Research Report on NBFC Industry

June 2025

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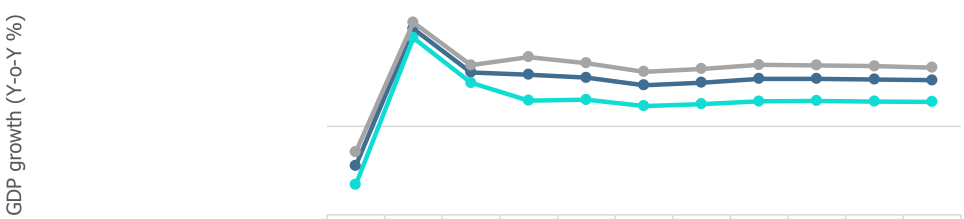
1 Economic Outlook

1.1 Global Economy

Global growth, which reached 3.5% in CY23, is estimated to stabilize at 3.3% for CY24 and projected to decrease at 2.8% for CY25. Global trade is expected to be disrupted by new US tariffs and countermeasures from trading partners, leading to historically high tariff rates and negatively impacting economic growth projections. The global landscape is expected to change as countries rethink their priorities and policies in response to these new developments. Central banks priority will be to adjust policies, while smart fiscal planning and reforms are key to handling debt and reducing global inequalities.

Chart 1: Global Growth Outlook Projections (Real GDP, Y-o-Y change in %)



	CY20	CY21	CY22	CY23	CY24E	CY25P	CY26P	CY27P	CY28P	CY29P	CY30P
World	-2.7%	6.6%	3.6%	3.5%	3.3%	2.8%	3.0%	3.2%	3.2%	3.2%	3.1%
Advanced Economies	-4.0%	6.0%	2.9%	1.7%	1.8%	1.4%	1.5%	1.7%	1.7%	1.7%	1.7%
Emerging Market and Developing Economies	-1.7%	7.0%	4.1%	4.7%	4.3%	3.7%	3.9%	4.2%	4.1%	4.1%	4.0%

Source: IMF – World Economic Outlook, April 2025; Notes: P-Projection, E-Estimated

Table 1: GDP growth trend comparison - India v/s Other Economies (Real GDP, Y-o-Y change in %)

	Real GDP (Y-o-Y change in %)										
	CY20	CY21	CY22	CY23	CY24E	CY25P	CY26P	CY27P	CY28P	CY29P	CY30P
India	-5.8	9.7	7.6	9.2	6.5	6.2	6.3	6.5	6.5	6.5	6.5
China	2.3	8.6	3.1	5.4	5.0	4.0	4.0	4.2	4.1	3.7	3.4
Indonesia	-2.1	3.7	5.3	5.0	5.0	4.7	4.7	4.9	5.0	5.1	5.1
Saudi Arabia	-3.6	5.1	7.5	-0.8	1.3	3.0	3.7	3.6	3.2	3.2	3.3
Brazil	-3.3	4.8	3.0	3.2	3.4	2.0	2.0	2.2	2.3	2.4	2.5
Euro Area	-6.0	6.3	3.5	0.4	0.9	0.8	1.2	1.3	1.3	1.2	1.1
United States	-2.2	6.1	2.5	2.9	2.8	1.8	1.7	2.0	2.1	2.1	2.1

Source: IMF- World Economic Outlook Database (April 2025)

Note: P- Projections, E-Estimated; India's fiscal year (FY) aligns with the IMF's calendar year (CY). For instance, FY24 corresponds to CY23.

Advanced Economies Group

Advanced economies are expected to experience a gradual increase in growth, increasing to 1.8% in CY24 and staying same for next 2 years.

The **United States** is expected to grow to 2.8% in CY24, followed by a decrease to 1.8% in CY25. Growth outlook for the United States has improved due to strong consumption and non-residential investment, driven by rising real wages and wealth effects. However, growth is expected to decelerate as fiscal policies tighten and the labour market cools, leading to a gradual closure of the output gap.

The **Euro Area's** growth is anticipated to rebound from its sluggish growth in CY23 to 0.9% in CY24 and a slight decrease to 0.8% in CY25. This recovery is driven by better export performance, as well as a stronger domestic demand. The gradual loosening of the monetary policy is expected to boost investment, and the rise of real wages is anticipated to improve the consumption patterns.

Emerging Market and Developing Economies Group

Emerging market and developing economies are forecasted to maintain stable growth at 4.2% in both CY24 and CY25. The economic forecast for emerging and developing Asia reveals a modest deceleration in growth, with projections indicating a decline from 5.3% in CY24 to 5% in CY25. **China's** trajectory reflects a gradual slowdown, transitioning from 5% in CY24 to 4% in CY26 due to low consumer confidence and ongoing real estate sector challenges. However, better than expected net exports have ensured that the slowdown in growth is marginal. In contrast, **India's** growth remains robust, with anticipated rates of 6.5% in CY24 and 6.2% in CY25. This moderation in GDP growth is expected as the surge in pent-up demand from the pandemic wanes. The economy is transitioning towards its potential, reflecting a more sustainable pace of growth as it adjusts to post-pandemic realities.

The **Indonesian** economy is expected to register growth of 5.0% in CY24 and 4.7% in CY25, an important concern for Indonesia is the trade fragmentation. **Saudi Arabia's** growth in CY24 is estimated to see a revamp in the growth rate to 1.3% on account of the extension of oil production cuts taking place in the country. Going forward, GDP is projected to grow at 3% in CY25. On the other hand, **Brazil's** growth is estimated to be 3.4% in CY24 due to robust private consumption and investment driven by a strong labour market and effective government transfers. However, due to the anticipated tightening of the labour market and ongoing restrictive monetary policy, growth is projected to slowdown in CY25 to 2%.

Despite the turmoil in the last 2-3 years, India bears good tidings to become a USD 5 trillion economy by CY27-CY28. According to the IMF dataset on Gross Domestic Product (GDP) at current prices, the nominal GDP projected to be at USD 4.2 trillion for CY25 and is projected to reach USD 5.1 trillion by CY27 and USD 6.8 trillion by CY30. India's expected GDP growth rate for coming years is almost double compared to the world economy. India's expected GDP growth rate for coming years is almost double compared to the world economy. The Indian economy shows resilience amid global inflation, supported by a stable financial sector, strong service exports, and robust investment driven by government spending and high-income consumer consumption, positioning it for better growth than other economies.

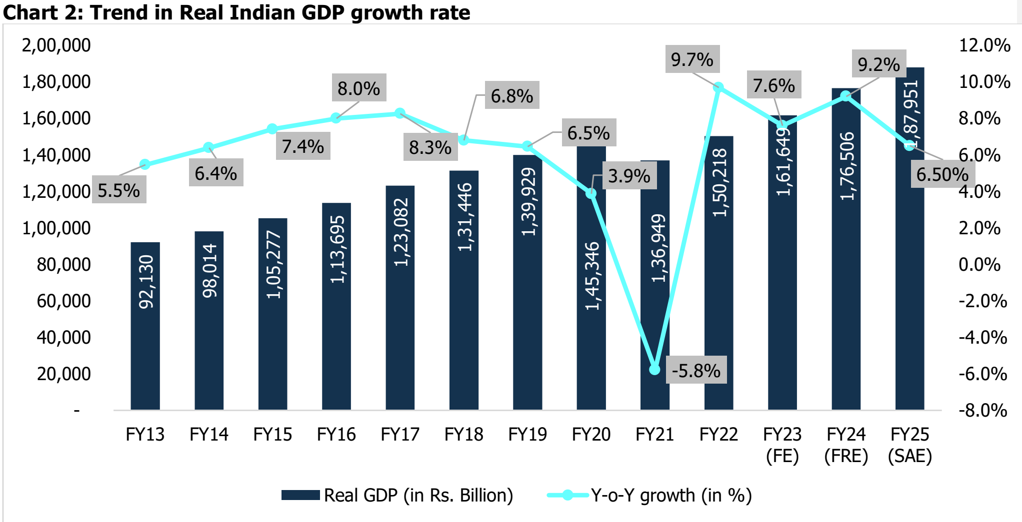
Besides, India stands out as the fastest-growing economy among the major economies. The country is expected to grow at more than 6.5% in the period of CY24-CY29, outshining China's growth rate. By CY27, the Indian economy is estimated to emerge as the third-largest economy globally, hopping over Japan and Germany. Currently, it is the third largest economy globally in terms of Purchasing Power Parity (PPP) with a ~8.5% share in the global economy, with China (~19.7%) on the top followed by the United States (~14.8%).

1.2 Indian Economic Outlook

1.2.1 GDP Growth and Outlook

Resilience to External Shocks remains Critical for Near-Term Outlook

Chart 2: Trend in Real Indian GDP growth rate



Note: SAE – Second Advance Estimates, FE – Final Estimate, FAE- First Advance Estimate; Source: MOSPI

India's real GDP grew by 9.2% in FY24 (Rs. 176,506 billion) which is the highest in the previous 12 years (excluding FY22 being 9.7% on account of end of pandemic) and is estimated to grow by 6.5% in FY25 (Rs. 187,951 billion), driven by double digit growth particularly in the Manufacturing sector, Construction sector and Financial, Real Estate & Professional Services.

GDP Growth Outlook

FY26 GDP Outlook: Real GDP growth is projected at 6.5%, driven by strong rural demand, improving employment, and robust business activity. The agriculture sector's bright prospects, healthy reservoir levels, and robust crop production support this growth. Manufacturing is reviving, and services remain resilient, despite global uncertainties. Investment activity is gaining traction, supported by healthy balance sheets and easing financial conditions. However, risks from geopolitical tensions, global market volatility, and geo-economic fragmentation persist

Persistent geopolitical tensions, volatility in international financial markets and geo-economic fragmentation do pose risk to this outlook. Based on these considerations, the RBI, in its April 2025 monetary policy, has projected real GDP growth at 6.5% y-o-y for FY26.

Table 2: RBI's GDP Growth Outlook (Y-o-Y %)

FY26P (complete year)	Q1FY26P	Q2FY26P	Q3FY26P	Q4FY26P
6.5%	6.5%	6.7%	6.6%	6.3%

Note: P-Projected; Source: Reserve Bank of India

1.2.2 Gross Value Added (GVA)

India's recovery is led by the industrial and services sectors. In FY25, the agriculture sector is expected to grow by 4.6%, an upward trend from 2.7% in FY24. The industrial sector is expected to plummet to 5.6%, due to weak industrial activities. The services sector grew 7.3%, supported by public administration, defence & other services.

Table 3: Sectoral Growth (Y-o-Y % Growth) - at Constant Prices

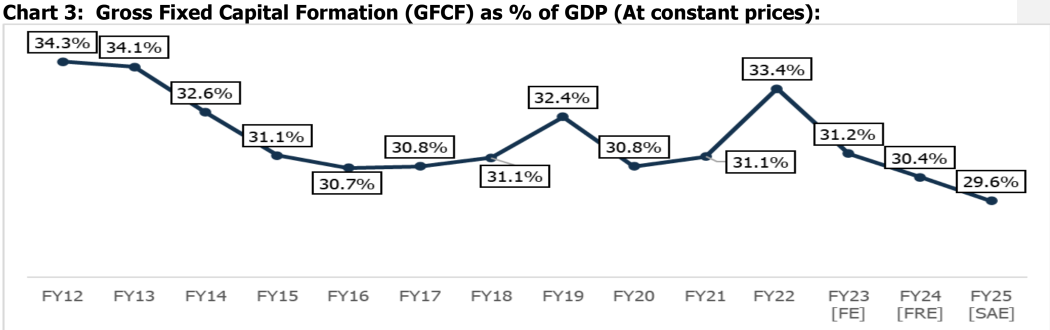
At constant Prices	FY19	FY20	FY21	FY22	FY23 (FE)	FY24 (FRE)	FY25 (SAE)
Agriculture, Forestry & Fishing	**2.1**	**6.2**	**4.1**	**3.5**	**5.1**	**2.7**	**4.6**
Industry	**5.3**	**-1.4**	**-0.9**	**11.6**	**2.0**	**10.8**	**5.6**
Mining & Quarrying	-0.9	-3.0	-8.6	7.1	2.8	3.2	2.8
Manufacturing	5.4	-3.0	2.9	11.1	-3.0	12.3	4.3
Electricity, Gas, Water Supply & Other Utility Services	7.9	2.3	-4.3	9.9	11.5	8.6	6.0
Construction	6.5	1.6	-5.7	14.8	10.0	10.4	8.6
Services	**7.2**	**6.4**	**-8.2**	**8.8**	**11.3**	**9.0**	**7.3**
Trade, Hotels, Transport, Communication & Broadcasting	7.2	6.0	-19.7	13.8	14.4	7.5	6.4
Financial, Real Estate & Professional Services	7.0	6.8	2.1	4.7	10.7	10.3	7.2
Public Administration, Defence and Other Services	7.5	6.6	-7.6	9.7	8.2	8.8	8.8
GVA at Basic Price	**5.8**	**3.9**	**-4.2**	**8.8**	**7.4**	**8.6**	**6.4**

Note: SAE – Second Advance Estimates, FE – Final Estimate, FAE- First Advance Estimate; Source: MOSPI

1.2.3 Investment Trend in Infrastructure

Gross Fixed Capital Formation (GFCF) is a measure of net increase in physical assets. In FY23, the ratio of investment (GFCF) to GDP remained flat, as compared to FY22 which was at 33.4%. The growth stabilized at 30.4% in FY24 before falling to 29.6 % in FY25. The moderation reflects cautious capital spending by both government and private corporations, which has persistently lagged overall GDP growth.

Chart 3: Gross Fixed Capital Formation (GFCF) as % of GDP (At constant prices):



Note: FRE – First Revised Estimates, FE – Final Estimates, SAE-Second Advanced Estimates; Source: MOSPI

Overall, the support of public investment in infrastructure is likely to gain traction due to initiatives such as Atmanirbhar Bharat, Make in India, and Production-linked Incentive (PLI) scheme announced across various sectors.

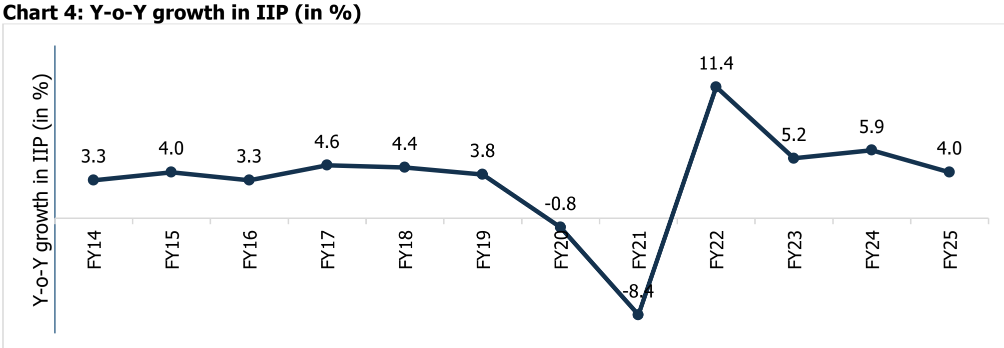
1.2.4 Industrial Growth

The Quick Estimates of the Index of Industrial Production (IIP) for March 2025 show a 3.0% growth, up from 2.9% in February 2025. The y-o-y growth for March 2025 was 4.0% down from 5.9% in March 2024, the overall growth in the industry was moderate but subdued primarily due to deceleration in consumer non-durables, infrastructure industries, intermediate goods, capital and primary goods.

In March 2025, industrial growth saw a rise due to Manufacturing (3.0%), and Electricity (6.3%) while witnessing a decline in the mining sector (0.4%). Among the industry group of basic metals, items of flat products of alloy steel, pipes and tubes of steel and bars and rods of mild steel experienced significant growth. Use-based indices had a slow growth in Primary Goods, Capital Goods, and Intermediate Goods.

Manufacturing growth was driven by basic metals (6.9%), motor vehicles and semi-trailers (10.3%) and electrical equipment (15.7%). While government spending and private investment support growth, declining consumer non-durables and improving rural demand highlight the need for sustained consumption and investment.

Chart 4: Y-o-Y growth in IIP (in %)

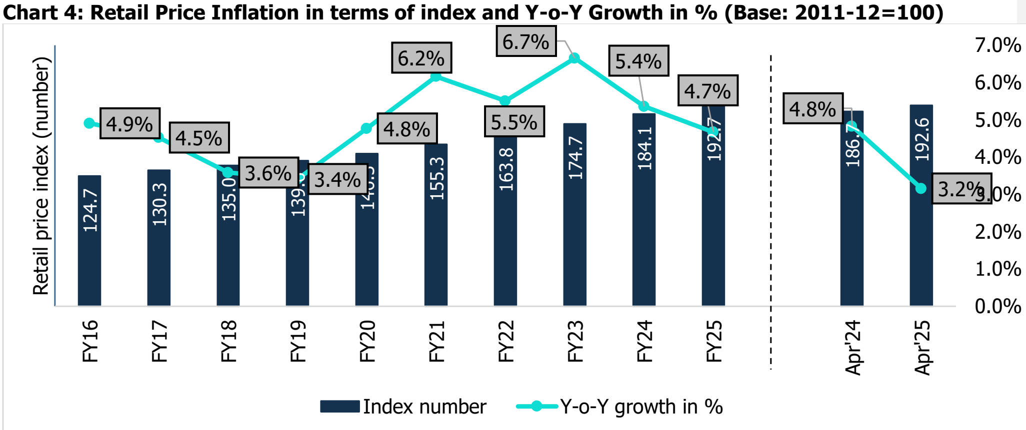


Source: MOSPI

1.2.5 Consumer Price Index

The CPI (general) and food inflation in April 2025 over April 2024 (3.2%, provisional) witnessed lowest Y-o-Y inflation since July 2019. The moderation was driven by decline of price inflation in Vegetables, Pulses, Fruits, Meat and fish, Personal care and effects and Cereals.

Chart 4: Retail Price Inflation in terms of index and Y-o-Y Growth in % (Base: 2011-12=100)

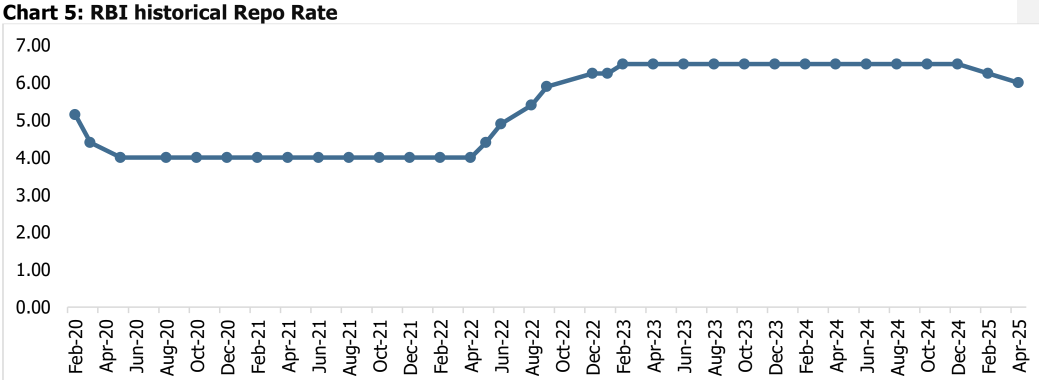


Source: MOSPI

The CPI is primarily factored in by RBI while preparing their bi-monthly monetory policy. At the bi-monthly meeting held in April 2025, RBI projected inflation at 4.0% for FY26 with inflation during Q1FY26 at 3.6%, Q2FY26 at 3.9% and Q3FY26 at 3.8% and Q4FY26 4.4%.

