

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**



ARCs	Asset reconstruction companies	NBFC-MFIs	Non-banking financial companies – microfinance institutions
AMA	Average managed assets	RBI	Reserve Bank of India
AUM	Assets under management	RoMA	Return on average managed assets
GNPA	Gross non-performing assets	SMA	Special mention accounts
FI	Financial institution	SFB	Small finance bank
MFIN	Microfinance Institutions Network	SR	Security receipts
MFIs	Microfinance institutions	YoY	Year-on-year
NBFCs	Non-banking financial companies		

## **Highlights**





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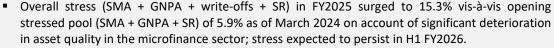
Asset quality stress surged in FY2025 amid borrower overleveraging, sociopolitical disruptions, and operational challenges; pressure expected to persist in H1 FY2026.

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

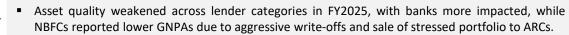
ICRA has a Negative outlook on the sector, given the lingering asset quality stress and subdued profitability.













■ 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 onbook 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 writeoffs. 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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