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Non-banking Financial Companies

NBFCs hit the slow lane as demand tapers

JULY 2025

Agenda

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1 NBFC-Retail Sector Outlook

2 Macroeconomic Trends and Underlying Growth Drivers

3 Overall Sectoral Performance Trends

4 NBFC-Retail Asset Class-wise Trends

5 ICRA Rating Action Across NBFCs/HFCs/MFIs

Highlights

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AUM growth to moderate to 16-18% YoY in FY2026, with further downside in case domestic economic activity is impacted more than anticipated on account of the prevalent global uncertainties.

Gross Stage 3 to weaken by 10-30 bps for NBFC-Retail in FY2026.

Profitability of the NBFCs would moderate further to 2.2-2.4% in FY2026.

- **The Retail AUM of NBFCs** (NBFC-Retail; *excluding HFCs)* expanded at 18% YoY in FY2025, significantly declining from the 29% growth in FY2024. Unsecured asset segments, like MFI and PL-CL, slowed disproportionately, resulting in the gap in growth rates of secured and unsecured segments narrowing down significantly. The performance of gold loans and LAP segments stood out, growing at 30% and 31% YoY, in FY2025. ICRA expects the NBFC-Retail segment to grow at a moderated pace of 16-18% in FY2026.

- **Incremental funding** (over and above the refinancing of maturing debt) from the banking sector was constrained during FY2025. Consequently, entities relied on funding from other sources such as market issuances, external commercial borrowings (ECB), etc. In FY2026, the funding requirements for the NBFC-Retail segment is estimated at Rs. 3.4-3.5 trillion. Banking sector credit to the NBFCs may improve in the near term on the back of reduction in risk weights as systemic liquidity conditions improve. Market issuances would continue to be attractive, given that the Monetary Policy transmission has occurred at a much faster pace here. Overall, ICRA expects the 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 in the earlier years. Delinquencies in the NBFC-Retail segment would continue to weaken, rising by 10-30 bps in FY2026. As a result, credit costs to remain high in FY2026 as well; meaningful divergence would be seen with the credit costs of unsecured segments higher than in the secured segments., driven by borrower overleveraging, weakening of borrower credit profiles, etc.

- **Net profitability of NBFCs** saw a significant moderation by 60 bps in FY2025, impacted by lower margins and elevated credit costs. ICRA expected the profitability to moderate in FY2026 as well, though to a smaller extent, as credit costs will remain elevated. The sector would receive some support from a modest improvement in interest margins on the back of favourable movement in CoF, as operating costs remain stable.

- **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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Thank You!