Considering the current inflation situation, RBI has cut the repo rate to 6.00% in the April 2025 meeting of the Monetary Policy Committee.

Chart 5: RBI historical Repo Rate



Source: RBI

Further, the central bank changed its stance to be accommodative. With a decline in food inflation, the headline inflation moderated during January-February 2025.The economic growth outlook for India is expected to remain resilient, but it will require careful monitoring due to depreciation of the Indian rupee in recent months. Additionally, certain key sectors may face headwinds amid hiked tariffs from the US.

The RBI has adopted for a non-inflationary growth with the foundations of strong demand and supply with a good macroeconomic balance. The domestic growth and inflation curve require the policies to be supportive with the volatile trade conditions.

1.2.6 Concluding Remarks

Global economic growth faces headwinds from geopolitical tensions, volatile commodity prices, high interest rates, inflation, financial market volatility, climate change, and rising public debt. However, India's economy remains relatively strong, with an IMF forecast of 6.5% GDP growth in CY24 (FY25 according to the fiscal year), compared to the global projection of 3.3%. Key drivers include strong domestic demand, government capital expenditure and moderating inflation.

India's position as a manufacturing hub is strengthened by government initiatives, a skilled workforce, and a growing startup ecosystem, with ongoing reforms and innovation enhancing its global role. Key growth indicators like the PMI, E-way bills, bank credit, toll collections, and GST collections have improved in FY24. India's economic growth in FY25-26 will be supported by strong growth in agriculture, industrial expansion, and a surge in services exports. Key indicators point to sustained growth driven by improved infrastructure, private consumption, and foreign investments. Normalizing the employment situation after opening up of the economy is supporting consumption expenditure. Public investment is set to grow with a Rs. 11.21 lakh crore capital expenditure allocation for FY26. Private sector investment is also rising, supported by new project data and capital goods imports. Improved rural demand, favourable monsoon conditions, and government policy will further boost the investment cycle.

The impact of U.S. tariffs on India's export trade is anticipated to be minimal. The key sectors which will have a potential impact are engineering goods, electronics, gems and jewellery, pharmaceuticals, textiles, and automobiles, among others. The affected sectors represent a small fraction of India's total exports, with key industries such as pharmaceuticals remaining unaffected, steel industry affected by the 25% tariffs although the impact is expected to be minimal given the volume of goods exported is less, and textiles are potentially benefiting from reduced competition.

India's relatively lower tariff structure enhances its attractiveness as a trade partner, and ongoing negotiations with the U.S., along with efforts to diversify export markets, including the EU and ASEAN, are likely to mitigate potential adverse effects. As India progressively positions itself as a competitive manufacturing hub, particularly in textiles, pharmaceuticals, electronics, and auto components, it remains more competitive than countries like China, Taiwan, Bangladesh, and Vietnam. This strengthens India's position as a viable alternative in global trade, particularly in sectors where it holds a comparative advantage. India's expanding manufacturing capacity, coupled with its skilled workforce, makes it an appealing investment destination for global companies. Sectors such as electronics and textiles, including the relocation of Apple's iPhone production, are likely to attract greater U.S. interest as businesses seek lower-tariff alternatives.

In Feb'25, India and USA discussed enhancing the U.S.-India trade relationship, with a target to increase bilateral trade from USD 200 billion to USD 500 billion by 2030. Negotiations for a multi-sector bilateral trade agreement (BTA) are expected to commence later this year, focusing on trade fairness, national security, and job creation.

Thus, while U.S. tariffs may have a limited impact on India's exports, ongoing trade negotiations and India's competitive manufacturing advantage position it well for continued growth in global trade.

1.3 India is set to be one of the fastest growing major economies

India is experiencing remarkable economic growth, consistently surpassing expectations and demonstrating resilience amidst global uncertainties. Driven by strong domestic demand and government reforms, the country is witnessing a rebound in its rural economy, thriving manufacturing sector, and robust export performance in services and high-value manufacturing. Industry leaders express confidence in India's potential, positioning it as a leader in global economic growth. With solid bank balance sheets and rising credit, India is poised to continue its upward trajectory, outpacing many other economies in the coming years. In the last 10 years, Indian economy has grown at a CAGR of 6.1%, higher than CAGR of advanced economies like the United States and Euro Area. It is projected that India will continue to grow at a CAGR of 11.6% between CY24 and CY30, outpacing expansion in comparison to key developed and developing economies.

Table 4: Size of the Global Economies in Last 10 Years (in USD Trillion)

Economy	CY14	CY24	CAGR (%)
India	2.0	3.9	6.1%
China	10.7	18.7	5.2%
Indonesia	0.9	1.4	4.2%
Saudi Arabia	0.8	1.1	3.2%
Brazil	2.5	2.2	-1.1%
Euro Area	13.7	16.4	1.7%
United States	17.6	29.2	4.7%

Source: IMF World Economic Outlook Database (April 2025); Note: CAGR indicates CAGR between CY14-CY24

Table 5: Projected Size of the Global Economies for Next 5 Years (in USD Trillion)

Economy	CY24	CY30P	CAGR (%)
India	3.9	6.8	11.6%
China	18.7	25.8	6.6%
Indonesia	1.4	2.1	8.1%
Saudi Arabia	1.1	1.4	4.8%
Brazil	2.2	2.7	4.3%
Euro Area	16.4	19.9	3.9%
United States	29.2	37.2	4.9%

Source: IMF World Economic Outlook Database (April 2025); Note: CAGR indicates CAGR between CY24-CY30P, P- Projections

1.4 State wise key parameters

1.4.1 Contribution of Indian states to GDP

Table 6: State-wise contribution to GDP (%)

State/UT	FY22	FY23	FY24	FY25
Maharashtra	13.71%	13.95%	13.80%	13.90%
Gujarat	9.09%	9.07%	9.05%	NA
Tamil Nadu	8.94%	8.98%	8.90%	9.17%
Karnataka	8.31%	8.54%	8.29%	8.35%
Uttar Pradesh	8.08%	8.05%	8.00%	NA
West Bengal	5.23%	5.14%	5.00%	5.01%
Rajasthan	4.83%	4.82%	4.76%	4.82%
Andhra Pradesh	4.71%	4.66%	4.53%	4.60%
Telangana	4.46%	4.45%	4.33%	4.35%

State/UT	FY22	FY23	FY24	FY25
Madhya Pradesh	3.95%	3.89%	3.81%	3.79%
Delhi	3.81%	3.80%	3.80%	NA
Kerala	3.81%	3.68%	3.60%	NA
Haryana	3.73%	3.61%	3.57%	3.60%
Odisha	3.01%	2.97%	2.98%	3.00%
Punjab	2.91%	2.88%	2.80%	2.79%
Bihar	2.58%	2.63%	2.64%	NA
Assam	1.72%	1.74%	1.77%	1.80%
Chhattisgarh	1.78%	1.77%	1.74%	1.75%
Jharkhand	1.64%	1.64%	1.62%	NA
Uttarakhand	1.16%	1.17%	1.16%	1.16%
Himachal Pradesh	0.81%	0.80%	0.78%	0.78%
Jammu & Kashmir-UT	0.77%	0.78%	0.77%	0.77%
Goa	0.35%	0.37%	0.36%	NA
Tripura	0.26%	0.26%	0.26%	NA
Chandigarh	0.20%	0.21%	0.20%	NA
Meghalaya	0.17%	0.17%	0.16%	0.16%
Puducherry	0.16%	0.16%	0.16%	0.16%
Sikkim	0.14%	0.14%	0.14%	NA
Manipur	0.13%	0.14%	0.14%	NA
Mizoram	0.12%	0.12%	0.13%	NA
Nagaland	0.12%	0.12%	0.12%	NA
Arunachal Pradesh	0.12%	0.12%	0.12%	NA
Andaman & Nicobar Islands	0.05%	0.05%	0.05%	NA

Source: MOSPI
Note: GDP at constant prices

Maharashtra consistently leads as the largest contributor to GDP, with its share increasing from 13.71% in FY22 to 13.90% in FY25. Tamil Nadu, and Karnataka follow, with Tamil Nadu's contribution rising steadily from 8.94% to 9.17% from FY22 to FY25, and Karnataka's share improving from 8.44% to 8.71%. Gujarat and Uttar Pradesh also maintain strong positions, with Gujarat's contribution hovering around 8.14% to 8.05% until FY24, and Uttar Pradesh's holding steady at 8.31% to 8.35% during the same period. India's GDP composition continues to be dominated by a few key states, particularly those with diversified economies and urban clusters.

1.4.2 State wise GDP growth

Table 7: State wise Y-O-Y growth in GDP

State/UT	FY22	FY23	FY24	FY25
Nagaland	3.50%	4.47%	11.80%	NA
Assam	4.16%	8.69%	11.58%	7.94%
Mizoram	7.52%	14.26%	10.34%	NA
Manipur	10.56%	11.04%	9.95%	NA
Odisha	16.42%	5.97%	9.58%	7.23%
Bihar	4.96%	9.69%	9.55%	NA
Delhi	7.20%	7.27%	9.16%	NA

State/UT	FY22	FY23	FY24	FY25
Arunachal Pradesh	1.16%	0.68%	9.14%	NA
Gujarat	10.03%	7.35%	8.94%	NA
Tripura	8.55%	7.15%	8.77%	NA
Sikkim	8.61%	8.04%	8.51%	NA
Uttar Pradesh	11.38%	7.14%	8.51%	NA
Tamil Nadu	7.89%	8.13%	8.23%	9.69%
Maharashtra	11.16%	9.56%	7.96%	7.27%
Rajasthan	8.93%	7.41%	7.88%	7.82%
Uttarakhand	4.71%	8.50%	7.83%	6.61%
Haryana	12.06%	4.33%	7.76%	7.55%
Jharkhand	12.02%	7.84%	7.52%	NA
Chandigarh	6.96%	9.09%	7.46%	NA
Chhattisgarh	6.31%	7.03%	7.31%	7.51%
Goa	1.07%	12.60%	7.13%	NA
Jammu & Kashmir-UT	2.67%	9.31%	7.08%	7.06%
Madhya Pradesh	9.82%	5.83%	6.90%	6.05%
Himachal Pradesh	4.82%	6.01%	6.63%	6.72%
Kerala	11.78%	4.12%	6.61%	NA
Andaman & Nicobar Islands	5.45%	7.57%	6.33%	NA
Telangana	11.18%	7.51%	6.22%	6.79%
Punjab	7.39%	6.57%	6.20%	5.95%
Andhra Pradesh	7.14%	6.51%	6.19%	8.21%
West Bengal	11.64%	5.76%	6.09%	6.80%
Puducherry	1.96%	4.88%	6.02%	7.96%
Karnataka	11.06%	10.52%	5.98%	7.37%
Meghalaya	8.31%	7.69%	5.80%	5.54%

Source: MOSPI, CareEdge Research

Note: GDP at constant prices

Assam demonstrated a sharp and consistent rise from 4.16% in FY22 to 11.58% in FY24, before moderating slightly to 7.94% in FY25. Similarly, Mizoram and Nagaland witnessed significant growth spurts, particularly in FY23 and FY24, indicating a post-COVID rebound and a low-base effect. In contrast, states like Tamil Nadu and Uttar Pradesh maintained relatively stable and robust growth rates across the years. Tamil Nadu's GDP growth steadily rose from 7.89% in FY22 to 9.69% in FY25. Delhi, while maintaining moderate growth, showed signs of acceleration by FY24. On the other hand, Kerala, traditionally a remittance-driven economy, reported a steep decline from 11.78% in FY22 to 6.61% in FY24.

1.4.3 Revenues from goods and services tax (GST) collection among Indian states

Table 8: State Wise GST collection

State	SGST (in Rs. Crore)			
	FY22	FY23	FY24	FY25
Maharashtra	70,516	85,532	1,00,843	1,13,769
Gujarat	32,724	37,802	42,371	45,540
Tamil Nadu	29,441	36,353	41,082	46,318
Karnataka	28,660	35,429	40,969	45,314
Uttar Pradesh	23,766	27,366	32,534	34,845
West Bengal	18,164	21,514	23,436	24,085
Haryana	15,116	18,143	20,334	23,285
Telangana	14,603	16,877	20,012	21,292
Rajasthan	13,443	15,636	17,531	18,736
Odisha	12,743	14,211	16,455	18,108
Delhi	11,329	13,619	15,647	17,788
Andhra Pradesh	10,567	12,542	14,008	14,488
Kerala	9,887	12,311	13,967	14,885
Madhya Pradesh	9,433	10,937	13,072	14,031
Jharkhand	6,328	7,813	8,840	8,923
Bihar	6,083	7,543	8,535	9,925
Punjab	6,896	7,660	8,406	9,193
Chhattisgarh	6,818	7,489	8,175	9,344
Assam	4,638	5,180	6,010	6,533
Uttarakhand	3,780	4,787	5,415	5,847
Jammu and Kashmir	2,066	2,350	2,945	2,991
Himachal Pradesh	1,997	2,346	2,597	2,709
Goa	1,418	2,018	2,352	2,609
Chandigarh	507	629	689	777
Dadra and Nagar Haveli	537	637	661	737
Arunachal Pradesh	337	494	628	567
Meghalaya	367	489	607	646
Tripura	388	435	512	578
Puducherry	366	463	509	553
Sikkim	254	301	420	399
Manipur	287	321	346	348
Nagaland	190	228	307	296
Mizoram	163	230	273	264
Ladakh	99	171	250	276
Other Territory	126	201	231	208
Andaman and Nicobar Island	170	183	206	228

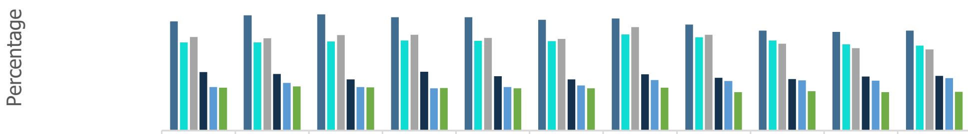
State	SGST (in Rs. Crore)			
	FY22	FY23	FY24	FY25
Lakshadweep	9	10	19	9
Daman and Diu	1	0	1	0
Total	**3,44,217**	**4,10,250**	**4,71,195**	**5,16,444**

Source: Goods and Services Tax

Maharashtra remains the largest contributor, with collections which increased from Rs 70,516 crore in FY22 to Rs 1,13,769 crore in FY25. Other top-performing states include Tamil Nadu (Rs 46,318 crore), Gujarat (Rs 45,540 crore), Karnataka (Rs 45,314 crore), and Uttar Pradesh (Rs 34,845 crore) in FY25. These five states account for more than 45% of the national SGST revenue. Delhi's collections are projected to increase by nearly 57% from Rs 11,329 crore in FY22 to Rs 17,788 crore in FY25.

1.5 Credit Penetration in India

1.5.1 Overview of credit to GDP in India vis a vis other countries



	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Sep-24
Australia	186.8	197.1	198.9	194.1	193.8	189.6	191.8	181.4	170.8	168.9	171.2
United States	150.6	150.8	152.5	154.2	153.4	153.1	164.3	159.7	153.8	147.7	145.2
United Kingdom	160	157.8	163.3	163.7	158.5	157	176.7	163.9	148.6	141.2	138.9
India	100.2	97	87.8	100.6	92.9	87.7	96.4	90.3	88.1	92.7	93.6
Brazil	74.4	81.8	74.4	72.5	74.4	77	86.5	84.9	86.1	85.5	89.7
South Africa	73.2	75.8	74	72.8	72	72.5	73.2	65.9	67.3	65.9	66.2

Calendar Year

Australia United States United Kingdom India Brazil South Africa

Source: BIS, CareEdge Research

The developed countries like United States, United Kingdom and Australia have their credit to GDP ratio in the range of 140% to 200%. The high credit to GDP ratio of developed countries can be largely attributed to their advanced financial systems and ease of access to the credit.

The credit to GDP ratio of emerging economies such as India, Brazil and South Africa has been in the range of 60% to 100% over the last decade. The credit to GDP ratio is lower in comparison with the developed economies indicating that the emerging economies lack matured financials systems and there is opportunity for the credit penetration in the economy. A low credit to GDP Ratio indicates the increased opportunity for growth in credit penetrated in the economy that can boost economy's growth.

The Credit to GDP Ratio in India usually ranges from 90% to 100%. As of September 2024, it stands at 93.6%, highlighting significant opportunities for increased credit penetration. With India being one of the fastest-growing economies, the expanding GDP base creates substantial room for credit growth, which can further accelerate economic development. Scheduled Commercial Banks dominate the credit sector with traditional lending methods leaving many mid-sized and lower-rated companies underserved. This situation creates a substantial opportunity for the private credit industry to step in and address these gaps. By leveraging the rising demand for credit, private credit can provide more flexible financing options, enhance access to capital, and stimulate business growth.

The rural and semi-urban credit market in India is significantly under-penetrated, presenting a substantial opportunity for Non-Banking Financial Companies (NBFCs) to capitalize on this whitespace. As of December 2023, according to BIS, India's Credit to GDP Ratio stands at 100.9%, indicating considerable potential for increasing credit penetration across various sectors. With India recognized as one of the fastest-growing economies globally, the expanding GDP per capita further amplifies the prospects for rapid credit growth, which can stimulate broader economic development.

Currently, Scheduled Commercial Banks (SCBs) primarily follow traditional lending patterns, leaving mid-sized and lower-rated companies underserved. This gap creates an opening for NBFCs to introduce more innovative and flexible financing solutions. By tapping into the rising demand for credit, NBFCs can enhance access to capital, particularly in rural and semi-urban areas. Following the IL&FS and DHFL crises, NBFCs are increasingly focusing on growth in the retail space, making them well-positioned to meet the evolving credit needs of this segment. As the economic environment evolves, the role of NBFCs in bridging these gaps becomes increasingly vital.

Table 9: State wise credit to GDP ratio

State	FY22	FY23	FY24	FY25
ANDHRA PRADESH	47.90%	49.20%	53.00%	52.30%
ASSAM	23.40%	23.50%	23.40%	24.00%
BIHAR	30.20%	31.10%	32.40%	NA
CHHATTISGARH	33.60%	35.60%	38.30%	39.30%
HARYANA	42.90%	46.10%	53.10%	55.80%
HIMACHAL PRADESH	23.80%	24.40%	26.60%	27.40%
JAMMU & KASHMIR	42.40%	41.80%	43.40%	43.80%
JHARKHAND	24.50%	26.20%	28.40%	NA
KARNATAKA	44.90%	45.30%	49.50%	47.60%
KERALA	45.90%	47.80%	50.70%	NA
MADHYA PRADESH	32.90%	33.00%	35.90%	36.60%
MAHARASHTRA	86.40%	91.40%	99.70%	98.90%
MEGHALAYA	23.60%	25.50%	26.90%	26.00%
NCT OF DELHI	161.70%	151.40%	153.70%	NA
ODISHA	26.30%	28.50%	31.20%	31.40%
PUDUCHERRY	39.50%	41.00%	45.70%	46.50%
PUNJAB	45.90%	46.20%	50.50%	50.70%
RAJASTHAN	37.00%	37.90%	40.30%	41.00%
SIKKIM	13.80%	13.80%	13.50%	NA
TAMIL NADU	55.90%	55.40%	58.20%	56.80%
TELANGANA	58.80%	59.20%	62.60%	64.80%
TRIPURA	21.80%	20.00%	21.10%	NA
UTTAR PRADESH	32.60%	33.10%	36.30%	NA
UTTARAKHAND	25.40%	25.40%	27.40%	28.30%
WEST BENGAL	36.10%	35.00%	35.40%	36.70%

Source: RBI, MOSPI, CareEdge Research

The credit-to-GDP ratio of below mentioned states has shown an increase from FY22 to FY25, however the lower ratio indicates more scope for credit growth, which can be supported by banks and NBFCs.

