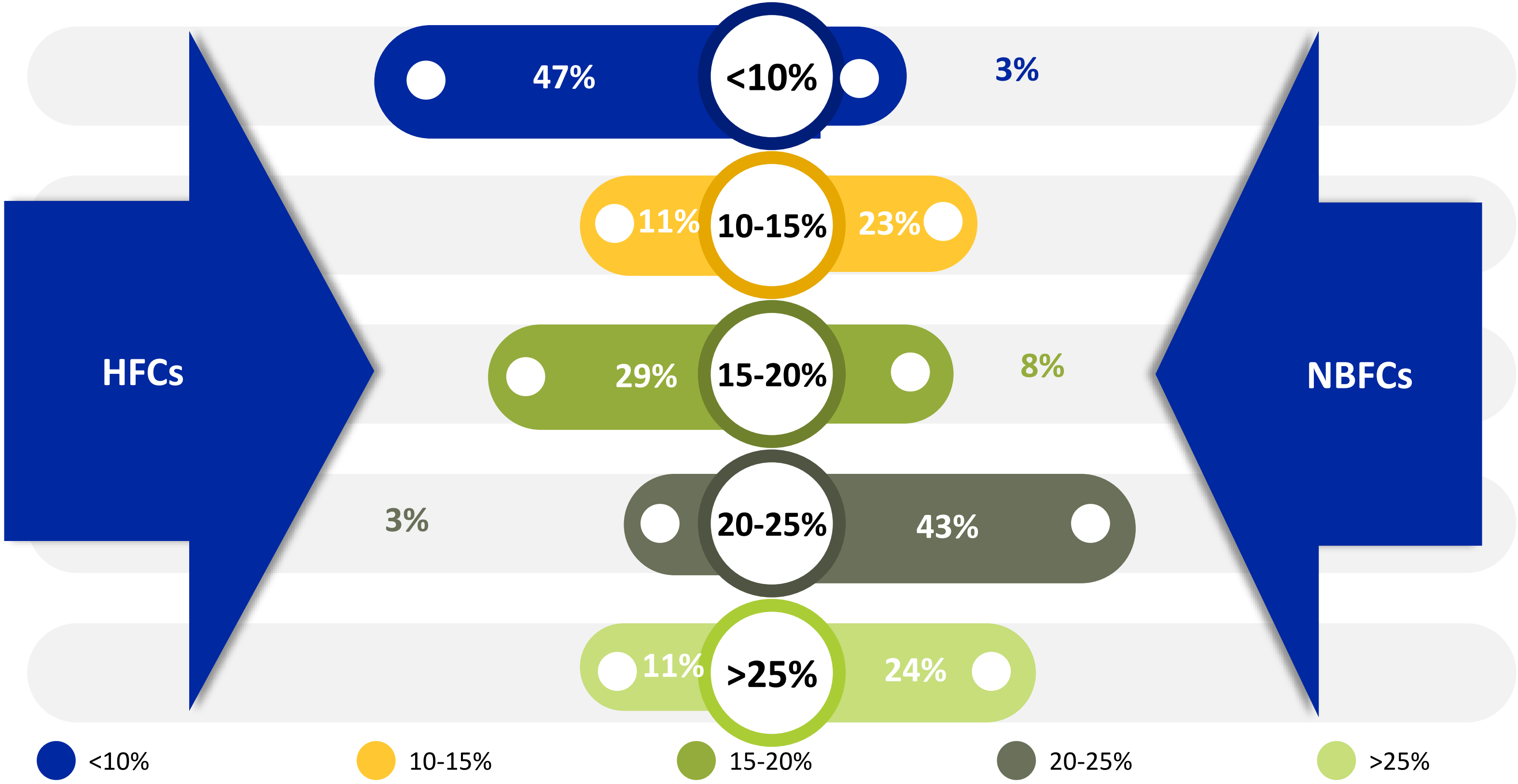
FY2026 AUM growth rate expectations mirror FY2025 trends, with some optimism

While ICRA expects the AUM of retail-focused NBFCs (including HFCs) to increase at a slower pace of 16-18% in FY2026, Issuers are more optimistic and 48% of the lenders (by AUM) project book growth of more than 20%. The industry is average expected to be in line with ICRA's estimates.



