

Non-banking Financial Companies

**Growth momentum to sustain at a
range-bound pace in FY2027**

APRIL 2026

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NBFC-Retail (excluding HFCs) AUM growth is estimated at 16-18% YoY in FY2027.

Credit costs, while remaining elevated, would moderate slightly to 2.0-2.2% during FY2027.

The ongoing West Asia conflict presents incremental downside risks to growth and asset quality.



- The Retail AUM¹ of NBFCs² (NBFC-Retail; *excluding HFCs*³) is expected to have grown by 18-20% in FY2026. Within this, credit substitution has been seen towards secured financing segments, such as gold loans and LAP⁴. Gold loans, especially, grew robustly driven up by gold prices. VF⁵ segments benefited from the GST rate cuts in H2 FY2026. In the near term, ICRA expects a recovery in microfinance loans, which would push up growth in the unsecured segment. Overall, ICRA forecasts the NBFC-Retail sector to continue to grow at a healthy 16-18% in FY2027, though moderating from the previous year.
- Asset quality of the NBFCs had been under pressure over the last two years, as the seasoning impact of the earlier fast-paced growth played out. Entities preferred to undertake accelerated technical write-offs to maintain the quantum of stressed loans on their balance sheet (b/s) under control. While delinquencies inched up in some segments, however, the overall headline sectoral delinquencies remained controlled during this period. In the near term, ICRA anticipates a gradual improvement in asset quality performance across most segments, with credit costs at 2.0-2.2% in FY2027 vis-à-vis 2.1-2.3% in FY2026.
- Incremental funding (over and above the refinancing of maturing debt) requirements by the NBFC-Retail segment is forecasted at around Rs. 4.2-4.4 trillion in FY2027. Credit flows from the banking sector improved substantially in FY2026 (especially towards H2 FY2026), accounting for about 45% of the incremental requirement. This was significantly better than the flows seen during the previous two years. On the other hand, incremental funding from other sources such as market issuances and ECBs⁷ were relatively moderate. The sector is likely to maintain its reliance on bank funding in the near term, while funding from other sources would remain tight.
- Incremental downside risks to growth and asset quality performance, however, have emerged on account of the ongoing conflict in West Asia, which has created significant inflationary pressures and supply chain disruptions. While India's GDP has already been revised downwards owing to this, a prolonged conflict could accentuate the impact on domestic economic activity. Other key risks include the El Niño forecasts for FY2027, which could impact agricultural activity/ rural cash flows, and the possibility of rising systemic interest rates towards the later part of FY2027, which could tighten financing conditions.

Note: 1 – AUM: Assets under management; 2 – NBFCs: Non-banking financial companies; 3 – HFCs: Housing finance companies (excluding HDFC); 4 – LAP: Loan against properties; 5 – VF: Vehicle Financing; 6 – GST: Goods & Services Tax; 7 – ECBs: External commercial borrowings

Profitability of the NBFCs would remain healthy at 2.5-2.7% in FY2027.



- Borrowing rates of NBFCs witnessed some reduction in FY2026 on the back of a gradual transmission of the reduction in systemic rates by banks. However, given the inflationary pressures, the market perceives the end of the rate cut cycle with a possibility of rate hikes from H2 FY2027. Consequently, entities could start seeing some increases in their incremental cost of funds (CoF) in FY2027, which could cascade to the weighted average CoF as well, either from Q2 or Q3 FY2027.
- Net profitability of NBFCs is expected to increase to an extent in FY2027, supported by some alleviation in credit costs. Interest margins and operating costs, on the other hand, are likely to remain stable and provide support to the sectoral profitability in the near term.
- The sectoral capitalisation profile is adequate to absorb any asset quality shocks and support the projected AUM growth in the near term. Some entities maintaining a stronger growth trajectory than the overall sector may need to raise their requisite capital.



ICRA

Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President and Group Head	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Senior Vice-President and Co-Group Head	a.karthik@icraindia.com	+91-44-45964308
R Srinivasan	Vice President and Sector Head	r.srinivasan@icraindia.com	+91-44-45964315
Richardson Xavier	Senior Analyst	richardson.xavier@icraindia.com	+91-44-45964310





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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