- **Rajasthan**: From 37% in FY22 to 41% in FY25
- **Madhya Pradesh**: From 32.9% in FY22 to 36.6% in FY25
- **Chhattisgarh**: From 33.6% in FY22 to 39.3% in FY25

This upward trend in other states indicates a growing reliance on credit within these states, reflecting increased financial activity and potential economic growth.

2 Non-Banking Financial Companies (NBFCs)

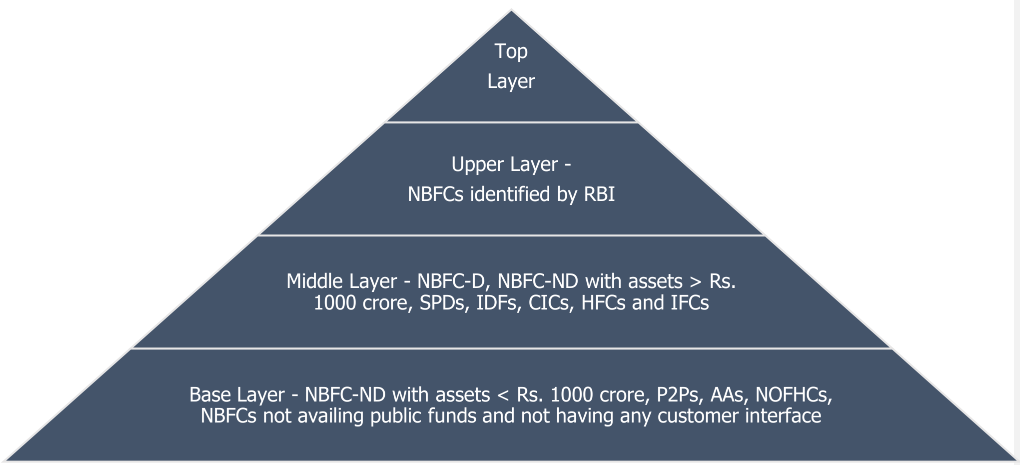
2.1 Introduction to Non-Banking Financial Institutions (NBFI)

Non-banking financial institutions (NBFIs) encompass a heterogeneous group of financial intermediaries. Those under the regulatory purview of the Reserve Bank comprise:

- All-India Financial Institutions (AIFIs) that include the National Bank for Agriculture and Rural Development (NABARD), the Export-Import Bank of India (EXIM Bank), the Small Industries Development Bank of India (SIDBI), and the National Housing Bank (NHB) are apex financial institutions that play an important role in meeting the long-term funding requirements of agriculture and the rural sector, foreign trade, small industries, housing finance companies (HFCs), NBFCs, Micro Finance Institutions (MFIs), and other specialised segments and institutions.
- Non-banking financial companies (NBFCs) are government/public/private limited companies that specialise in delivering credit to a wide variety of specific segments, ranging from infrastructure to consumer durables and vehicle financing. Housing finance companies (HFCs) extend housing finance to individuals, cooperative societies, and corporate bodies and lease commercial and residential premises to support housing activity in the country.

2.2 Classification of NBFCs

According to RBI, NBFCs are classified based on size and risk perception using Scale Based Approach –



Source: RBI, CareEdge Research

Notes: 1. NBFCs-D, CICs, NBFC-IFCs and HFCs will be included in the middle or the upper layer.

2. The remaining NBFCs, viz., NBFC-ICC, NBFC-MFI, NBFC-Factors and NBFC-MGC could lie in any of the layers depending on the parameters of SBR.

3. Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be.

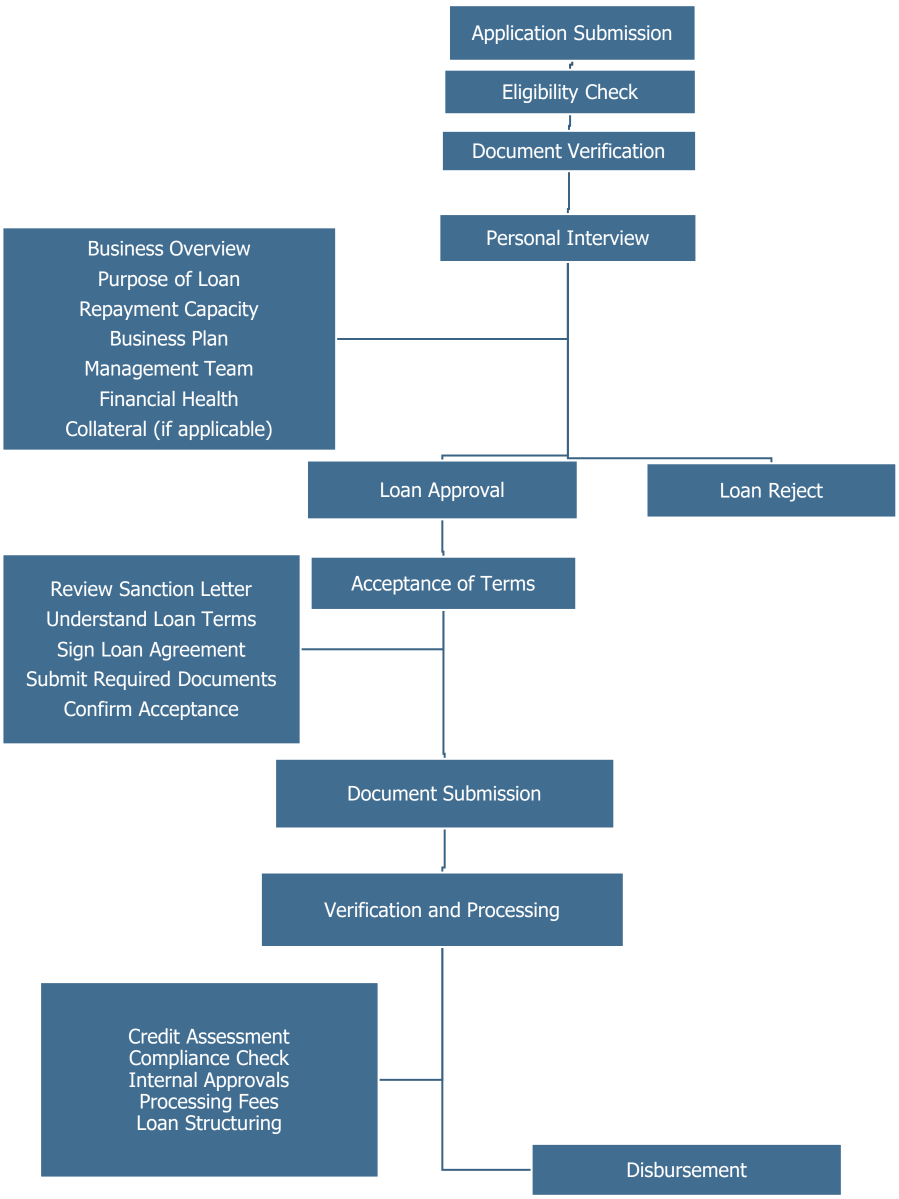
And since NBFCs cater to niche areas, they are also categorised based on the activities they undertake. Till February 21, 2019, NBFCs were divided into 12 categories. Thereafter, these categories were harmonized to provide NBFCs with greater operational flexibility. As a result, asset finance companies (AFCs), loan companies (LCs), and investment companies (ICs) were merged into a new category called Investment and Credit Companies (NBFC-ICC). At present, there are 11 categories of NBFCs based on activity-based classification.

Table 10: Types of NBFCs

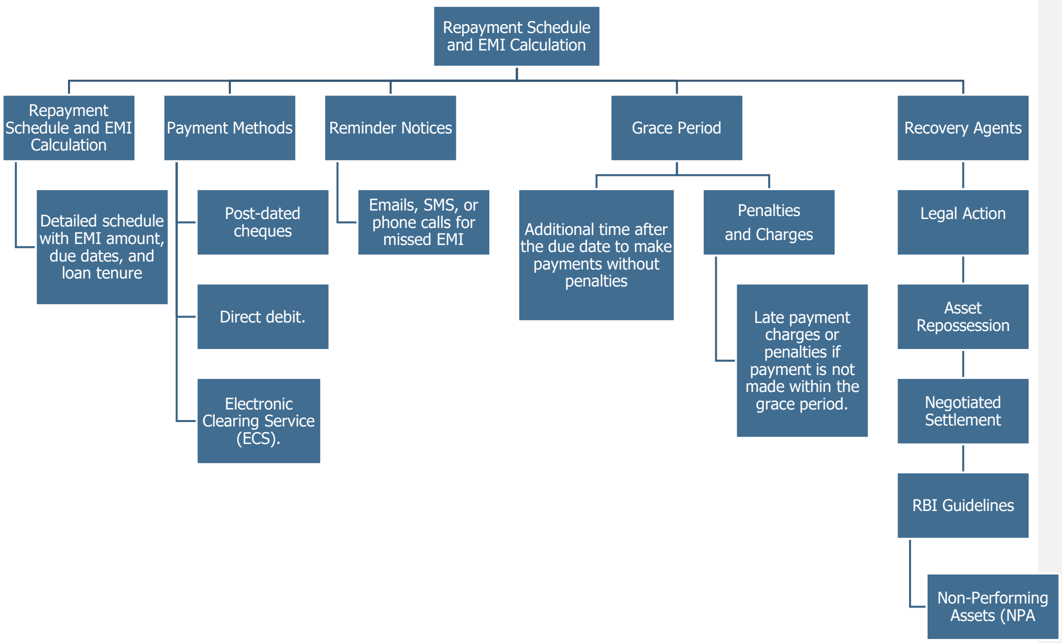
Classification	Activity
Investment and Credit Company (NBFC-ICC)	Lending which supports productive/economic activities and acquisition of securities for investment.
NBFC-Infrastructure Finance Company (NBFC-IFC)	Infrastructure loans.
Core Investment Company (CIC)	Investment in equity shares, preference shares, debt, or loans of group companies.
NBFC-Infrastructure Debt Fund (NBFC-IDF)	Facilitation of flow of long-term debt post commencement operations date (COD) infrastructure projects which have completed at least one year of satisfactory performance and finance toll operate transfer project as the direct lender.
NBFC-Micro Finance Institution (NBFC-MFI)	Providing collateral free small ticket loans to economically disadvantaged groups.
NBFC-Factors	Acquisition of receivables of an assignor or extending loans against the security interest of the receivables at a discount.
NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC)	Facilitation of promoters/ promoter groups in setting up new banks.
Mortgage Guarantee Company (MGC)	Undertaking of mortgage guarantee business.
NBFC-Account Aggregator (NBFCAA)	Collecting and providing information about a customer's financial assets in a consolidated, organised, and retrievable manner to the customer or others as specified by the customer.
NBFC–Peer to Peer Lending Platform (NBFC-P2P)	Providing an online platform to bring lenders and borrowers together to help mobilise funds.
Housing Finance Company (HFC)	Financing for purchase/ construction/ reconstruction/renovation/ repairs of residential dwelling units.

Source: RBI, CareEdge Research

2.3 Loan approval and disbursement process

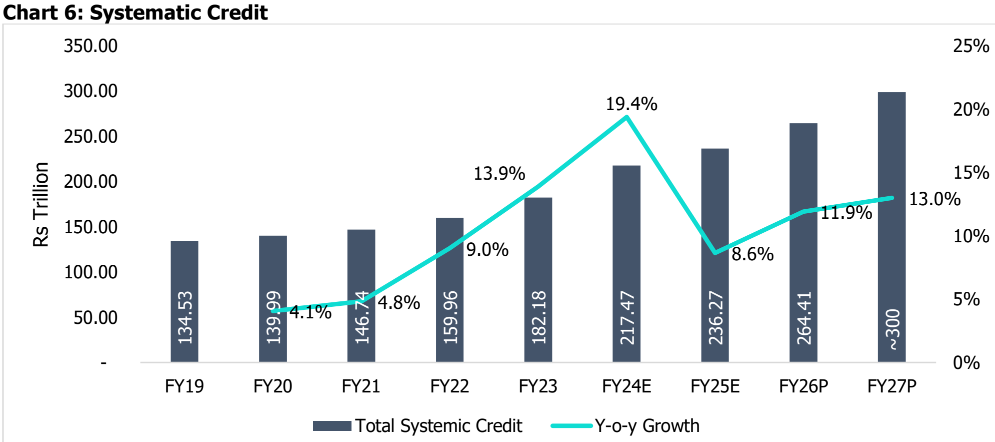


2.4 Loan Collection Process



2.5 Systematic Credit

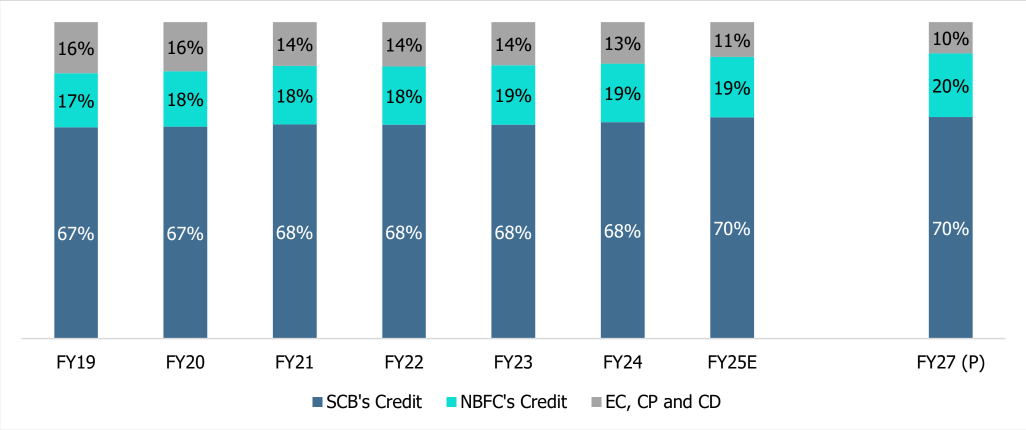
Chart 6: Systematic Credit



Source: RBI, CareEdge Estimates
E – Estimates, P – Projected

The total systemic credit in India has witnessed a steady and broad-based expansion over recent years. From Rs 134.5 trillion in FY19, credit outstanding is expected to have crossed Rs 236 trillion as of FY25. This acceleration is particularly notable between FY22 to FY24, with year-on-year growth rising from 8.1% in FY22 to 13.9% in FY23, and further to 15.6% in FY24. As of FY25, systemic credit is expected to have witnessed y-o-y growth of around 8.6%, the lower growth is attributed to slower growth in credit by banks and NBFCs and negative growth in ECBs. By FY27, systemic credit is projected to reach around to ~Rs 300 trillion, indicating a healthy CAGR of 12%–13% between FY25 - FY27.

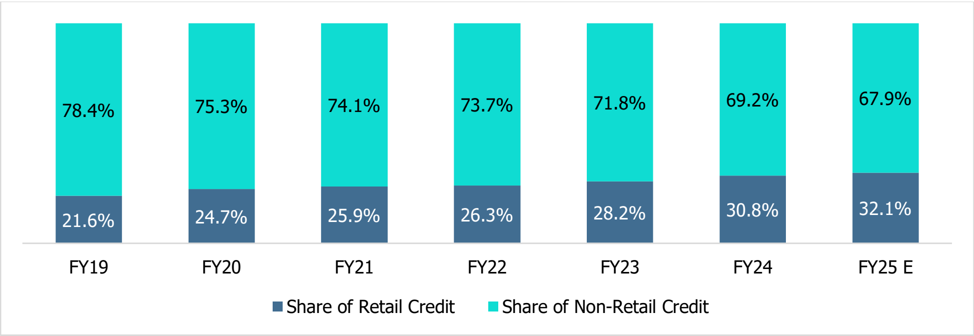
Chart 7: Share of NBFCs in Systematic Credit



Source: RBI, CareEdge Research

The share of NBFCs in systemic credit has steadily increased from 17% in FY19 to 19% in FY24 and is projected to reach 20% by FY27. This trend reflects the growing contribution of NBFCs in the Indian credit landscape, particularly in addressing credit demand in under-served segments such as microfinance, small and medium enterprises and loans to priority sectors. SCBs continue to hold the majority share of systemic credit, maintaining a consistent level of 67–68% between FY19 and FY24, with a slight increase projected to 70% in FY25 through FY27. The proportion of systemic credit contributed by market instruments (EC, CP, and CD) has declined from 16% in FY19 to a projected 10% by FY27.

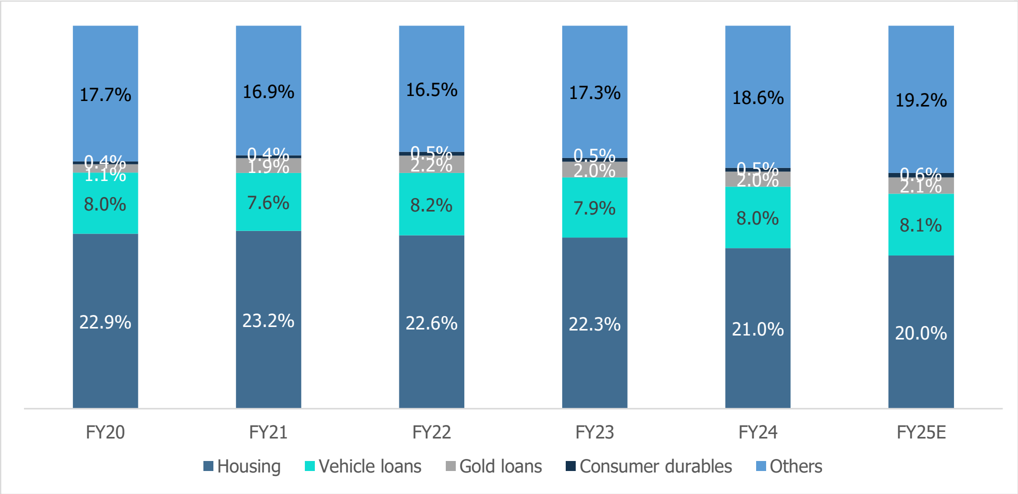
Chart 8: Retail credit as a % of total credit



Source: RBI, CareEdge Research

The share of non-retail credit has declined from 78.4% in FY19 to an estimated 67.9% in FY25. Whereas, the share of retail credit has steadily increased from 21.6% in FY19 to a projected 32.1% in FY25, highlighting a growing focus on the retail segment. This upward trend suggests increased demand for retail credits and lenders are also keen towards these loans since they are low delinquent compared to non-retail loans.