Source: ICRA Research

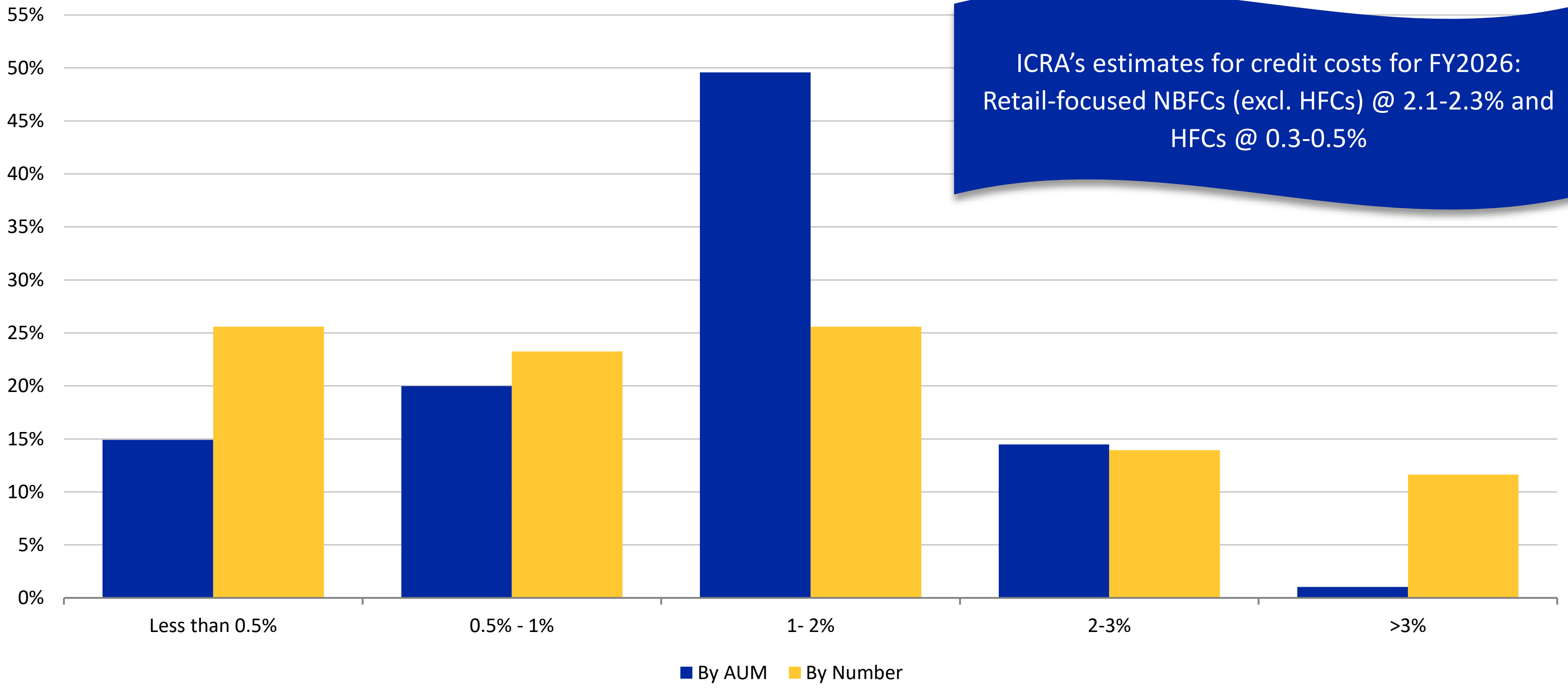
HFCs expecting calibrated growth vis-à-vis other NBFC peers



