

# Non-banking Financial Companies – Microfinance Institutions

**Asset quality pressure expected to  
persist in H1 FY2026; NBFC-MFIs'  
AUM growth projected at 10-15% in  
FY2026**

**JULY 2025**



# List of abbreviations

<b>ARCs</b>	Asset reconstruction companies
<b>AMA</b>	Average managed assets
<b>AUM</b>	Assets under management
<b>GNPA</b>	Gross non-performing assets
<b>FI</b>	Financial institution
<b>MFIN</b>	Microfinance Institutions Network
<b>MFIs</b>	Microfinance institutions
<b>NBFCs</b>	Non-banking financial companies

<b>NBFC-MFIs</b>	Non-banking financial companies – microfinance institutions
<b>RBI</b>	Reserve Bank of India
<b>RoMA</b>	Return on average managed assets
<b>SMA</b>	Special mention accounts
<b>SFB</b>	Small finance bank
<b>SR</b>	Security receipts
<b>YoY</b>	Year-on-year



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*Asset quality stress surged in FY2025 amid borrower overleveraging, sociopolitical disruptions, and operational challenges; pressure expected to persist in H1 FY2026.*

*The AUM of NBFC-MFIs declined by 12% in FY2025; however, ICRA anticipates growth to resume in FY2026 to 10-15%.*

*ICRA has a Negative outlook on the sector, given the lingering asset quality stress and subdued profitability.*



- Overall stress (SMA + GNPA + write-offs + SR) in FY2025 surged to 15.3% vis-à-vis opening stressed pool (SMA + GNPA + SR) of 5.9% as of March 2024 on account of significant deterioration in asset quality in the microfinance sector; stress expected to persist in H1 FY2026.



- Asset quality weakened across lender categories in FY2025, with banks more impacted, while NBFCs reported lower GNPA's due to aggressive write-offs and sale of stressed portfolio to ARCs.



- The share of NBFC-MFI borrowers with loans from over three lenders fell from 25% in September 2024 to 17% by March 2025, following the implementation of guardrails for responsible lending.



- Given the deterioration in asset quality, NBFC-MFIs' provision cover increased to ~4.8% of on-book portfolio as on March 31, 2025, from 2.8% as on March 31, 2024. NBFC-MFIs' credit costs rose to ~6.8% on AMA basis in FY2025 from 2.2% in FY2024 due to higher provisioning and write-offs, with ICRA anticipating a moderation to 4.0–4.2% in FY2026.



- The AUM of NBFC-MFIs declined by 12% in FY2025 (growth of 29% in FY2024) amid operational challenges and asset quality concerns. Further, the increase in borrower rejection rates resulted in subdued disbursements. ICRA expects the NBFC-MFIs' AUM growth to resume in FY2026 to 10-15%.



- As per the recent RBI circular dated June 06, 2025, on review of qualifying assets criteria, NBFC-MFIs are now required to maintain qualifying assets of minimum 60% of the total assets over the earlier requirement of 75%. This shall improve NBFC-MFIs' loan diversity, thereby augmenting their credit risk profile, and enabling them to meet other credit requirements of their end borrowers. Managing concerns around borrower-level leverage, however, shall remain a key monitorable.



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