Chart 9: Trend in retail credit mix



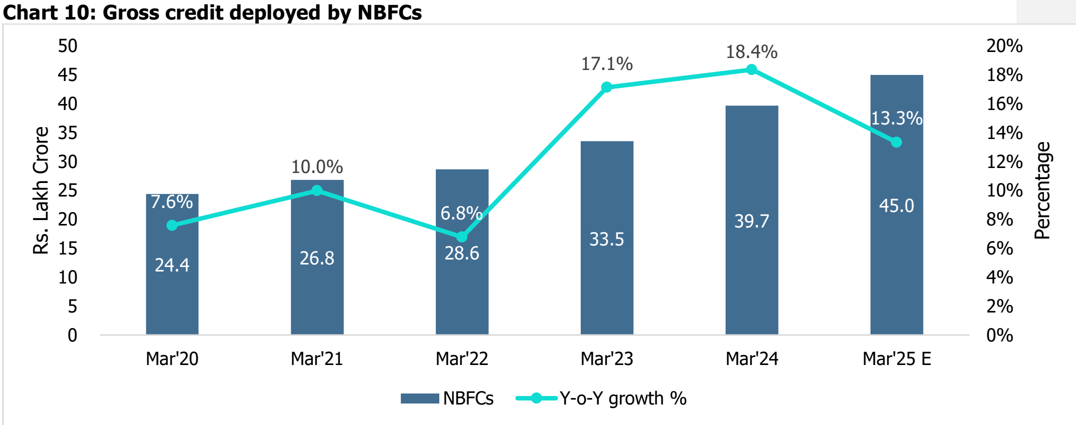
Source: RBI, CareEdge Research

Others include education, credit cards, advances against FD, shares, etc. and other personal loans

Housing loans are estimated to account for 20% of retail credit as of FY25. Followed by Vehicle loans that have remained stable, ranging between 7.6% and 8.2% between FY20-FY25. And gold loans have steadily increased their contribution towards retail credit from 1.1% in FY20 to an estimated 2.1% in FY25.

2.6 Trends in NBFC Credit in India

Chart 10: Gross credit deployed by NBFCs



Source: RBI, CareEdge Research
E – Estimated

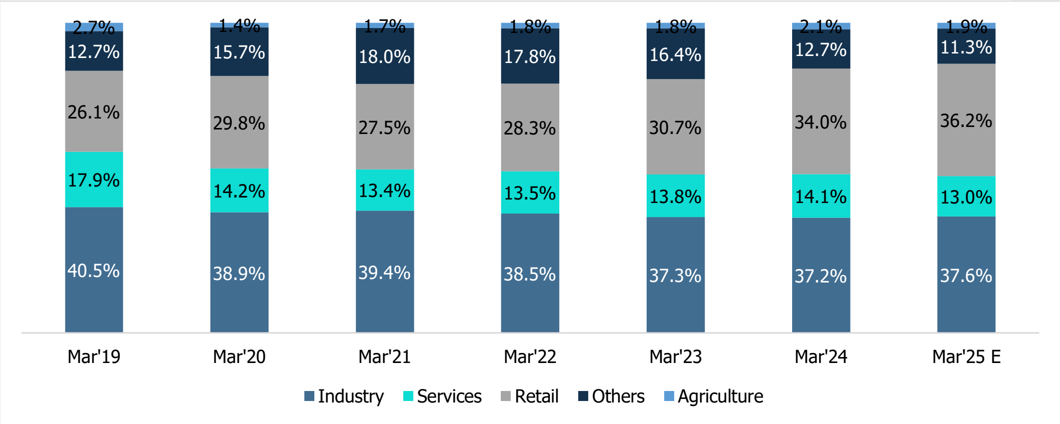
NBFCs have shown a steady growth in their credit portfolio, which has risen from Rs 24.6 trillion in Mar'20 to Rs 40.3 trillion in Mar'24 and is estimated to have reached Rs 45.0 trillion by Mar'25.

In spite of pandemic-induced disruptions, NBFCs showed resilience and sustained credit growth. Nonetheless, the pace of growth eased to 6.9% in Mar'22, probably because of the pandemic's lagged effect, increased liquidity tightness, and increased regulatory vigilance to contain credit risk.

There is a strong rebound seen in Mar'23 with NBFC credit sharply increasing to Rs 34.0 trillion and achieving a strong 17.1% Y-o-Y growth. The upward trend persisted through Mar'24, with credit again accelerating to Rs 40.3 trillion, with an annual growth of 18.4% registering the strongest y-o-y growth in the period under consideration. The consistent increase in gross credit and the robust y-o-y growth rates hint at the evolving role of NBFCs as critical credit providers within the Indian financial ecosystem. As of Mar'25, NBFCs credit portfolio is estimated to have witnessed around 13% y-o-y growth, suggesting a stable yet slightly moderating growth trajectory.

2.7 Sectoral Distribution of NBFCs credit

Chart 11: Sectoral distributions of NBFCs Credit



Source: RBI, CareEdge Research
Note: Industry includes credit to micro, small, medium and large enterprises;
Retail loans are personal loans for housing loans, consumer durables, auto loans, and other personal loans;
Services include credit towards commercial real-estate, retail trade and other such loans
Others include credit deployed towards agriculture and allied activities and other non-food credit
E – Estimated

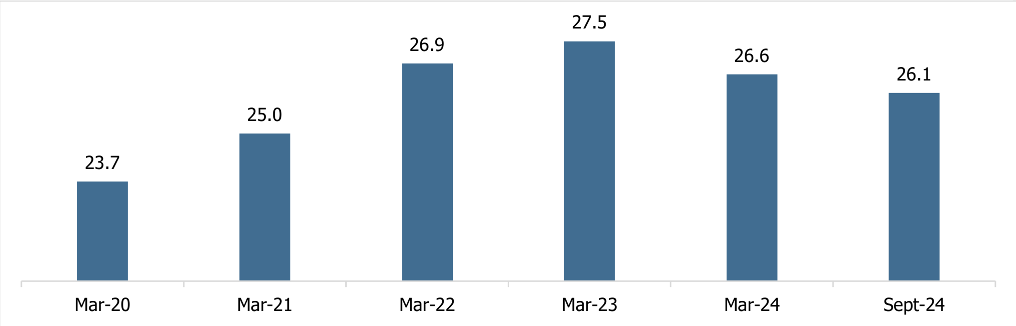
The share of NBFC credit across different sectors from Mar'19 to Mar'24 reveals a notable shift in sectoral distributions. The most significant trend is the gradual decline in credit allocation to the industry sector, which decreased from 40.5% in Mar'19 to 37.2% in Mar'24. While industry continues to hold the largest share of NBFC credit, this downward trend suggests a strategic move by NBFCs to diversify their portfolios and reduce concentration risk in industrial lending. However, it is projected to experience a marginal increase to 37.6% by Mar'25, indicating continued relevance of industrial lending within NBFC portfolios.

Retail loans comprise housing loans, vehicle loans, loans against gold, consumer durables loans, and other such personal loans. The retail sector has witnessed a substantial rise in its share of NBFC credit, increasing from 26.1% in Mar'19 to 34.0% by Mar'24 to an estimated 36.2% in Mar'25. This indicates a clear shift towards consumer-oriented lending.

The services sector, after experiencing a sharp decline from 17.9% in Mar'19 to 13.4% in Mar'21, has shown signs of stabilization, with its share recovering slightly to 14.1% in Mar'24.

2.8 Capital Adequacy Ratio of NBFCs

Chart 12: CRAR of NBFCs



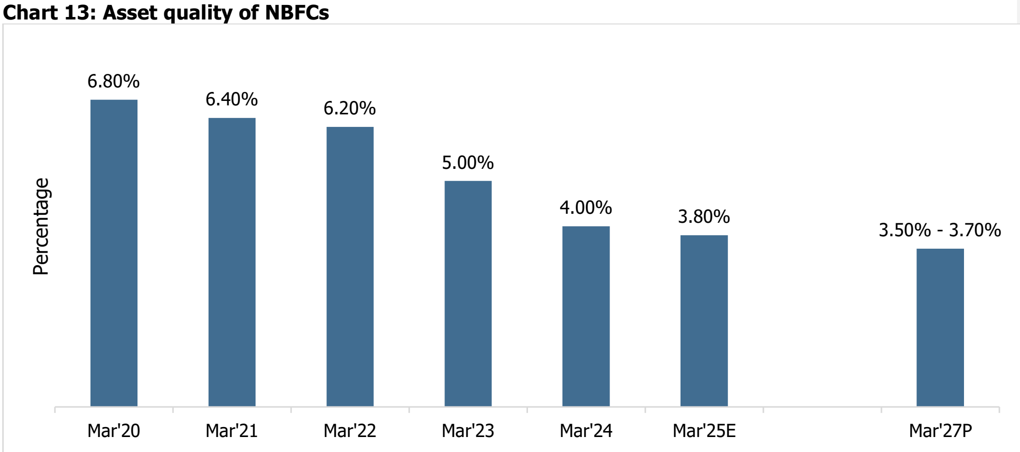
Source: RBI, CareEdge Research

Over the years, NBFCs' CRARs have improved on account of increase in the level of Tier-I capital, retained earnings and moderation in NPA. NBFCs are well capitalized, with their capital to risk-weighted asset ratio (CRAR) well above the stipulated level of 15%. This suggests prudent capital management practices and a conservative approach to risk-weighted asset growth.

As per the RBI data, CRAR was 26.1% as of Sep-24 from an earlier 26.6% as of Mar-24. Despite this marginal decline, the CRAR remains significantly above the regulatory minimum requirement, indicating that the NBFC sector continues to maintain a robust capital position.

2.9 Asset quality of NBFCs

Chart 13: Asset quality of NBFCs



Source: RBI, CareEdge Research

This reflects a positive trajectory in terms of asset quality improvement within the sector over the observed period. GNPA levels decreased from 6.8% in Mar'20 to 4.0% by Mar'24 and further projected to decrease to 3.8% in Mar'25, indicating a significant enhancement in the credit quality and risk management practices of NBFCs.

The asset quality of NBFCs has seen continued improvement in the post-Covid era, supported by strong balance sheets, an increase in provisions and improved collection efficiency. Additionally, restructuring of their loan book and non-performing assets (NPA) write-offs have also aided the improvement in the asset quality of NBFCs. As of Sept-24, the GNPA ratio of NBFCs improved to 3.4% from the earlier 6.3% in Mar-20.

NBFC sector's progress in strengthening its credit appraisal frameworks, enhancing borrower assessment, and aligning with regulatory expectations. This improvement not only boosts investor and lender confidence but also positions NBFCs as stronger and more stable pillars of India's credit ecosystem.

2.10 Key Growth Drivers

Last Mile Financing and Unbanked Population

NBFCs have a strong presence in the unorganized and under-served areas where banks may not have a strong foothold. This is attributed to the lack of necessary bank infrastructure in these areas and an aversion on the part of banks to disburse loans to smaller companies. Further, the ease of internet access and affordable data packs have contributed to increased spending and demand for retail credit from these areas alongside raising the potential consumer base of NBFCs.

Growing Focus on Informal Customer Base

Traditional banks may not be very keen on lending to retail borrowers from semi-urban and rural areas or small companies with weaker credit scores and lack of documentation, as compared to larger borrowers. However, in terms of volume, the number of potential customers in this category is higher and NBFCs have created a niche segment by having customized credit assessment methods based on cash flow assessment and field verification. This gives NBFCs an opportunity to extend credit to the financially weaker set of customers, a growing customer base in the informal customer segment, further opening up avenues for NBFCs' growth.

Technological Adoption and Co-Lending Arrangements

NBFCs deploy technological solutions to develop innovative products and lower operational costs. Since NBFCs are fairly new in the financial landscape in comparison to most banks, they are more agile and better positioned to leverage technology to enhance their reach while increasing efficiency.

Additionally, NBFCs partner with various alternative financiers and commercial banks, enabling them to diversify their income avenues and reach their targeted customer base through different channels. Accordingly, bank collaborations with other NBFCs help make credit accessible to the under-banked and un-banked population.

Shifting Buying Behavior

Over the years, there have been significant changes in the perception of consumers toward borrowing. With the need to improve lifestyle, there is an increasing inclination toward borrowing to attain a certain standard of living people. This is prominent among the younger population. Accordingly, banks and NBFCs have seen significant traction in demand for personal loans over the last decade, indicating increased awareness about credit and shift in perception towards borrowing.

Rising Demand from Retail Customers

Retail loans are expected to have accounted for around 33% of total credit disbursed by NBFCs as of Mar-24, according to the data published by the RBI. The retail segment has shown consistent growth in credit demand throughout the pandemic alongside being a significant chunk of the customer base of NBFCs. Going forward, CareEdge Research believes that the demand for consumer durables, consumption of services, home loans and gold loans are likely to support the growth in retail demand and, consequently, aid in the new business of NBFCs.

2.11 Outlook

CareEdge Research estimates NBFCs credit to have grown between 14%-17% y-o-y in FY25. This growth is expected to have been driven by continued demand for retail loans, particularly vehicle loans, home loans, credit towards MSMEs, and microfinance loans.

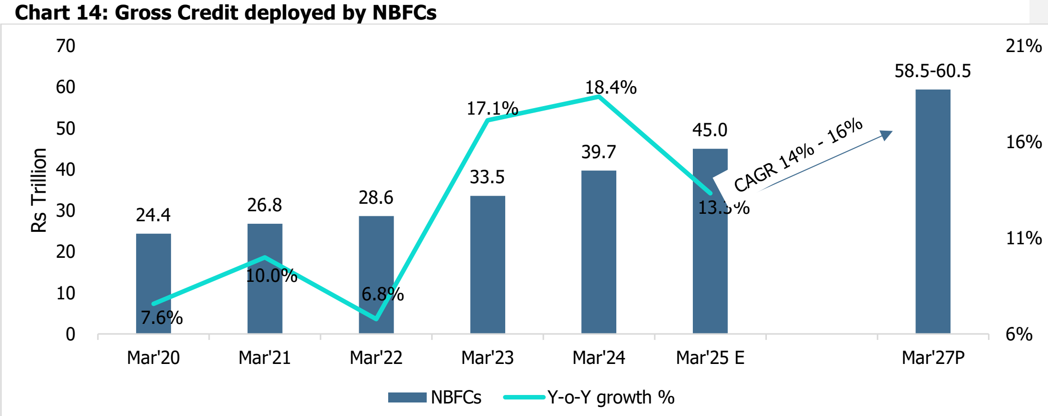
In the near term, while NBFCs can draw comfort from strong balance sheet, improved provisioning and asset quality in the coming year. FY25 is likely to bode-well for NBFCs as credit off-take is expected to remain healthy owing to strong public capex as well as anticipated revival of private expenditure, on-set of festive season and robust demand from retail and MSME segments.

As per the guidelines, the consumer credit exposure of NBFCs (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold and microfinance/SHG loans will attract risk weight of 125% from an earlier 100%. While NBFCs are well capitalized, the risk weights are also applicable to banks and this can impact NBFCs. As NBFCs rely on banks for funds and borrowing from banks will become costly with banks charging high interest rate to meet the rise in risk weights.

2.12 NBFC credit to grow at 14% - 17%

2.12.1 NBFC gross credit to grow

Chart 14: Gross Credit deployed by NBFCs

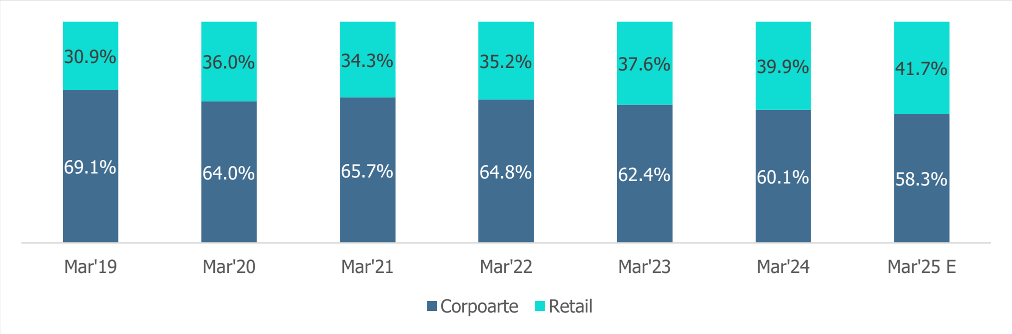


Source: RBI, CareEdge Estimates
E – Estimated, P – Projection

From Rs 24.4 trillion in Mar'20, NBFCs' credit grew to Rs 39.7 trillion in Mar'24, The growth has been particularly robust in the post-pandemic years, with NBFC credit rising by 17.1% in Mar'23 and 18.4% in Mar'24, driven by revival in economy. For Mar'25, credit is estimated to have reached Rs 45 trillion, marking a projected y-o-y growth of 13.3%. NBFC credit is expected to grow further to Rs 58.5-60.5 trillion by Mar’28, implying a strong CAGR of 14%–16% from Mar’25 to Mar’28.

2.12.2 Increasing share of NBFCs credit in retail segment

Chart 15: Share of NBFCs in Corporate and Retail loan



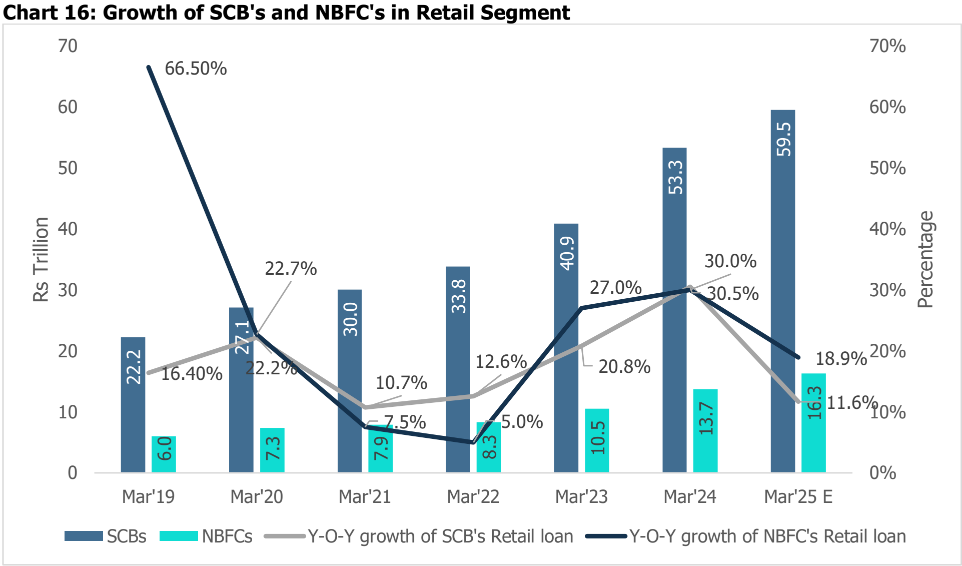
Source: RBI, CareEdge Research
E - Estimated

Over the years, the share of NBFC gross credit in retail loans increased from 30.9% in Mar’19 and is estimated to rise to 41.7% by Mar’25. Whereas the share of corporate loans has declined from 69.1% in FY19 to an estimated 58.3% in FY25.

The shift is also validated by the strong year-on-year growth in retail credit. After a sharp surge of 66.5% in FY19, retail credit growth moderated to 22.7% in FY20, followed by a period of subdued expansion during the pandemic. However, it rebounded strongly with double-digit growth rates of 31.1% in FY24 and is expected to grow at 18.9% in FY25. This positive growth reflects rising demand for personal loans, housing finance, vehicle loans, and other consumer credit products.