Source: ICRA Research; Breakup by AUM

Issuers expect credit costs to be range-bound

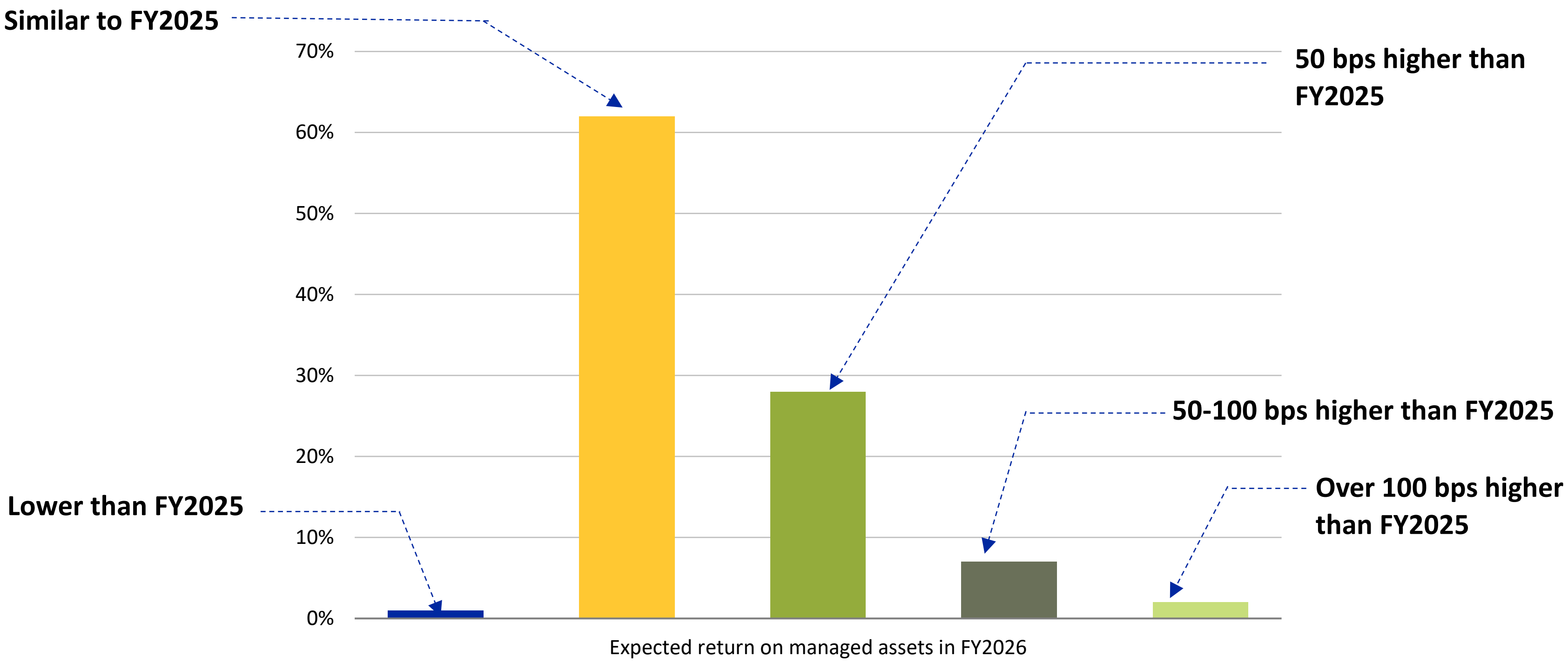
ICRA's estimates for credit costs for FY2026: Retail-focused NBFCs (excl. HFCs) @ 2.1-2.3% and HFCs @ 0.3-0.5%



