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Non-Banking Financial Companies (NBFC)

Lenders shift focus to pre-owned vehicles; returns adjusted for risk remain healthy

JANUARY 2026

Highlights

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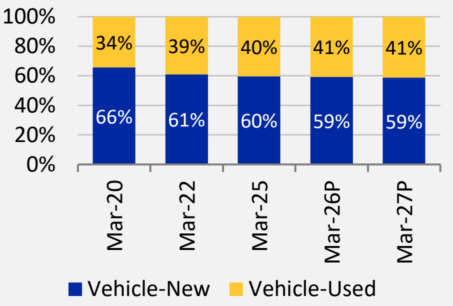
NBFC – Vehicle AUM



As the proportion of pre-owned vehicles rises, effectively managing asset quality becomes crucial for boosting earnings, even as margins are likely to improve.

- Vehicle segment share in overall NBFC (including HFCs^ and excluding NBFC-Infrastructure Finance Companies, or NBFC-IFCs) assets under management (AUM) has steadily moderated to 23% in September 2025 from 26% in March 2021; vehicle finance AUM growth has been lower than other retail loans. Slower growth is attributed to the modest revival in overall vehicle sales volumes after the pandemic along with increasing competition from banks in the key vehicle asset segments.
- NBFCs are increasing their focus on pre-owned/used assets as financial penetration in this category is lower and the used asset market is quite sizeable. The share of pre-owned assets in the overall vehicle loan book of NBFCs is expected to grow steadily to over 41% by March 2027 over 34% in March 2020.
- ICRA projects vehicle assets of NBFCs to expand at a higher CAGR of 15-17% during FY2026-FY2027 as compared to 12% during FY2020-FY2025. Pre-owned asset expansion is expected to be at a CAGR of 16-18% during FY2026-FY2027 compared to the 16% growth during FY2020-FY2025. New vehicle asset growth is expected to be relatively moderate at 14-16% during FY2026-FY2027.
- Competitive pressures are high in new commercial vehicle (CV) and passenger vehicle (PV) segments, where banks command a sizeable share. In these segments, the share of pre-owned assets in the NBFC AUM stood at about 53% and 42%, respectively, as of September 2025.
- Pre-owned vehicle asset quality has remained weak; however, the risk adjusted returns are healthy with limited competition from banks.
- Vehicle financiers* have reported elevated Gross Stage 3 (GS3) over the past. Recent uptick in the credit cost is a monitorable. However, thus far losses have remained under control and provision coverage has been healthy in relation to the write-offs.
- Return on managed assets (RoMA) of vehicle financiers will be affected this fiscal due to higher credit costs but will be higher than the overall NBFC sector. Vehicle financiers are expected to register a partial recovery of their RoMAs in FY2027, although it is likely to remain below the averages of FY2024-FY2025.

*Source: ICRA Research; ^ HFCs – Housing Finance Companies; P – Projected; *NBFCs with more than 50% of their AUM in the vehicle finance business*

Agenda

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1 Overall NBFC Sector Trends and Vehicle Finance by NBFCs

2 Vehicle Financiers vs Overall NBFC Performance

3 ICRA Rated Vehicle Financiers

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Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President and Group Head	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Senior Vice President and Co-Group Head	a.karthik@icraindia.com	+91-44-45964308
R Srinivasan	Vice President and Sector Head	r.srinivasan@icraindia.com	+91-44-45964315
Prateek Mittal	Assistant Vice President and Sector Head	prateek.mittal@icraindia.com	+91-33-71501100
Sandeep Sharma	Assistant Vice President and Sector Head	sandeep.sharma@icraindia.com	+91-22-61143419

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!