2.12.3 Growth in the Retail Credit and Corporate Credit of Banks and NBFC's

Chart 16: Growth of SCB's and NBFC's in Retail Segment



Source – RBI, CareEdge Research
E – Estimates

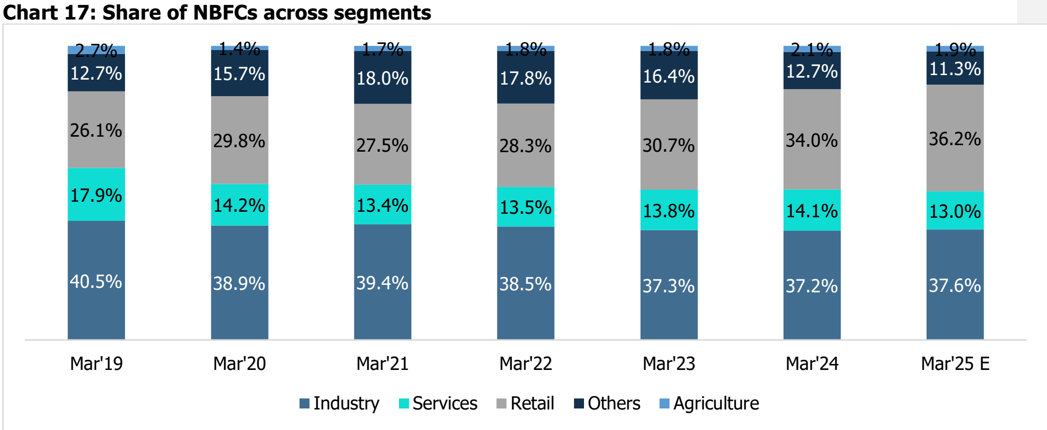
Notably, while the absolute size of SCBs' retail loan book remains significantly larger than that of NBFCs. The retail loan segment has emerged as a key growth driver for both SCBs and NBFCs, underpinned by rising consumer demand, digital lending innovations, and enhanced financial penetration across India.

SCBs have demonstrated a steady and robust expansion in their retail loan book, growing from Rs 22.2 trillion in Mar'19 to Rs 53.3 trillion in Mar'24, and is estimated to reach Rs 59.5 trillion by Mar'25. This consistent growth trajectory peaking at 30.5% in Mar'24 has been supported by a combination of factors including their strong branch networks, access to low-cost deposits, improved underwriting capabilities, and digital transformation initiatives.

NBFCs, on the other hand, have seen a more dynamic but also more volatile growth pattern. NBFCs' retail loan portfolio has grown from Rs 6.0 trillion in Mar'19 to Rs 13.7 trillion in Mar'24 and is estimared to cross to Rs 16 trillion by Mar'25.

2.12.4 Share of NBFCs across segments

Chart 17: Share of NBFCs across segments



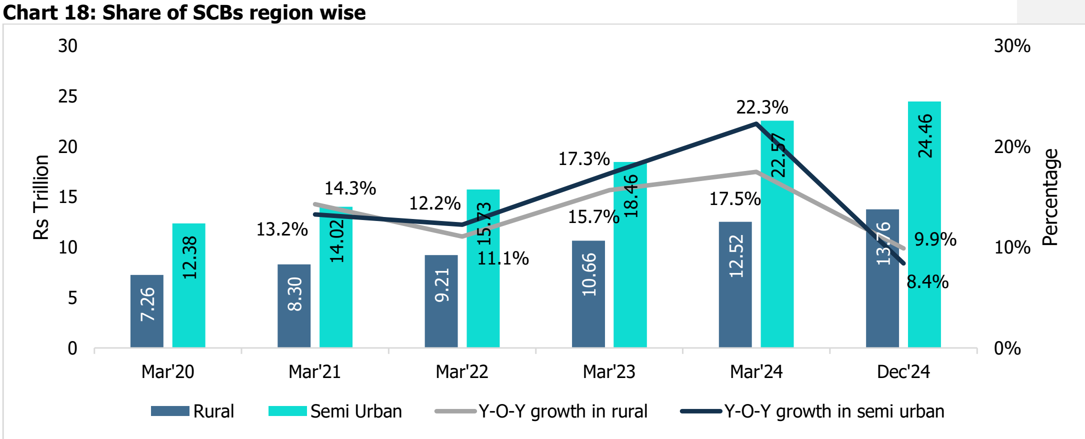
Source – RBI, CareEdge Research.

The shifting dynamics in the credit portfolio of NBFCs between Mar'20 - Mar'25. NBFCs witnessed significant growth, particularly in the retail loans segment, which has increased its market share from 29.8% in Mar'20 to an expected 36.4% in Mar'25. NBFCs are more agile in reaching under-served or rural segments of the population. While banks tend to focus on larger, more creditworthy customers, NBFCs usually cater to small and medium-sized borrowers or those with limited credit history. This growth highlights the increasing reliance on consumer financing as a key growth driver of credit expansion.

As NBFCs strategically shift their focus from the industrial sector to the retail segment, they are capitalizing on the robust demand for consumer loans. This transition not only enhances their market presence but also presents opportunities for diversification within their portfolios. By prioritizing retail financing, NBFCs can support overall credit growth and better position themselves in a rapidly evolving market, ultimately shaping the future landscape of the NBFC sector.

2.12.5 Rural and Semi-Urban Growth

Chart 18: Share of SCBs region wise



Source: RBI, CareEdge Research

From Mar'20 to Dec'24, the rural sector witnessed a rise in SCB credit from Rs 7.26 trillion to Rs 13.76 trillion, reflecting an increase as financial inclusion initiatives, digital banking outreach, and targeted credit delivery mechanisms gained traction in India. In parallel, the semi-urban regions observed an even steeper ascent—from Rs 12.38 trillion in Mar'20 to Rs 24.46 trillion by Dec'24, due to the rapid growth of banking infrastructure and customer engagement in these transitioning markets.

Rural areas experienced Y-o-Y growth of 14.3% in Mar'21, moderating slightly to 11.1% in Mar'22, and then accelerating again to 15.7% and 17.5% in Mar'23 and Mar'24 respectively. Although the growth rate in Dec'24 is marginally lower at 9.9%. In contrast, semi-urban regions demonstrated stronger Y-o-Y growth consistently, 13.2% in Mar'21, followed by 12.2% in Mar'22, then surging to 17.3% and peaking at 22.3% in Mar'24. The growth rate slowed to 8.4% by Dec'24, reflecting a possible base effect or early signs of maturity in these markets.

Table 11: State wise rural credit outstanding of SCBs (Rs. in Million)

State	2021	2022	2023	2024	3-year CAGR
BIHAR	4,44,884.7	5,30,526.1	6,15,576.1	6,94,926.2	16%
GUJARAT	4,37,134.0	4,99,876.9	6,90,109.6	6,76,626.5	16%
TAMIL NADU	11,60,014.9	12,62,732.9	14,73,772.3	17,77,505.7	15%
TELANGANA	5,18,026.8	5,69,612.2	6,69,165.3	7,92,125.2	15%
HARYANA	3,27,041.7	3,59,392.0	4,47,045.5	4,73,713.7	13%
WEST BENGAL	6,34,315.0	7,19,749.4	7,76,126.5	9,14,696.8	13%
KERALA	1,50,810.9	1,62,486.4	1,82,812.9	2,14,329.9	12%
UTTAR PRADESH	12,93,502.0	14,01,604.8	15,89,869.2	18,37,848.9	12%
MAHARASHTRA	6,30,807.2	6,94,877.6	8,09,102.7	8,88,784.5	12%
MADHYA PRADESH	4,33,002.8	4,84,955.9	5,37,917.7	6,04,213.6	12%
ASSAM	2,30,934.7	2,52,002.8	2,62,515.0	3,20,501.5	12%
RAJASTHAN	6,68,404.4	7,35,651.5	8,20,202.5	9,25,778.5	11%

Source: RBI, CareEdge Research

Table 12: State wise Semi-Urban outstanding of SCBs (Rs. in Million)

State	2021	2022	2023	2024	3-year CAGR
HARYANA	4,66,972.1	5,46,060.6	6,55,246.4	7,92,862.9	19%
GUJARAT	7,71,125.2	8,95,495.2	10,14,097.5	13,02,474.7	19%
ODISHA	3,68,948.5	4,31,601.1	4,94,788.9	6,07,896.8	18%
RAJASTHAN	8,56,198.8	9,99,645.2	11,82,409.3	14,01,563.3	18%
MADHYA PRADESH	6,83,337.7	7,83,564.0	9,16,461.9	11,01,853.1	17%
JHARKHAND	1,59,815.0	1,81,180.3	2,10,786.3	2,54,996.1	17%
WEST BENGAL	3,84,260.1	4,20,867.4	4,95,870.9	6,03,541.6	16%
ASSAM	2,52,629.1	2,81,258.3	3,44,746.0	3,93,102.3	16%
PUNJAB	7,04,043.9	7,67,775.9	8,77,709.5	10,92,277.8	16%
KARNATAKA	9,23,499.3	10,31,439.8	11,79,547.6	14,28,541.5	16%
TAMIL NADU	24,24,140.0	26,78,561.7	30,94,648.1	37,44,874.6	16%

Source: RBI, CareEdge Research

Note: As per RBI, based on the size of the population (census 2011), a centre, where bank branch is located, is classified either into rural, semi-urban, urban, or metropolitan as under:

Rural	Population less than 10,000
Semi-Urban	Population above 10,000 but less than 1,00,000
Urban	Population above 1,00,000 but less than 10,00,000
Metropolitan	Population greater than 10,00,000

Source: RBI, CareEdge Research

3 MSME Finance

3.1 Introduction to MSMEs

The micro, small and medium enterprises ("**MSME**") sector is a vibrant and dynamic sector with crucial linkages to employment. The MSME sector is considered the growth engine of the Indian economy, with significant contribution to the GDP, exports and employment generation. The sector contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and the sector therefore contributes significantly in the inclusive industrial development of the country.

MSMEs are widening their domain across sectors of the economy, producing a diverse range of products and services to meet demands of domestic as well as global markets.

In accordance with the provision of Micro, Small & Medium Enterprises Development ("**MSMED**") Act, 2006 MSMEs are classified as follows:

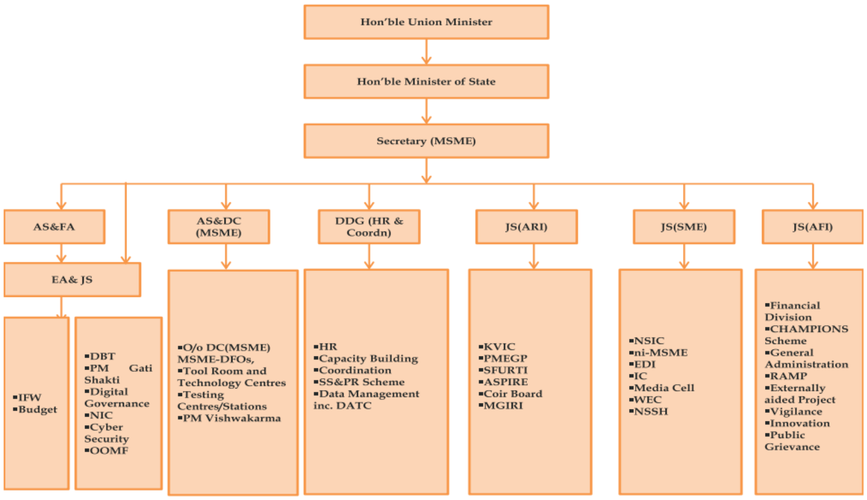
Enterprise Category	Investment in Plant & Machinery or Equipment	Annual Turnover
Micro Enterprises	Does not exceed 1 crore	Does not exceed Rs. 5 crores
Small Enterprises	More than Rs. 1 crore but does not exceed Rs. 10 crores	More than Rs. 5 crores but does not exceed Rs. 50 crores
Medium Enterprises	More than Rs. 10 crores but does not exceed Rs. 50 crores	More than Rs. 50 crores but does not exceed Rs. 250 crores

In the Union Budget 2025-26, government has revised the classification, to help MSMEs scale operations and access better resources, the investment and turnover limits for classification have been increased by **2.5 times and 2 times**, respectively.

Rs. In Crore	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprise	1	2.5	5	10
Small Enterprise	10	25	10	100
Medium Enterprise	50	125	250	500

Organizational Structure of MSMEs

The Ministry of MSME consists of Small & Medium Enterprises (SME) Division, Agro & Rural Industry (ARI) Division, Administration & Financial Institutions (AFI) Division, Integrated Finance Wing (IFW) and Data Analytics and Technical Coordination (DATC) Wing, besides the Office of the Development Commissioner (DC, MSME) as an attached office and other subordinate organizations. The organisational structure of the Ministry is depicted below:



Source: MSME Annual report 2024-25

Estimated Number of MSMEs (Activity Wise)

Activity Category	Estimated Number of Enterprises (in million)			Share (%)
	Rural	Urban	Total	
Manufacturing	11.4	8.3	19.7	31
Electricity*	0.00	0.00	0.00	0
Trade	10.9	12.2	23.1	36
Other Services	10.2	10.5	20.7	33
All	32.5	30.9	63.4	100

Source: MSME Annual Report 2023-24, CareEdge Research

Note: *Non-captive electricity generation and transmission

3.2 Number of MSMEs registered in Udyam portal in India

Category	Number of MSMEs	%
Micro	6,37,39,870	99.2
Small	4,74,134	0.7
Medium	35,427	0.1
Total	6,42,49,431	100.0

Source: Udyam portal (includes Udyam assist platform (UAP) registrations), Data as of 30th May 2025

As per the Udyam portal, more than 6.4 crore MSMEs are registered under Udyam portal, of which around 99.2% enterprises are micro category and around 0.7% of the enterprises fall under small category and the remaining are medium enterprises.

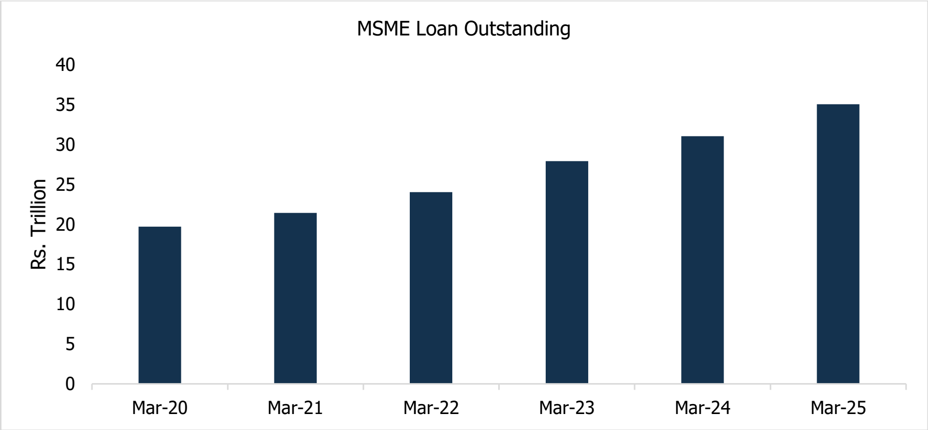
3.3 State-wise Distribution of estimated MSMEs

State/UT	December'24
Uttar Pradesh	10.67%
West Bengal	7.20%
Tamil Nadu	8.18%
Maharashtra	13.07%
Karnataka	6.62%
Bihar	5.47%
Andhra Pradesh	4.86%
Gujarat	5.78%
Rajasthan	5.69%
Madhya Pradesh	6.40%
Telangana	3.84%

Source: MSME Annual Report 2024-25, CareEdge Research

3.4 Credit growth in MSME lending

- ***Commercial credit outstanding across all MSMEs stood at Rs. 35 Trillion as on March-25 and increased at a CAGR of 12% over the last 5 years***



Source: CareEdge Research Estimates

Commercial credit to MSMEs in India grew at a steady pace of 12% CAGR in the 5-year period from Mar'20 to Mar'25. The first 2 years of this period overlapped with the Covid 19 crisis and moderated the overall growth rates. The period from Sep-21 to Sep-23 witnessed higher CAGR of 13% indicating that the financial institutions started addressing the pent-up demand.

- ***Number of MSME borrowers has also increased at a rate similar to loan portfolio growth of 11% CAGR over the Sep-21 to Sep-23 period***

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Table 13: Number of MSME Borrowers

(Figures in Million)

	Sep-19	Sep-20	Sep-21	Sep-22	Sep-23
Number of MSME Borrower	5.2	5.7	6.7	7.3	8.0

Source: MSME Pulse Report, CareEdge Research

Number of MSME borrowers has increased steadily but is still much less than the total number of MSMEs in India. This indicates that while the financial sector is improving its outreach to the MSMEs, there is still a very large segment of the market that remains underserved. As on Sep-23 there are 8 million MSMEs that have a loan outstanding from formal lenders. There are 25 million MSMEs who have ever received a loan from formal lenders. The number of MSMEs is expected to grow to 75 million over the next few years and clearly highlights the gap in funding demand and supply. This means there is a gap of 50 million, presenting a significant opportunity for NBFCs specializing in MSME lending to capture this market.

- ***MSME credit to the Industrial sector got a boost in FY21 and FY22 with government support post Covid.***

India witnessed a sharp jump in MSME lending to the Industrial sector in FY21 as well as FY22, and this increase has been supported by Atmanirbhar Bharat scheme of Emergency Credit Line Guarantee Scheme (ECLGS) which provided 100% credit guarantee to lenders. The scheme that was announced by the Government in May 2020 helped the firms to get access to more credit.

Table 14: SCBs and NBFCs credit exposure to MSMEs in Industrial Sector

(Figures in Rs. Billion)

Outstanding as on	NBFCs			SCBs		
	Micro and Small Enterprise	Medium Enterprise	Total	Micro and Small Enterprise	Medium Enterprise	Total
Mar-19	373.6	160.2	533.8	3,755.1	1,063.9	4,819.0
Mar-20	364.4	140.8	505.2	3,922.7	1,051.0	4,973.6
Mar-21	442.4	149.1	591.5	4,331.9	1,386.0	5,717.9
Mar-22	469.7	171.9	641.5	5,321.8	2,140.0	7,461.8
Mar-23	716.4	200.7	917.1	5,983.9	2,560.2	8,544.1
Mar-24	1,006.3	209.6	1,215.8	7,263.2	3,040.0	10,303.1
Mar-25*	NA	NA	1,630 – 1,650	7,917.2	3,604.7	11,521.9

Source: RBI, CareEdge Research

Note: The credit exposure for MSMEs is NBFCs and SCBs credit exposure to `Micro & Small' and `Medium' enterprises under 'Industrial Sector' only.

* Indicates NBFCs aggregate exposure to MSMEs is estimated.

NBFCs mainly deploy credit to MSMEs belonging to the services and agricultural sectors. In comparison, bank credit to MSMEs witnessed an improvement in FY21 and strengthened further in the FY22 on account of a resurgence in demand from MSMEs as well as support from the Central Government by way of credit guarantee. The ECLGS scheme launched in May 2020 after the pandemic hit the country in March 2020 revived credit offtake by MSMEs. The scheme was introduced to help mitigate the economic distress faced by MSMEs by providing them additional funding in the form of a fully guaranteed emergency credit line.