Source: ICRA Research

Issuers expect stable or better earnings performance in FY2026

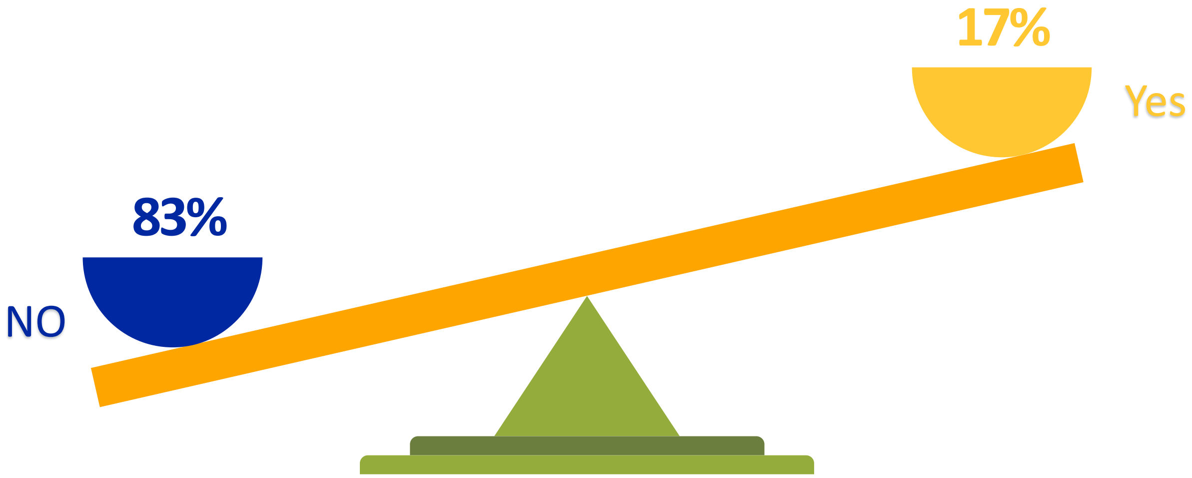
In line with ICRA's estimates, NBFCs (including HFCs) expect profitability to remain stable and/or improve in FY2026.



Source: ICRA Research; Breakup by AUM ; Bps – Basis points

Issuers not looking to raise capital

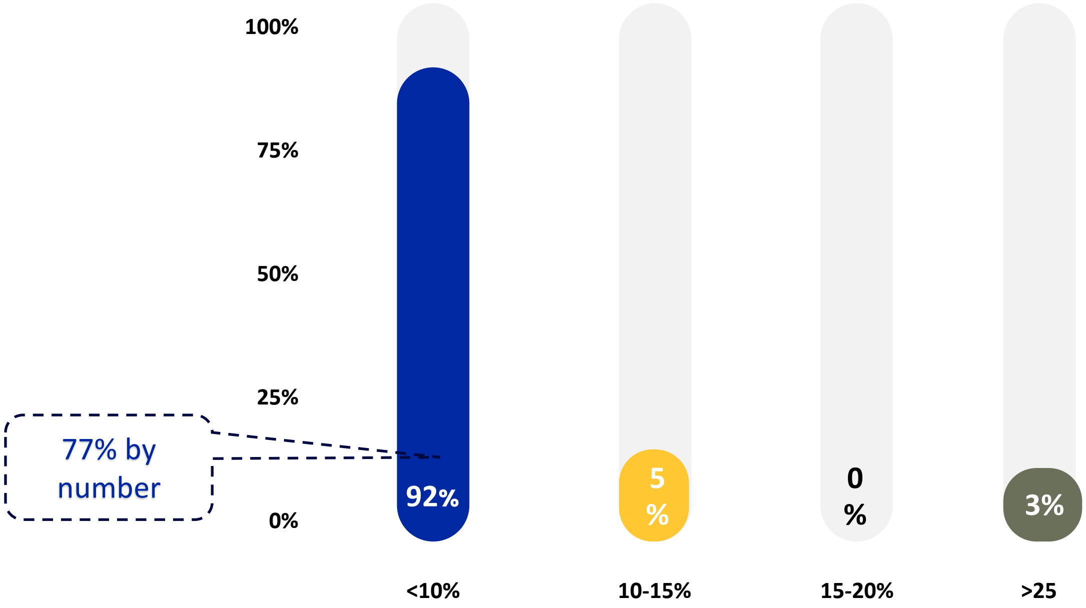
Given the adequate capitalisation levels, entities are not looking to raise capital in FY2026.



