

Non-banking Financial Companies

Reduction in GST rates to boost domestic demand and offset global uncertainties

OCTOBER 2025



Agenda

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





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GST rate cuts to offset the impact of tariff wars and global uncertainties. NBFC-Retail (excluding HFCs) AUM growth is estimated at 16-18% YoY in FY2026.

Asset quality to remain under some pressure.

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



- **The Retail AUM¹ of NBFCs²** (NBFC-Retail; *excluding HFCs³*) expanded at 17% YoY in Q1 FY2026, persisting with the declining trend over the past two years. Sectoral credit growth would continue to be impacted with entities having turned cautious on the back of asset quality pressures. Further, global macroeconomic uncertainties, have added to the downward pressure on growth. In this context, the recent goods and services tax (GST) rate cuts would go a long way in buttressing consumer demand, thereby supporting the AUM growth. Overall, ICRA expects the NBFC-Retail segment to grow at a moderate pace of 16-18% in FY2026.



- **Asset quality risks** remain elevated, impacted by the fast-paced growth of the earlier years. Write-offs increased significantly in FY2025 and would continue to be elevated in FY2026 as well, as entities prefer to accelerate their technical write-offs to keep delinquencies under control. Despite the same, headline delinquencies in the NBFC-Retail segment would continue to weaken, rising by 10-30 bps in FY2026. Meaningful divergence would be seen with the credit costs of unsecured segments rising higher than the secured segments, driven by borrower overleveraging and weakening of borrower credit profiles.



- **Incremental funding** (over and above the refinancing of maturing debt) from the banking sector was negative in 5M FY2026. Consequently, entities had to rely on funding from other sources such as market issuances, external commercial borrowings (ECB), and securitisation. 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 towards the second half of FY2026, with the improvement in liquidity conditions. Overall, ICRA expects the weighted average CoF⁴ to reduce by 10-30 bps in FY2026.



- **Net profitability of NBFCs** would moderate in FY2026, though to a smaller extent vis-à-vis FY2025, 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 lender and other stakeholder confidence.

Note: 1- Assets under management; 2 - Non-banking financial companies; 3 - HFCs: Housing finance companies (excluding HDFC); 4 - Cost of funds; Sector: NBFC-Retail/Wholesale, HFC-Retail/Wholesale, NBFC-Infra



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