The credit extended towards MSME has increased significantly as during the pandemic, the Government encouraged banks to extend credit to MSMEs and aid them to buffer the effects of the pandemic. And as micro and small enterprises were more vulnerable, the credit towards them during the pandemic increased significantly during the FY21. On the other hand, medium enterprises were able to buffer the effects of pandemic to a certain extent. Although the credit towards medium enterprises increased over the previous financial year, the growth was moderate compared to growth in credit extended to micro and small enterprises. This has continued to result in the growth of credit to MSMEs significantly in FY22. Moreover, the extension of ECLGS up to March 2023, with the guarantee cover raised by Rs 50,000 crores to a total of 5 trillion has also contributed in the credit growth of MSME's. As of Mar'24, the total bank credit outstanding to MSMEs crossed Rs. 10 trillion and the same has crossed Rs. 11.5 trillion as of Mar'25.

- ***Quarterly disbursements picked up strongly during Dec'21 quarter and the momentum continued over the next year till FY23. FY24 (starting from Jun'23 quarter) showed signs of slowdown***

Table 15: Quarterly Disbursement Trends

Quarter Ended	Quarterly Disbursement (Rs. 000 Crore)	YoY Growth
Sep-19	146	
Dec-19	150	
Mar-20	145	
Jun-20	123	
Sep-20	185	27%
Dec-20	162	8%
Mar-21	188	30%
Jun-21	107	-13%
Sep-21	189	2%
Dec-21	230	42%
Mar-22	247	31%
Jun-22	200	87%
Sep-22	244	29%
Dec-22	251	9%
Mar-23	289	17%
Jun-23	222	11%
Sep-23	243	0%

Source: MSME Pulse Report, CareEdge Research

The average quarterly disbursements for FY21, FY22 and FY23 stood at Rs. 1.65 Trillion, Rs. 1.93 trillion and Rs. 2.46 Trillion, respectively, showing an increasing trend. YoY Growth in disbursements in H1 FY24 showed some moderation.

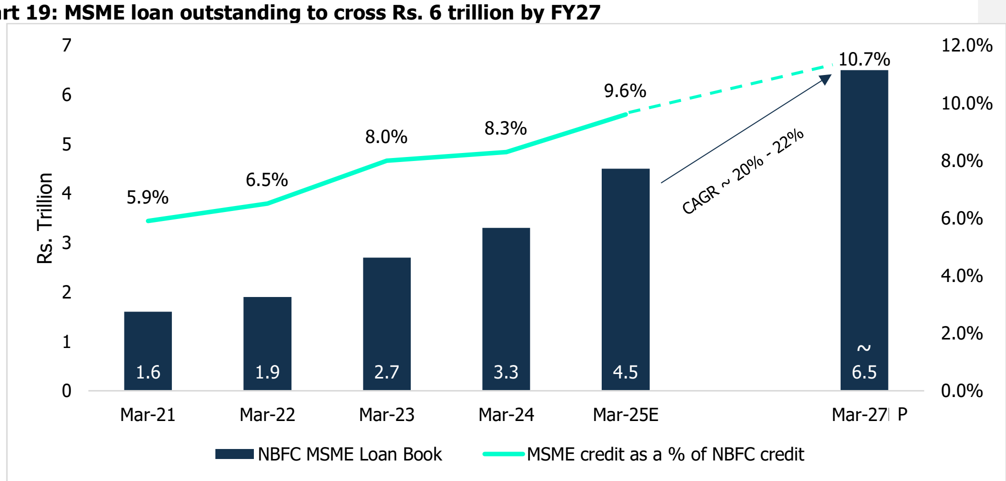
There is some cyclicality in the disbursements with March ending quarters being 11% more than the average quarterly disbursements and June ending quarters being 17% less than the average.

India witnessed a sharp jump in MSME lending in FY21 and this increase has been supported by Atmanirbhar Bharat scheme of Emergency Credit Line Guarantee Scheme (ECLGS) which provided 100% credit guarantee to lenders. The scheme that was announced by the Government in May 2020 helped the firms to get access to more credit.

The growth trajectory of NBFCs focused on MSME lending, has been remarkable, with a reported CAGR of 27% for FY21 to FY24, even amid the challenging years of the COVID-19 pandemic. This growth can be attributed to various factors, including their focus on an underserved market segment, government support, regulatory reforms, and advancements in the ecosystem such as Udyam registration. Additionally, their adeptness in utilising technology-driven data collection and underwriting processes has enhanced their ability to reach out to underserved MSMEs. CareEdge Research expects NBFC MSME AUM to grow at a CAGR of approx. 20% to 22% and cross Rs. 6 trillion mark by end of FY27.

Also, the ECLGS scheme launched in May '20 after the pandemic in Mar '20 revived credit offtake by MSMEs. The scheme was introduced to help mitigate the economic distress faced by MSMEs by providing them additional funding in the form of a fully guaranteed emergency credit line. Accordingly, the credit extended toward MSMEs increased significantly during the pandemic, since the government encouraged banks to aid MSMEs to buffer the effects of the pandemic.

Chart 19: MSME loan outstanding to cross Rs. 6 trillion by FY27



Source: RBI, CareEdge Research

Note: The credit exposure for MSMEs is NBFCs exposure to `Micro & Small' and `Medium' enterprises under 'Industrial Sector' and 'Service Sector'.

E indicates Estimated; P indicates Projected

NBFCs mainly deploy credit to MSMEs belonging to the services and agricultural sectors. In comparison, bank credit to MSMEs witnessed consistent growth. Bank credit deployed to MSMEs witnessed an improvement in FY23 and is expected to strengthen further in FY24 due to the resurgence in demand from MSMEs and the support from the Central Government in terms of credit guarantee. NBFCs have reported approximately 31% CAGR growth in the last three fiscals.

- ***Share of Micro, Small and Medium segments remained stable over time. Highest sub-segment is Small, followed by Medium and Micro***

Table 16: Distribution of MSME commercial credit outstanding by NBFCs and SCBs across segments

Category*	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25E
Micro and Small	78%	75%	70%	71%	72%	71%
Medium	22%	25%	30%	29%	28%	29%

Source: MSME Pulse Report, CareEdge Research *Micro: Exposure upto Rs 1 crore; Small: Exposure between Rs. 1 crore to Rs. 10 crore; Medium: Exposure between Rs. 10 crore to Rs. 50 crore

Small and medium category has the highest % of the credit outstanding to MSME sector ranging between 70-78%, where over the years a declining trend is observed, whereas Medium segment, is ranging between 22-30% and has remained range bound in past 3 years.

This contrasts with 99.2% of the Udyam registered MSMEs being the Micro category followed by 0.7% in Small category and then by 0.1% in Medium category.

- ***Disbursement share is also similar to the share of credit outstanding over 4-year period of Sep-19 to Sep-23 with highest contribution from Small category. However, the share from small category has declined from 26% in Mar'23 to 23% in Mar'25.***

Table 17: Distribution of MSME commercial credit disbursement across segments

Category*	Micro	Small	Medium
Mar-20	25%	40%	35%
Jun-20	24%	43%	33%
Sep-20	22%	40%	38%
Dec-20	23%	40%	37%
Mar-21	23%	40%	37%
Jun-21	19%	40%	41%
Sep-21	21%	41%	38%
Dec-21	21%	40%	39%
Sep-21	22%	40%	38%
Jun-22	23%	41%	36%
Sep-22	24%	40%	36%
Dec-22	25%	40%	35%
Mar-23	26%	41%	34%
Jun-23	25%	43%	33%
Sep-23	26%	42%	33%
Mar-25	23%	43%	34%

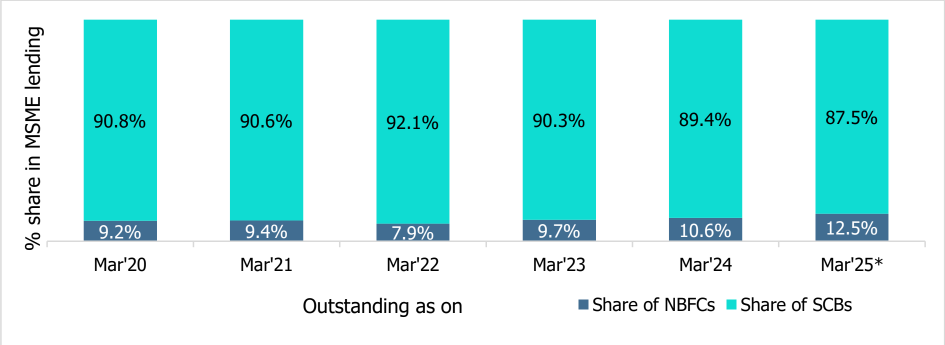
Source: MSME Pulse, CareEdge Research *Micro: Exposure upto Rs 1 crore; Small: Exposure between Rs. 1 crore to Rs. 10 crore; Medium: Exposure between Rs. 10 crore to Rs. 50 crore

Since Jun'21 the share of micro category in disbursements had steadily increased from 19% (Jun'21) to 26% (Sep'23) as it is regaining its lost share. This category's share had fallen from 25% to 19% between Sep-19 to Jun-21 and was most affected by the Covid related stress.

3.5 Share of Banks & Non-Banks in MSME lending

- ***NBFCs share of MSME lending has been increasing over the past few years***

Chart 20: Share of banks & NBFCs in MSME lending



Source: RBI, CareEdge Research estimates
Note: * Indicates NBFCs aggregate exposure to MSMEs is estimated.
The credit exposure for MSMEs is NBFCs and SCBs credit exposure to `Micro & Small' and `Medium' enterprises under 'Industrial Sector' only.

The MSME sector is underpenetrated and there is a huge unmet credit demand in the sector, primarily due to lack of documentation and credit history required to access to financing from formal banking channels. There is also a significant gap between the original credit requirement and the actual credit exposure of formal channels to MSMEs, which provides a huge opportunity in MSME lending. As of March'25, the proportion of NBFCs share is expected to increased to 12.5% compared to previous years 10.6%.

NBFCs share in disbursements is increasing steadily in different MSME categories

Table 18: % Share of NBFCs in MSME Quarterly Origination across categories

Category*	Sep-20	Mar-21	Sep-21	Mar-22	Sep-22	Mar-23	Sep-23
Micro	12	28	26	28	28	28	26
Small	8	16	14	17	17	22	20
Medium	8	15	14	14	14	16	16

Source: MSME Pulse Report, CareEdge Research *Micro: Exposure upto Rs 1 crore; Small: Exposure between Rs. 1 crore to Rs. 10 crore; Medium: Exposure between Rs. 10 crore to Rs. 50 crore

NBFCs share of MSME lending is gradually increasing post Covid. NBFC's are having a high share in Micro segment as they have the capabilities of reaching out to the rural and semi-urban areas as well as the ability to service less formalized micro enterprises.

NBFC credit to MSMEs is well distributed across Manufacturing, Trade, Services and Others

Table 19: Distribution (%) of MSME loans originated by NBFCs across sectors

MSME Sub Sectors	Mar-22	Mar-23	Mar-24	Mar-25
Manufacturing	25	25	26	26
Trade	32	33	34	35
Professional & Other Services	23	23	22	21
Other Sectors	20	19	18	18

Source: MSME Pulse, CareEdge Research

NBFC's are catering to diverse sectors and their origination is well diversified across sectors. Share of Trade sector in NBFC MSME loan originations is gradually increasing.

3.5 NPA Rates in MSME Segment

MSMEs have poor financial muscle and were severely impacted by the coronavirus pandemic. Since most MSMEs operate in the manufacturing sector, the nationwide lockdown which impacted production as well as demand caused increased stress to MSMEs. Additionally, MSMEs likely witnessed delayed payments on orders serviced and the inability to adopt digitization or accommodate higher costs on social distancing and limited workforce impaired MSMEs' operations. Many went out of business and some struggled to tide over the crisis with cash flow issues which translated into a strain on their ability to repay banks.

Table 20: Bank-wise SMA distribution of MSME Portfolio

Period ended	Public sector banks + Private sector banks				
	0 days past due	SMA-0	SMA-1	SMA-2	GNPA
Mar-22	79.70%	6.40%	3.50%	1.10%	9.30%
Jun-22	79.60%	6.40%	3.50%	2.20%	9.80%
Sep-22	81.60%	6.70%	1.90%	2.10%	7.70%
Dec-22	82.20%	6.30%	2.00%	2.00%	7.40%
Mar-23	84.60%	5.10%	2.60%	0.90%	6.80%

Source: RBI, CareEdge Research

MSMEs seeking loans from banks also struggled to meet their obligations due to uncertainty and the second wave of the pandemic. As per data published by the RBI, GNPAs from the MSME segment seemed to decline at the start of Sep-21 as operations returned back to normalcy. GNPAs have further improved and declined from 9.3% in FY22 to 6.80% in FY23. CareEdge Research estimates GNPA levels to ease gradually over the next financial year.

- ***Asset quality has been steadily improving for overall MSMEs and the improvement is visible across categories. NBFCs MSME portfolio has seen the most significant improvement in asset quality.***

Table 21: 90+ DPD* of MSMEs across categories & lenders

	Sep-20	Mar-21	Sep-21	Mar-22	Sep-22	Mar-23	Sep-23	Mar-24	Mar-25
90+ DPD	3.4	3.7	4.4	2.9	3	2.4	2.3	2.1	1.8
By Category*									
90+ DPD Micro	4	4	5.4	4	3.8	3.1	3.1	NA	NA
90+ DPD Small	3.1	3.9	4.1	2.6	2.8	2.1	2.1	NA	NA
90+ DPD Medium	3.1	3.2	3.9	2.6	2.7	2.1	2.1	NA	NA
By Lender Type									
90+ DPD Private Bank	2	2.3	2.7	1.6	1.8	1.4	1.5	1.3	1.2
90+ DPD PSB	4.2	4.6	5.4	3.7	3.7	3	3.2	2.9	2.1
90+ DPD NBFC	5.1	5.7	6.6	5.7	5.2	4	2.9	2.8	2.8

Source: MSME Pulse Report, CareEdge Research *90+ DPD of loan portfolio excluding legacy loans with DPD > 720 dpd **Micro: Exposure upto Rs 1 crore; Small: Exposure between Rs. 1 crore to Rs. 10 crore; Medium: Exposure between Rs. 10 crore to Rs. 50 crore.

Overall MSME 90+ DPD % is gradually reducing post Covid and stood at 1.8% as on Mar-25.

90+ DPD % for Micro segment has demonstrated the most improvement by reducing from 4.7% in Sep-19 to 3.1% in Sep-23.

NBFC's asset quality faced stress during Coivd and the 90+ DPD increased to 6.6% by Sep-21. However the performance improved significantly as the 90+ DPD reduced to 2.8% as on Mar-24 which is the lowest in the last 4 years and it remained same as of Mar-25.

3.6 Government Policies

The Government of India has designed various policies for the growth of MSMEs in the country.

- Revamp of the credit guarantee scheme for MSMEs wef April 2023 through fund infusion of Rs 90 billion in the corpus. This will facilitate additional collateral-free guaranteed credit of Rs 2 trillion and reduces the cost of the credit by 1%.
- Announcement on introducing an Entity DigiLocker for MSMEs in order to store and share documents securely in an online mode.
- Under Vivad se Vishwasl, 95% of the forfeited amount relating to bid or performance security is to be returned by the government in case of failure by MSMEs to execute contracts during the Covid period.
- PM VIshwakarma KAushal Samman (PM VIKAS) for traditional artisans to integrate them with the MSME value chain and assist them in improving the quality, scale and reach of their products. PM Vishwakarma is fully funded by the Government of India with an initial outlay of Rs. 130 billion for 2023-24 to 2027-28.
- The Ministry of MSME, Government of India, notified the Public Procurement Policy for Micro and Small Enterprises (MSEs) in 2012. This policy mandates that 25% of annual procurement by Central Ministries, Departments, and Central Public Sector Enterprises (CPSEs) must be sourced from MSEs. Within this 25%, 4% is reserved for MSEs owned by Scheduled Castes/Scheduled Tribes (SC/ST), and 3% is reserved for MSEs owned by women entrepreneurs. Additionally, 358 items are exclusively reserved for procurement from MSEs.

- Emergency Credit Line Guarantee Scheme (ECLGS) provided for collateral free loans to existing eligible borrowers with 100% guarantee in respect of the eligible amount as per the Scheme guidelines. As per the State Bank of India's research report dated 23.01.2023 on ECLGS, almost 14.6 lakh MSME accounts, of which about 93.8% of the accounts were in MSE categories, were saved.

- Collateral free loan up to a limit of Rs. 500 lakhs (w.e.f. 01.04.2023) to Micro and Small Enterprises with guaranteed coverage up to 85 % for various categories of loan through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) under Credit Guarantee Scheme. Since inception till 30.06.2024, a total of 91,76,248 guarantees amounting to Rs 6.78 trillion have been issued.

- The Ministry of MSME implemented a Special Credit Linked Capital Subsidy Scheme (SCLCSS) under National SC-ST Hub (NSSH) to promote setting up of new enterprises by aspiring entrepreneurs and capacity building of existing MSEs for enhanced participation of SC/ST entrepreneurs in public procurement. All SC-ST owned MSEs of manufacturing as well as service sectors are eligible for 25% subsidy under SCLCSS component of NSSH for procurement of Plant & Machinery and equipment through institutional credit.

3.7 Recent Developments in the sector

- The Union Budget 2025-26 introduces a series of measures aimed at strengthening the MSME sector by enhancing credit access, supporting first-time entrepreneurs, and promoting labour-intensive industries.
- To help MSMEs scale operations and access better resources, the investment and turnover limits for classification have been increased by **2.5 times and 2 times**, respectively. This is expected to improve efficiency, technological adoption, and employment generation.

Rs. In Crore	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprise	1	2.5	5	10
Small Enterprise	10	25	10	100
Medium Enterprise	50	125	250	500

- **Enhanced Credit Availability: -**
  - The credit guarantee cover for micro and small enterprises has been increased from Rs. 50 million to Rs. 100 million, enabling additional credit of Rs. 1.5 trillion over five years.
  - Startups will see their guarantee cover double from Rs. 100 million to Rs. 200 million, with a reduced fee of 1% for loans in 27 priority sectors.
  - Exporter MSMEs will benefit from term loans up to Rs. 200 million with enhanced guaranteed cover.

- **Credit Cards for Micro Enterprises**
  - A new customised Credit Card scheme will provide Rs. 5 lakh in credit to micro enterprises registered on the Udyam portal, with 10 lakh cards set to be issued in the first year.

- **Support for Startups and First-Time Entrepreneurs**
  - A new Fund of Funds with Rs. 100 billion is established to expand support for startups.

- A scheme for 5 lakh first-time women, Scheduled Caste, and Scheduled Tribe entrepreneurs will provide term loans up to Rs. 20 million over five years, incorporating lessons from the Stand-Up India scheme.

- **Focus on Labour-Intensive Sectors**
  - A Focus Product Scheme for the footwear and leather sector will support design, component manufacturing, and non-leather footwear production, expected to create 22 lakh jobs, and generate a turnover of Rs. 4 trillion.
  - A new scheme for the toy sector will promote cluster development and skill-building, positioning India as a global toy manufacturing hub.
  - A National Institute of Food Technology, Entrepreneurship and Management will be established in Bihar to boost food processing industries in the eastern region.