Source: ICRA Research; Breakup by AUM

Co-lending share unlikely to be significant

The share of co-lending/fintech partnerships in the overall AUM is expected to remain modest and stable in FY2026.



The share of co-lending/partnership-based business in the overall AUM is expected to be low, given the asset quality concerns and tighter regulations on digital lending.

Other challenges related to co-lending include issues in system integration and upfront income booking related concerns.

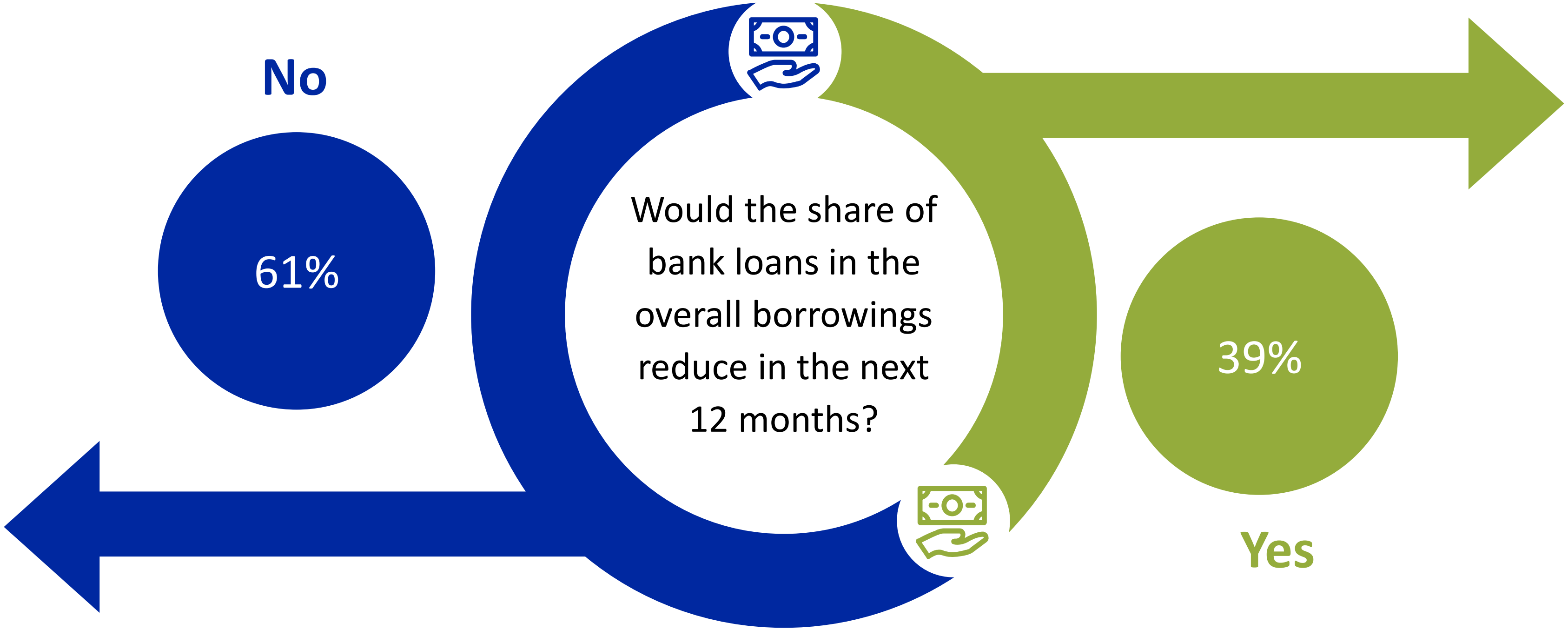
Fund availability for growth will continue to be a key driver of co-lending. Thus, smaller entities with limited financial flexibility will look at this route more often.

