

Non-banking Financial Companies – Microfinance Institutions

**Asset quality shows signs of
stabilisation; sector performance
expected to improve in FY2027**

February 2026



List of abbreviations

ARCs	Asset reconstruction companies
AUM	Assets under management
bps	Basis points
BC	Business correspondent
CoF	Cost of funds
CP	Commercial paper
DA	Direct assignment
dpd	Days past due
FI	Financial institution
MCE	Monthly collection efficiency
MFIs	Microfinance institutions

NBFCs	Non-banking financial companies
NBFC-MFIs	Non-banking financial companies – microfinance institutions
NCDs	Non-convertible debentures
NIM	Net interest margin
p.a.	Per annum
PTCs	Pass-through certificates
RBI	Reserve Bank of India
RoMA	Return on average managed assets
SFB	Small finance bank
SHG	SHG Bank Linkage Programme
YoY	Year-on-year

1 NBFC-MFI Sector Outlook



2 Asset Quality Trends



3 Microfinance Sector Growth



4 Profitability and Capitalisation



5 Funding and Liquidity



6 ICRA's Ratings across the NBFC-MFI Sector





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Asset quality shows signs of stabilisation but remains monitorable in light of socio-political developments; ICRA expects temporary disruption in operations and collections in Bihar.

ICRA anticipates muted AUM growth for NBFC-MFIs in FY2026, followed by a rebound to 15-17%, driven by eased qualifying asset criteria and the expectation of improved asset quality.

ICRA expects that profitability is likely to improve in FY2027 amid moderation in credit costs, with NBFC-MFIs expected to report a RoMA of 1.9-2.2%.



- Delinquencies have started to stabilise with the 90+ dpd remaining steady in Q3 FY2026 while the 0+ dpd declined by 60 bps. This was largely owing to significant write-offs and portfolio sales to ARCs by NBFC-MFIs, though there was a gradual improvement in their collection efficiency as well curbing forward flows into the overdue buckets.



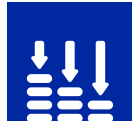
- Following the challenges experienced by the industry in FY2025, particularly on overleveraging, many NBFC-MFIs have focussed on incremental credit to their existing borrower base while adhering to lending guardrails. Additionally, disbursements in geographies with higher delinquencies have been curtailed, supporting the collection efficiency of recent disbursements.



- In H1 FY2026, 6 of the top 10 states reported a decline in the 90+ dpd while 2 reported only a marginal increase. Given the recently passed The Bihar Micro Finance Institutions (Regulations of Money Lending and Prevention of Coercive Actions) Bill, 2026, asset quality in Bihar remains monitorable. Karnataka continues to report relatively elevated delinquencies, following a bill passed in March 2025.



- After six straight quarters of declining AUM, NBFC-MFIs reported growth in Q3 FY2026, with further improvement expected in Q4 FY2026. ICRA anticipates muted AUM growth for NBFC-MFIs in FY2026, followed by a rebound to 15-17% in FY2027, driven the expectation of improved asset quality in microfinance loans and the eased qualifying asset criteria.



- Elevated credit costs due to asset quality pressure adversely impacted earnings, with NBFC-MFIs reporting losses in FY2025 and 9M FY2026. While credit costs remained elevated in 9M FY2026, it has been declining on a quarter-on-quarter (QoQ) basis and ICRA expects the trend to continue. Nonetheless, operating efficiency shall remain moderate amid reduced employee productivity. ICRA expects that with the projected moderation in credit costs, profitability is likely to improve in FY2027, with NBFC-MFIs expected to report a RoMA of 1.9-2.2%.



- Lenders remain cautious in extending credit to the sector, especially smaller NBFC-MFIs, owing to asset quality and solvency concerns. Nonetheless, funding is likely to remain adequate, given the growth expectations.



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