In conclusion, the Union Budget 2025-26 presents a strategic plan to strengthen the MSME sector in India, with a focus on improving credit access, supporting entrepreneurship, and implementing sector-specific initiatives. Key changes in classification criteria, along with enhanced credit guarantees and tailored financial products such as credit cards for micro-enterprises, are expected to drive growth and innovation. The emphasis on industries like footwear, leather, and toys aims to create jobs and enhance India's competitiveness in global markets. Additionally, ongoing programs like Udyam Registration, PM Vishwakarma, PMEGP, SFURTI, and the Public Procurement Policy highlight the government's commitment to empowering MSMEs. Together with the creation of new institutions and missions focused on manufacturing and clean technology, these measures reflect a comprehensive approach to reinforcing the role of MSMEs in fostering economic growth, employment, and inclusive development in India.

3.8 Growth drivers for NBFCs in MSME Funding

- ***NBFCs have a strong competitive positioning in MSME lending***

There are many different types of institutions and lending models operating in India that are trying to address the credit funding requirements of MSMEs. Comparative position of these players is presented below.

	MSME Funding Provided	Key Strengths	Key Constraints
Public Sector Banks	All types of Term Loans, Working Capital, Non-fund based credit.	Ability to lend at low rates Large franchise and balance sheets to fund the sector Government mandate to support the MSME allows higher risk appetite. Provide other banking services along with credit.	Long turnaround times and documentation procedures that are unviable for many MSMEs Limited product innovation. Credit assessment largely based on documented procedures. More suitable for Medium MSMEs.
Private Sector Banks	All types of Term Loans, Working Capital, Non-fund based credit.	Ability & willingness to lend at low rates to low risk MSMEs	Focus more on collateralized lending and shorter-term working capital loans.

		Providing working capital, banking transactions & cash management support.	Credit assessment largely based on documented procedures. Limited last mile presence creates challenges in customer service.
NBFCs	Mainly fund based services provided in the form of Terms Loans.	Ability to lend both collateralized and non-collateralized loans. Deeper regional penetration in semi-urban and rural areas. Faster turnaround time. Simpler and more client centric processes. Ability to assess and lend to MSMEs that have limited formal documented income. Hybrid models using data and interviews. Last mile field-level connect gives better collection abilities. Adopting a "Phygital" approach combining best of Technology with a Branch based physical model. More nimble operations due to cheaper scaling up & infrastructure costs. Ability to focus on few lending products thereby improving efficiency.	High dependence on Banking sector for funding. Affects their cost of funding and acts as a constraint to cater to a certain segment of MSME borrowers. Fragmented sector with very different models and operational processes followed by different players. Ability to retain customers becomes a challenge as 'graduated' customers move to banks for higher amount and lower rates.
Fintech Intermediaries	Not lending directly but acting as intermediaries between MSME's and lenders	Use data and advanced modeling to improve credit access to MSMEs	Dependent on other lenders No field level presence creates service issues.
Credit Funds (AIFs)	Debt in the form of investment in NCDs or other instruments issued by MSMEs	Ability to lending to larger MSMEs	Caters to a very niche segment of the MSME space.

		Long term and complex debt funding requirements are catered to.	Complex nature of investment.
TREDS Platforms	RBI regulated Platforms for bill discounting of MSMEs by Banks & NBFCs.	Resolving the working capital requirements of MSMEs who are dealing with large corporates and Government.	MSME to MSME bill discounted is not catered to by the lenders who prefer dealing with invoices of higher rated entities. Only for working capital requirements.
Development Finance Institutions	Institutions such as SIDBI & NABARD providing direct & indirect funding for the MSMEs	Providing assistance to other financial institutions by refinancing or giving funds for onwards lending under different schemes.	Do not have their own setup and rely on Banks & NBFCs to fund the MSMEs

- ***NBFC's origination strength is complemented by Bank's liability franchise, as Banks partner with NBFCs in multiple forms of support***

As seen in the comparative matrix, NBFCs have significant competitive strengths over other types of lending institutions to support the MSME sector. This gives the NBFCs a strong and stable loan origination ability.

Banks in India have got a very deep liability franchise and have access to the dominant share of the savings.

Banks and NBFCs therefore collaborate by working with each other in the areas of their respective strengths. Banks rely upon the NBFCs to originate priority sector loans (PSL) of which a significant proportion is towards MSME funding. The proportion of MSME funding in PSL stood at 36% as on Mar-25.

as % of PSL Loans as on March 31st 2025	
Micro and Small Enterprises	29%
Medium Enterprises	8%
Total	36%

Source: Reserve Bank of India

Banks provide Balance Sheet Funding to NBFCs: Collaboration of the banks with NBFCs is also visible in the large balance sheet funding provided by the Banks to the NBFCs. The total amount of credit outstanding from Banks to NBFCs stood at Rs. 16.36 Trillion and constituted 9.0% of the gross bank credit as on March 31st, 2025.

Banks buy Securitization assets from NBFCs: Further, banks are large investors Direct Assignments and Securitization of the loans originated by NBFCs. Total securitization volumes (including direct assignments and PTCs) during FY25 was Rs. 2.68 Trillion. Out of this Rs. 1.38 Trillion was Direct Assignment and the rest was PTC. Direct assignments are typically done by the Banks as investors into the pools of NBFCs.

Banks do Co-Lending & Business Correspondent Partnerships with NBFCs: Realizing the unique ability of NBFCs to originate loans, banks have tied up with them to do co-lending (wherein both Bank & NBFC lend to the borrower) and business correspondent (wherein NBFC gets the customer & bank provides the funding) based loans.

Therefore, banks act as partners and not so much as competitors with the NBFCs.

- ***There is large unmet credit demand of the MSME sector in India that NBFCs can service and grow their business***

As per an IFC report published in November 2018, the total addressable credit gap in the MSME sector stood at Rs. 25.82 Trillion (at the end of 2017). The estimation of the credit gap was done based on the number of MSMEs, their distribution, working capital & capex requirements and formal credit to the MSME sector. The key findings were as below:

	Credit Gap estimate for the period ending 2017	Rs. Trillion
A	Total MSME Demand for Debt	69.3
B	Excluded demand (estimated for new companies, sick companies that cannot be addressed immediately)	32.6
C = A - B	Total MSME Addressable Demand for Debt	36.7
D	Total Supply for Formal Credit	10.9
E = C - D	**Credit Gap = Demand – Supply**	**25.8**

The credit gap was further bifurcated into micro, small and medium based on the distribution and scale estimate for each type of entity as follows:

(Figures in Rs. Trillion)

	Micro	Small	Medium	Total
Formal Credit Demand	11.8	21.7	3.3	36.7
Formal Credit Supply	3.9	4.8	2.2	10.9
Gap	**7.9**	**16.9**	**1.1**	**25.8**

The MSME Credit Gap at the end of 2017 was itself quite substantial. Over the last 7-year period since 2017, the size of the economy has grown significantly and the number and scale of MSMEs has also increased.

CARE Advisory has applied a similar methodology to that of the IFC report and has considered to following factors to estimate the current credit gap in the MSME sector:

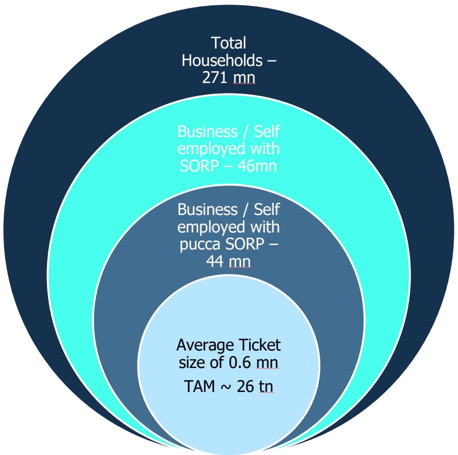
- Growth in GDP and its estimated impact on the scale of MSMEs
- Increase in the number of MSMEs
- Change in the distribution of MSMEs
- Increase in formal credit support provided to the MSMEs

(Figures in Rs. Trillion)

Mar'24 (Estimates)	Credit Demand	Credit Supply	Credit Gap
Micro	19.8	7.2	12.6
Small	31.5	11.7	19.8
Medium	10.3	9.2	1.2

Total MSME	**61.6**	**28.0**	**33.6**
Mar'27 (Projections)	Credit Demand	Credit Supply	Credit Gap
Micro	25.0	10.4	14.7
Small	42.2	16.9	25.3
Medium	13.9	13.2	0.6
Total MSME	**81.1**	**40.4**	**40.6**

Estimation of total addressable market (TAM) for self occupied residential property backed MSME loans



Source: NSS 73rd round (July 2015 – June 2016) and NSS 76th round (July 2018 – December 2018); CareEdge Reseach

CareEdge Research set out to understand the potential size of the market for secured MSME loans backed by residential property. To arrive at this, state-level data and insights from NSS 73rd AND 76th Round (July–December 2018) along with Periodic Labour Force Survey (July 2019–June 2020) were considered from which we extracted details on self-employed non-agricultural households in both urban and rural areas and the share of these households living in their own pucca or semi-pucca homes—properties that could realistically be used as collateral. Together, these data points helped paint a clearer picture of the addressable market for such loans across India.

- ***NBFCs have the underwriting and client servicing capabilities to cater to the unique requirements of MSME funding***

There are many unique design elements adopted by NBFCs that provide them a competitive edge in providing MSME credit. Based on the analysis of multiple NBFCs and their lending models, CARE Advisory has highlighted these factors below:

MSME's Structural Factors	NBFC's Solution
Non Documented Income Micro & some small segment MSMEs are relatively unorganized with limited documented income proofs,	**Client Visit & Interview Based Credit Assessment** NBFCs complement the available data of the borrowers with a detailed field visit based credit assessment. Field assessment techniques involve meeting the borrower's clients, looking at the business assets and reviewing informal documents for an estimation of income. Field visit also reduces fraud risk. This process also helps in understanding the client requirements as some of the borrowers are not comfortable in filling up forms & preparing financial projections
Onerous loan application process Many of the MSME borrowers do not have the capacity or are intimidated or overwhelmed with the loan application process of filling forms and making CMAs.	**Assisted Loan Application process** NBFCs follow an assisted loan application process in which employees of the NBFC help in understanding the funding needs of the borrower & support in filling the application for the loan. The documentation process also much more simplified as compared to traditional banks.
Weak financial literacy and cash flow planning Many micro enterprises do not have knowledge of financial planning and accordingly they cannot plan their funding in a timely manner.	**Faster TAT helps in urgent cash flow requirements** NBFC processes support faster Turnaround Time (TAT) and help in getting loans in time to the MSME borrowers. This ability also allows the NBFCs to price a certain % of premium.
Smaller funding needs Micro and small enterprises have smaller funding requirements which are difficult to cater to by traditional banks due to their cost structure.	**Ability to disburse small to mid-sized loans** Many NBFC products cater to the small and medium ticket size loan requirements. NBFCs tend to face higher per unit operating costs for these loans, but are able to price them into the product.
Imperfect Collaterals The property collateral for an MSME are many times not well documented or registered in the name of the promoter (in case of inherited properties).	**Collateral management built in the origination process** NBFCs have solved this problem by first helping the MSME in regularizing their property registrations or giving co-borrower based loans (for both borrower & property owner). The valuation and technical evaluation process is done in detail by the NBFCs and accordingly the level of LTV is adjusted to take care of the risk. In short, NBFCs have built the process of giving loans against such collaterals for MSMEs.
Limited Banking Habits In many MSMEs banking and digital payments have not yet fully been ingrained. Therefore servicing through regular NACH mandates becomes a challenge.	**Having Cash Collection infrastructure in addition to Digital Collections** Given the large branch network, NBFCs have built the last mile collection abilities in case the borrower is not able to repay through banking channels. In fact there is a hybrid model where NBFC employee helps the borrower in making a digital payment (through

	UPI/ payment gateways). This handholding is required for many MSMEs until they evolve their digital banking practices.
MSME are regionally distributed including Semi-urban and rural areas MSME's closer to urban areas have better access to credit than those located in non-urban locations.	**Diverse branch network** NBFCs have a were well distributed branch network, in part because the branch setup is very nimble and allows opening of remote area branches. This helps in reaching out to and retaining MSME clients.

- ***NBFCs have a more dynamic operating structure thereby allowing them to adapt to the market requirements for MSMEs***

Branch structure of Banks requires opening of the branch for multiple products including liability, assets and banking services. As against that an NBFC branch only focuses on the assets and can be set up at a relatively lower cost. This allows the NBFCs more flexibility in opening and closing of branches, thereby letting them start operations which may not be viable for a full banking setup. This provides a competitive advantage to the NBFCs.

Similarly, the qualifications requirement for an NBFC employee is more flexible than that of Banks. This again provides flexibility to the NBFC in terms of scaling up or scaling down of operations. Further, this allows the NBFC to hire a team with more localized knowledge as the talent pool from which they get to select the team is wider.

These are some of the key factors which make NBFC operations more flexible and allow the NBFCs to experiment with a lower risk and investment. This in turn gives the impetus to have a wider outreach and variations in products. If a geography or product is not successful, it is easier to change or close it.

- ***NBFCs are leveraging the use of technology for better efficiency and client delivery while at the same time ensuring that they have the branch presence to address various client needs. This is a unique "Phygital" (Physical + Digital) model being adopted by some pioneering NBFCs in India.***

The digital, banking and payments infrastructure in India has evolved rapidly in the recent period. There is a digital backbone on the basis of which many financial services which seemed difficult to deliver, are now becoming routine in nature.

Some of these developments are structural in nature and are highlighted below:

Key Structural Change	Advantages for Lending
Aadhar Unique identification number Nearly 93% of India's population (and 99.9% of the adult population) is covered.	Acts as a universal, unique identification number helping in much faster and efficient KYC and address verification.
Mobile & Internet penetration There were 75.15 crore internet uses in India at the start of 2024, which is 52.4% of the total population. There were 112 crore cellular mobile connections registered.	Allows digitization of loan processing and loan servicing activities. Reduces risk. Reduces turnaround time.

	Allows for direct connect with the borrower.
Jan Dhan bank accounts As on May 21, 2025 there were 55.44 crore Jan Dhan bank accounts opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY) in India.	Improves financial inclusion and creates the base for online transactions across all segments of the population. Allows for digital disbursement and collection of loans thereby reducing the risks & leakage in lending.
Digital Transactions – UPI & Payment Gateways The digital payment transactions have grown from 220 crore in FY2013-14 to 22,198 Crore in FY2024-25. During the same period, the value of transactions has grown from Rs. 952 trillion to Rs. 2,862 trillion.	Digital payments provide two important benefits for credit services. First is to allow repayments to be done via digital mode. Second is to build the transaction data for MSMEs which can be used for surrogate credit assessment.
GST (Goods & Services Tax) As per GSTN portal there are 1.48 crore GST registered taxpayers in India	GST data allows for lenders to assess MSMEs sales and purchases in a verified manner. Many lending products have evolved around this data.
Credit Bureau As per World Bank data, 63.1% of adult population in India was covered by credit bureaus in 2019 and this % is constantly increasing. Transunion CIBIL has records of more than 60 crore adults and close to 3.2 crore firms.	With a wide base of individual and firms data getting covered by credit bureaus, the lending decisions have become better and credit discipline in MSMEs will increase.

On the back of these structural changes, many digital tools and initiatives have started which have made the lending process faster, more transparent and with wider outreach. These tools include E KYC, E Documentation, E-NACH (online repayment mandates), GST data, Digi Locker for documents, automated collection systems, account aggregator and many others.

While many Fintech's are primarily relying on these tools to do business, many NBFCs have adopted a more pragmatic Phygital approach. They maintain their core strength of being able to connect with the borrower in person and at the same time use technology to provide better service to the customers. These are delivered through process automation tools using employee Apps and client Apps.

As a result, NBFCs have been able to leverage technology and maintain their client connect enhance their product offerings in the MSME space. MSME lending growth will be therefore further enabled along with the growth of the digital infrastructure.

3.9 Key Challenges for MSME Industry

Mitigating Risk Premiums Through Improved Information Availability

The absence of reliable data regarding small businesses creates significant challenges for lenders in assessing creditworthiness, leading to the imposition of higher credit risk premiums and, consequently, elevated interest rates. However, by incorporating a combination of traditional data (e.g., credit bureau reports, financial statements, and credit scores), non-traditional data (such as payment histories, telecom data, provident fund contributions, and psychometric information), and government data (including Aadhaar and GST records), lenders can enhance their ability to evaluate borrowers. This multi-source data integration allows for a more comprehensive understanding of customer profiles, thereby reducing information asymmetry. Over time, this could lead to a reduction in risk premiums, as the accuracy of credit assessments improves.

Increased Competition from New Players and Partnerships

The entry of new players into the lending market, particularly those with access to large consumer data repositories (e.g., e-commerce platforms and payment service providers), is expected to drive heightened competition. For example, Amazon India's launch of a platform in June 2018, allowing sellers to select loan offers from various lenders, and Meta's (formerly Facebook) partnership with Indifi Technologies in August 2021 to provide loans to small businesses advertising on its platform, are indicative of this trend. Moreover, traditional lenders are increasingly relying on strategic partnerships and digital ecosystems to cross-sell products to their existing customers, acquire clients from competing lenders, and attract new-to-credit individuals. These dynamics are likely to expand the market for MSME loans, further intensifying competitive pressures within the sector

NBFCs' Growing Role in Financial Inclusion

A significant portion of India's population—specifically under-served households and businesses—faces barriers to accessing credit due to factors such as lack of credit history or the inability to offer collateral. Non-Banking Financial Companies (NBFCs) have demonstrated effectiveness in addressing this market gap by leveraging several competitive advantages, including robust origination capabilities, extensive geographical reach, enhanced customer service, faster processing times, streamlined documentation, digital onboarding, and localized knowledge. Furthermore, their differentiated credit appraisal models enable them to serve high-risk segments that traditional financial institutions may overlook. Consequently, NBFCs have secured a substantial market share across various financial segments, contributing significantly to financial inclusion.

3.10 Rising Competition and Strategic Partnerships in the NBFC's offering MSME Loan

The increasing competition in the MSME loan market is providing significant opportunities for NBFCs. With more financial institutions entering the space, MSMEs now have access to more competitive interest rates, flexible terms, and faster loan disbursements. This expansion is meeting the growing demand for financing from underserved small and medium-sized businesses.

Strategic partnerships between NBFCs and other financial players, including banks and fintechs, are key to staying competitive. These collaborations enable NBFCs to streamline processes, reduce costs, and expand their market reach. Furthermore, changing market conditions are compelling traditional NBFCs to adopt digital solutions to improve efficiency and remain relevant. By leveraging digital platforms, NBFCs can enhance credit risk assessment, speed up loan approvals, and offer more tailored financial products, making them better positioned to serve MSMEs in a rapidly evolving market.

3.11 Key Success Factors for NBFC's offering MSME loan

- **Precision in Underwriting**: Strong underwriting capabilities are essential for NBFCs offering MSME loans, ensuring that only creditworthy businesses are funded. In addition to leveraging alternative data sources like transaction histories and GST filings, it is crucial to analyze the cash flow of the business. By evaluating cash flow patterns—such as receivables, payables, and operational expenses—NBFCs can better assess the financial health and repayment capacity of MSMEs. This comprehensive approach to underwriting allows for more accurate risk assessments, expanding access to credit while minimizing defaults.