Larger NBFCs/banks might continue to use co-lending to test new products.

Source: ICRA Research; Breakup by AUM

Share of bank borrowings in funding mix likely to be maintained

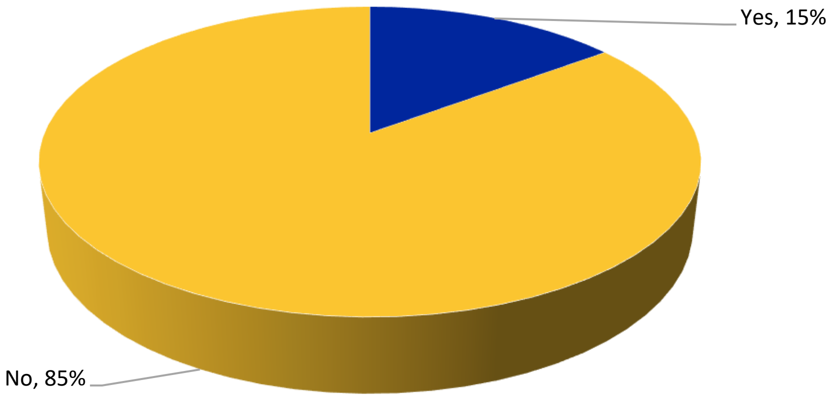
In ICRA's view, access to commensurate funding would remain critical for sectoral growth. Entities would need to diversify their funding sources, including via market issuances, foreign borrowings and securitisation.



Source: ICRA Research; Breakup by AUM

Liquidity expected to be maintained

Will on-balance sheet liquidity decline from the December 2024 level in the next 12 months?

