

Non-banking Financial Companies

Sectoral profitability remains adequate, notwithstanding higher credit costs

APRIL 2025



Agenda













Highlights





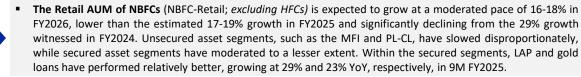
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Gross Stage 3 to weaken by 10-20 bps for NBFC-Retail in FY2026; unsecured segments to face a larger impact driven by factors such as borrower overleveraging.

Profitability of the NBFCs would remain stable at 2.6-2.8% in FY2026.

Weighted average CoF to reduce by 10-30 bps in FY2026.







Asset quality risks continue to remain elevated, impacted by the fast-paced growth seen over the past two years. Delinquencies in the NBFC-Retail segment would continue to weaken, rising by 10-20 bps in FY2026. As a result, credit costs to remain high in FY2026 as well, though slightly lower than the FY2025 levels. Meaningful divergence would be seen with the credit costs of unsecured segments significantly higher than in the secured segments, driven by factors such as borrower overleveraging, weakening of borrower credit profiles, etc.



• Net profitability of NBFCs, however, is expected to remain stable in FY2026. ICRA expects the interest margins to moderate somewhat, as growth in the high-yielding unsecured segment moderates, and ability to calibrate the asset mix to support the margins is diminished. Nevertheless, stable operating costs and some moderation in credit costs (while remaining at elevated levels), would support the profitability during the year.



• Incremental funding needs in the NBFC-Retail segment (over and above the refinancing of maturing debt) are estimated at Rs. 3.4-3.5 trillion in FY2026. The share of bank credit to the NBFCs has remained stable at around 9% in recent months, significantly moderated vis-à-vis 10% levels seen two years back. Banks' credit flows to NBFCs may remain controlled. However, with the market rates witnessing a sharp drop in April 2025 and anticipated to remain relatively benign in the near term, market issuances may compensate for the lower credit flows from the banking system. Funding from other sources, like external commercial borrowings (ECB) and securitisation, would also be critical. Overall, ICRA expects the weighted average CoF of NBFCs to reduce by 10-30 bps in FY2026, with bank funding rates remaining relatively sticky 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 with significant credit losses may, however, need to raise 'confidence capital' to boost lenders' and other stakeholders' confidence.

Note*: NBFCs: Non-banking financial companies; HFCs: Housing finance companies (excluding HDFC); AUM: Assets under management; VEF: Vehicle finance; GL: Gold loans; LAP: Loans against properties; SME: Unsecured/Quasi Secured loans (machinery, stock, etc.) offered to enterprises and individuals for business purposes; PL: Personal Loans; CL: Consumer loans; SME: Small enterprise loans; MFI: Microfinance; COF: Cost of funds; Sector: NBFC-Retail/Wholesale, HFC-Retail/Wholesale, NBFC-Infra



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