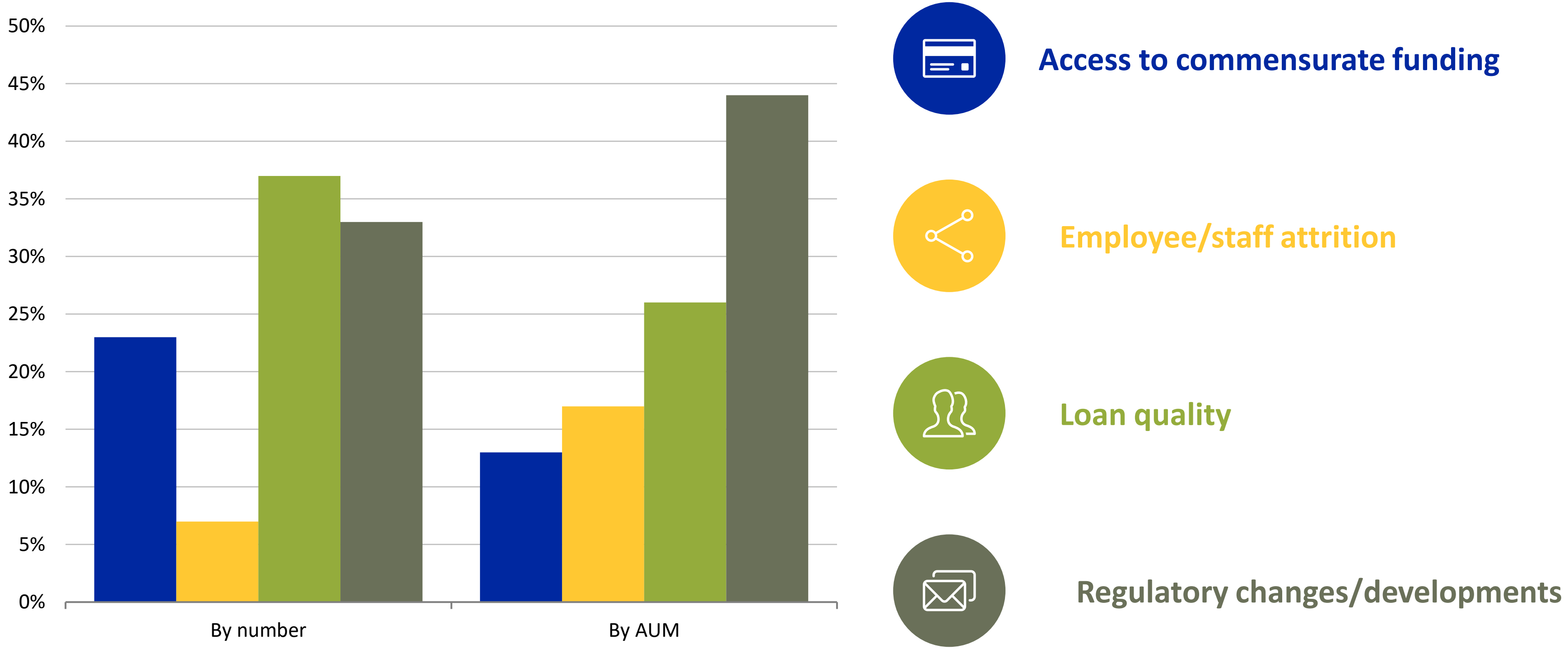


- On-balance sheet liquidity of NBFCs and HFCs has continued to moderate from historical levels. However, entities plan to maintain liquidity at similar levels, going forward.
- The requirement for maintaining high quality liquid assets (HQLA) is also contributing to this liquidity.

Source: ICRA Research; Breakup by AUM

Key risks for overall NBFC sector in FY2026, as per Issuer perception

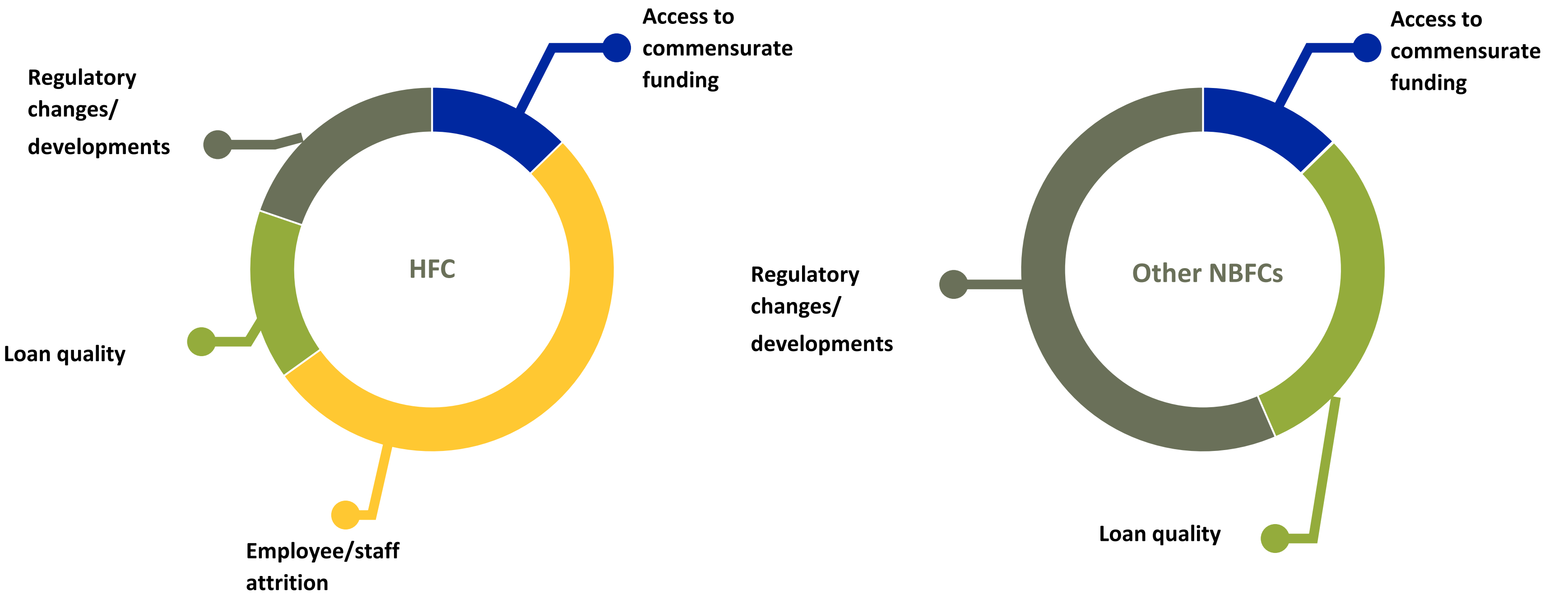
Loan quality and regulatory changes are key risks for the sector.



Source: ICRA Research

Main risks perceived by the segment

While regulatory risk is perceived as a bigger risk by NBFCs, HFC peers are more concerned about attrition-related challenges.



Source: ICRA Research

NBFC-Retail (excluding HFCs) sector outlook

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FY2025-FY2026 – Stable

AUM Growth	Asset Quality	Funding and Liquidity	Profitability	Capital
17-19% in FY2025 **16-18% in FY2026**	**GS3: 40-70 bps cumulative weakening over FY2025 and FY2026**	**Rs. 3.0-3.1 trillion in FY2025 and Rs. 3.4-3.5 trillion in FY2026**	**RoMA of 2.6-2.8% in FY2025 in FY2026**	**Adequate**
Growth would moderate from the healthy level in FY2024; incremental downside may be seen in case of higher-than-anticipated deterioration in the asset quality	Divergence in performance expected as unsecured segments face significantly higher asset quality pressure vis-à-vis secured segments	Additional funding required to support growth, apart from refinancing existing/maturing lines; tightening bank funding for NBFCs would pose a challenge	Margin pressure to be more pronounced in FY2025; credit costs are also expected to increase in FY2025 as well as FY2026; overall profitability would, however, remain adequate	No sizeable capital requirement, considering the growth outlook

HFC sector outlook

FY2025-FY2026 - Stable

AUM Growth	Asset Quality	Funding and Liquidity	Profitability	Capital
FY2025-FY2026: 13-15%	**GNPAs to remain range-bound at 2.0-2.2% as of Mar-25 & Mar-26**	**Rs. 1.0-1.2 lakh crore each in FY2025-FY2026**	**RoMA of 1.8-2.0% in FY2025-FY2026**	**Adequate**
Growth expected to remain stable at 13-15%	Slippages to remain low although seasoning impact may be visible for small and mid-sized HFCs	Additional funding required to support growth apart from refinancing of existing/maturing lines	Margins could witness some pressure; contained credit costs and improving operating efficiency would support profitability	No sizeable capital requirement, considering the growth outlook

NBFC-MFIs sector outlook

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FY2025-FY2026 – Negative

AUM Growth	Asset Quality	Funding and Liquidity	Profitability	Capital
(5)-0% in FY2025 10-15% in FY2026	**Credit costs* – 5.4-5.6% in FY2025; 3.7-3.9% in FY2026**	**Rs. 15,000-18,000 crore in FY2025-FY2026**	**RoMA – 0.0-0.4% in FY2025; 1.3-1.7% in FY2026**	**Adequate**
AUM to decline by up to 5% in FY2025, given asset quality concerns; improvement in growth expected in FY2026	Borrower overleveraging, adverse climatic conditions, and operational challenges to keep asset quality under pressure	Additional funding (including securitisation) required to support growth, apart from refinancing existing/maturing lines	Compression in margins and rise in credit costs to affect profitability in FY2025; some improvement expected in FY2026	Moderate capital requirement, considering the growth outlook

* *As a proportion of average managed assets*

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Thank You!