- **Sustaining Portfolio Health**: Maintaining a high-quality loan portfolio is vital for long-term success. NBFCs must actively monitor repayments, assess credit risk, and take corrective actions—such as loan restructuring or offering payment flexibility—to minimize defaults. A balanced approach, with diversification across risk segments, helps protect against large
- -scale credit losses and ensures business stability.
- **Targeting Untapped Markets:** A focused approach to under-penetrated markets—particularly in rural or emerging sectors—offers NBFCs significant growth opportunities. By simplifying loan access and tailoring products to local needs, NBFCs can capture a loyal customer base in underserved areas, driving both financial inclusion and business expansion.
- **Effective Collateral Management:** Managing collateral risk effectively is key to protecting loan books. While MSMEs may lack traditional collateral, NBFCs can mitigate risk by accepting alternative assets like receivables or personal guarantees. Flexible collateral policies and real-time tracking tools ensure security while not overburdening businesses with excessive requirements.
- **Access to Affordable Capital:** The ability to raise funds at competitive rates is crucial for offering attractive loan terms. NBFCs with higher credit ratings have a significant advantage, as they can secure cheaper capital through lower interest rates in the debt markets. This allows them to pass on the cost savings to MSMEs, offering more favorable loan terms, including lower interest rates and flexible repayment options. Access to affordable capital not only makes the NBFC more competitive but also enables faster scaling of operations, expanding their reach to more underserved businesses.

3.12 Outlook

The MSME sector is the driving force of the Indian economy and has major potential to spread industrialization across the economy. The sector faces number of challenges such as limited access to finance, inadequate availability of skilled labour, and insufficient infrastructure. Along with this, rising interest rates by RBI to control inflation has become a hindrance to the growth in sector. This has led to increase in borrowing cost for MSMEs and further made the situation difficult for accessing credit. This high rise in borrowing cost is expected to impact the cash flows and profitability of MSMEs. Although, this sector has many challenges, the growth potential remains high.

MSMEs employ a large number of people making the sector a key contributor to the economic development of the country. The sheer number of work force engaged also results in this sector receiving good Government support and benefits. Apart from Government initiatives, the improved use of digital solutions adopted during the pandemic (such as easy payments and marketing through digital platforms) increased demand for finished products have strengthen the MSMEs and resulted in recovery of their business.

The MSME sector is expected to help India achieve its goal of becoming a USD 5 trillion economy. The Government expects that MSMEs' contribution to GDP to increase from 30.1% in FY23 to 40-50%.

4 Auto Financing

4.1 Introduction to Auto Financing

The automotive industry is one of the major drivers of economic growth due to its linkages with multiple industries. Its contribution to the GDP of India stands at around 7%. The growth of this sector benefits the commodity sector as vehicle manufacturing requires steel, aluminium, plastic, etc. It also holds importance for the Banks, NBFCs and other financial institutions in the form of automobile financing. Moreover, it is a crucial source of demand for the oil & gas industry.

India is one of the largest manufacturers of two-wheelers, three-wheelers, and tractors. With a vibrant supply chain ecosystem, favourable policies, proximity to port and other factors, India's southern states continue to be the front runners in EV manufacturing and consumption. Hosur is one of the major manufacturing hotspots of Tamil Nadu, with many automobile OEMs having their factories there. It has emerged as a key industrial hub covering electronics, automobiles & auto components, light-machinery, engineering, specialty chemicals, etc. This region is being preferred by several automobile manufacturers and its strong and vibrant presence of MSMEs in Hosur also make it attractive for investors.

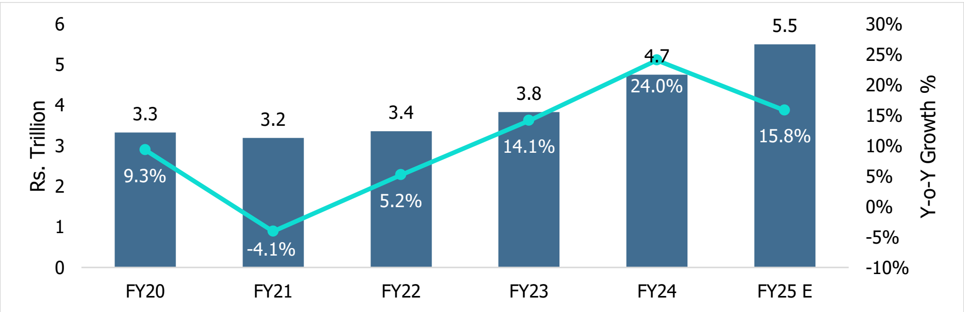
Auto financing has emerged as a pivotal component in India's rapidly growing automotive industry. As the demand for vehicles continues to rise, auto financing plays a crucial role in bridging the gap between a savings of the borrower and the cost of their desired vehicle, making vehicle ownership more accessible for a wider segment of the population.

NBFCs have been a pillar of strength for the automobile industry, primarily lending to customers in semi-urban and rural areas where credit availability from the banking sector is generally difficult. Continuous access to easy and secure credit to consumers has facilitated sales of vehicles over the years.

The retail loan book exposure of the NBFCs majorly consist of vehicle financing, housing loans and microfinance. More than 50% of the total vehicle financing exposure of NBFCs is from commercial vehicles (CVs) and passenger car/utility Vehicles (UVs) financing. Balance includes tractor/two/three-wheeler financing.

4.2 Trends in Auto Financing

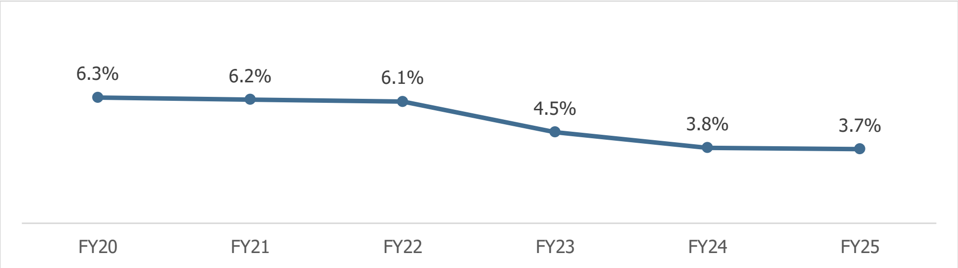
Chart 21: Trend in NBFCs Credit towards Auto Financing



Source: RBI, CareEdge Research

In the post-Covid era there has been significant growth in automobile sales especially in the passenger and commercial vehicles segment. This has led to increase in demand for auto loans from NBFCs and other financial institutions. The retail auto financing book of NBFCs forms a significant chunk of NBFCs retail credit. NBFCs credit towards vehicle loans is expected to have reach Rs. 5.5 trillion as of Mar'25, indicating 15.8% y-o-y growth over Mar'24. This decline in growth can be attributed to high base of previous year, muted automobile sales and some stress in the two-wheeler portfolio.

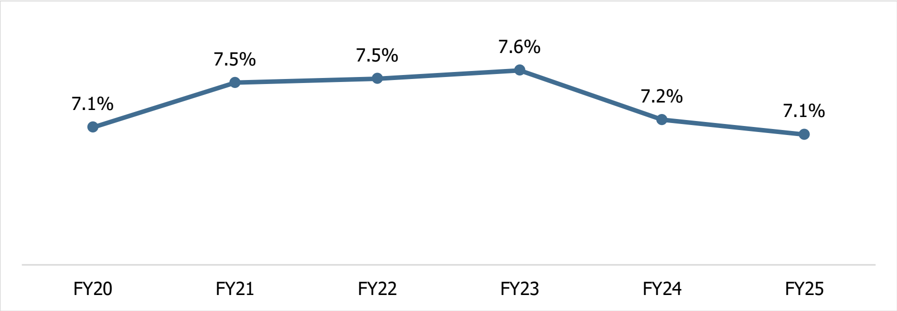
Chart 22: Gross Non-Performing Assets of NBFCs Auto Finance Portfolio



Source: CareEdge Research Estimates
Note: Shriram Finance Limited, Sundaram Finance Limited, Cholamandalam Investment and Finance Company Limited, Bajaj Finance Limited, Mahindra & Mahindra Financial Services Limited, IndoStar Capital Finance Limited, and Manappuram Finance Limited are considered to arrive at estimates.

Post Covid-19, NBFCs have witnessed significant improvement in asset quality of their auto loans portfolio. The GNPA of auto loan segment of NBFCs improved from 6.3% in FY20 to a staggering 3.7% in FY25. This improvement in asset quality is likely to have been driven by high recoveries, reduced slippages, improved customer sentiments, and overall sustained macroeconomic activity.

Chart 23: Net Interest Margin of Auto Finance NBFCs



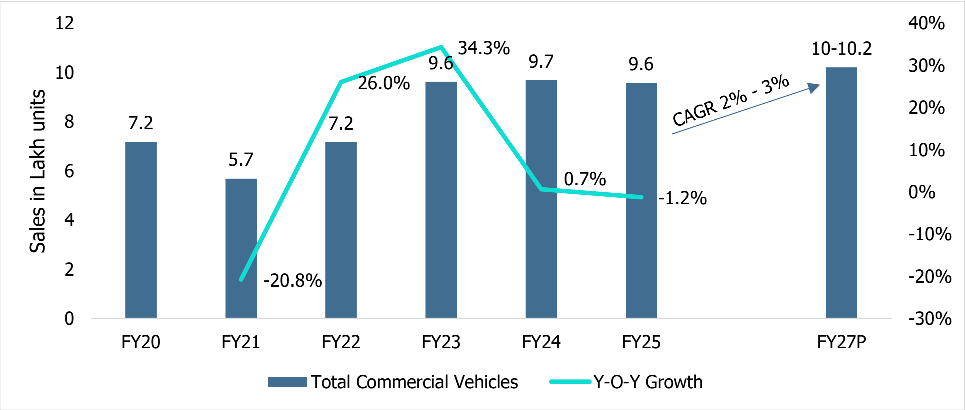
Source: CareEdge Research Estimates
Note: Auto finance portfolio of Shriram Finance Limited, Sundaram Finance Limited, Cholamandalam Investment and Finance Company Limited, Mahindra & Mahindra Financial Services Limited, IndoStar Capital Finance Limited, and Manappuram Finance Limited are considered to arrive at estimates.

The profitability of auto financing NBFCs is in line with the rise in demand for auto loans. The NIMs of auto finance NBFCs seems to have been on a continued growth trajectory. The improved asset quality is expected to have controlled credit costs to a certain extent thereby supporting profitability.

4.3 Trends in Commercial Vehicle Financing

The Indian Commercial Vehicle (CV) industry is the lifeline of the economy. About two-thirds of goods and around 87% of the passenger traffic in the country travel via road. Past trends have shown that CV demand is closely correlated with the GDP growth rate (more strongly with the Index of Industrial Production, IIP) of the country. Therefore, it is believed that a phase of growth or slowdown in CV demand is a harbinger of a simultaneous upturn or downturn in the economy, respectively. The growth in Medium & Heavy Commercial Vehicles (M&HCVs) is a crucial indicator for pickup in investment activities while growth in Light Commercial Vehicles (LCVs) is considered an indicator of consumption demand.

Chart 24: Domestic sales of CVs in India

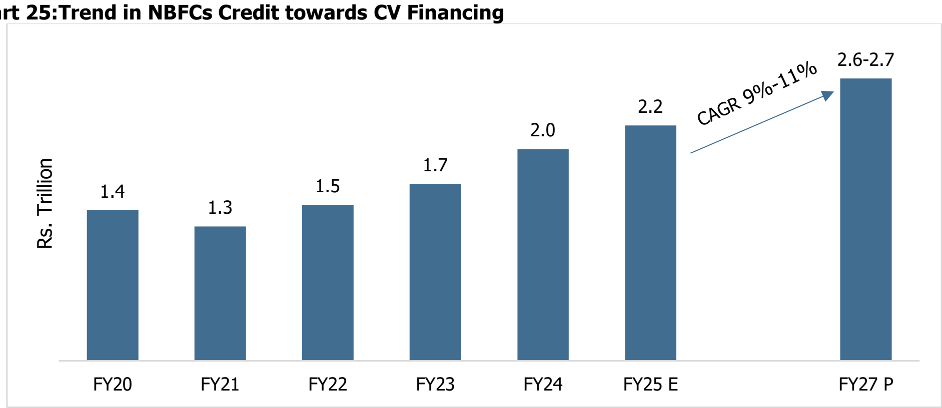


Source: Society of India Automobile Manufacturers (SIAM), CareEdge Research

The CV segment in India has witnessed a fluctuating growth trajectory over the past several years, shaped by macroeconomic cycles, policy transitions, and broader industry dynamics. In FY20, CV sales stood at 7.2 lakh units. However, FY21 saw a sharp decline of 20.8%, with sales falling to 5.7 lakh units. This drop was largely attributed to the economic slowdown exacerbated by the COVID-19 pandemic, disruptions due to nationwide lockdowns.

The market began to recover in FY22, with sales climbing back to 7.2 lakh units, marking a 26.0% year-on-year growth. By FY24, the pace of growth began to normalize. Sales marginally increased to 9.7 lakh units, with a modest 0.7% y-o-y growth. The CV market is projected to grow steadily, with sales expected to reach 10-10.2 lakh units in FY27.

Chart 25:Trend in NBFCs Credit towards CV Financing



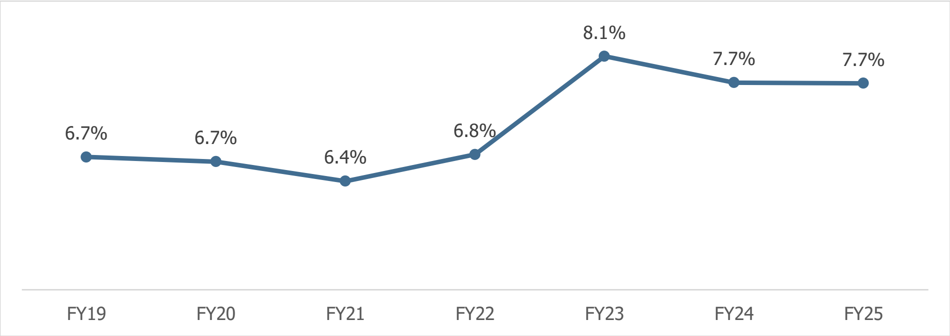
Source: CareEdge Estimates

Post Covid-19, the NBFCs CV finance has continued to witness sustained growth. This growth is attributed to momentum in demand for CVs amid improvement in economic activity, Governments thrust to boost infrastructure leading to ramp-up in construction / mining activities. As of FY25, the CV finance segment is expected to have reached Rs. 2.2 trillion.

The asset quality of CV loans of NBFCs is expected to have improved in FY25, on account of low delinquencies, sustained economic activity and boost in logistics and transportation sectors. CV loans are susceptible to a variety of external factors such as changes in fuel prices, regulatory shifts affecting the transport industry, and economic downturns, all of which can affect the repayment capacity of borrowers. Therefore, NBFCs place a strong emphasis on rigorous risk assessment and ongoing monitoring to ensure the asset quality of their CV loan portfolios remain robust. Going forward the sector is projected to grow at a CAGR of 9%-11% between FY25-FY27.

4.4 Profitability Trends in CV Financing

Chart 26: Profitability Trend (NIMs)



Source – CareEdge Research Estimates

Between FY21-FY23, NIM improved marginally peaking at 8.1% in FY23, driven by lower cost of funds and higher lending yields as NBFCs focused on used vehicle financing and rural demand. The NIMs of auto financers witnessed a bit downward trend in FY24 and FY25. This compression is likely due to a lag in passing on rising cost of funds, intensified competition from banks in prime auto segments, or changing loan portfolio dynamics. Despite the decline, the NIM remains around 7.7%, indicating a still favourable, though reducing, profitability from interest income in the vehicle financing sector.

4.5 Used Commercial Vehicle Financing

The Covid-19 pandemic had a profound impact on the CVs market, particularly in terms of new vehicle production. Manufacturing operations came to a standstill, resulting in a significant decline in the production of new CVs. However, this downturn in new vehicle production had an unexpected consequence - a surge in demand for used CVs.

Over the past few years, the demand for used CVs has seen good growth as businesses are becoming aware about cost-effectiveness and operational advantages of acquiring pre-owned vehicles. As compared to brand-new vehicles, used commercial vehicles come at a considerably lower price point, making them an attractive option for small and medium-sized enterprises (SMEs) looking to expand their fleets or individuals seeking affordable transportation solutions. This cost-effectiveness allows businesses to optimize their operational expenses and enhance their overall profitability. The rise in demand for used CVs can also be attributed to expanding logistics and transportation requirement, leading to rising need for financial options for used CVs.

In used CV financing landscape, NBFCs' quick turnaround times, flexible loan structures, and focus on smaller ticket sizes cater perfectly to the needs of used CV buyers. Additionally, NBFCs are actively developing innovative financing models, such as lease-to-own schemes, further propelling the sector's growth. Despite the positive strides, challenges such as the concerns over vehicle quality, lack of standardized valuation mechanisms, potential volatility in the resale value of used vehicles and regulatory changes pose considerations for both lenders and borrowers.

Furthermore, the increased demand for used vehicles has also prompted a need to review the Loan-to-Value ratios (LTVs) of auto loan financers. Lenders are likely to adjust their lending practices to manage the risks associated with financing used cars. Striking the right balance in LTVs is crucial to prevent overexposure and mitigate potential depreciation risks. Auto loan financers in India are likely to adopt measures to ensure responsible lending practices and maintain a sustainable used vehicle market.

Additionally, the regulatory environment and advancements in technology have also played a role in shaping the used CV sector in India. Regulatory frameworks governing emissions standards, safety regulations, and other compliance factors have evolved, ensuring that pre-owned vehicles meet certain standards before being sold in the market. Additionally, advancements in vehicle diagnostics and maintenance technologies have enhanced the overall reliability and performance of pre-owned CVs, instilling confidence among buyers about the longevity and efficiency of these vehicles.

The used CV has been gaining significant traction in recent times and established financial institutions, including banks and NBFCs, are recognizing the potential of the used CV financing segment and are actively expanding their portfolios to cater to the growing demand. With the realization that businesses, especially SMEs, often prefer the cost-effectiveness of acquiring used CVs, financers are offering tailored loan products to meet these specific needs.

However, this continued growth in used vehicles market raises concern about the potential creation of a bubble. The increased demand for used vehicles, driven by factors such as rising new vehicle prices and a preference for more budget-friendly options, has led to a surge in prices for certain used models. This price inflation can impact the sustainability of the current market dynamics. Regulatory bodies and market participants are expected to closely monitor this trend to prevent speculative practices and ensure the stability of the used vehicle market in India.

4.6 Key Areas in the Lending Process Where Technology is Transforming Operations

A) Customer Acquisition and Distribution:

- **Targeting the right customers**: Data analytics and AI help lenders identify potential borrowers based on factors like income, education, credit history, and spending patterns, leading to more precise marketing and better customer targeting.
- **Chatbots**: AI-powered chatbots provide immediate customer service, offering guidance on loan options and answering queries, which enhances borrower experience and reduces the need for human intervention.
- **Lead management systems**: These automated systems help lenders track and manage prospective borrowers, streamlining communication, follow-ups, and converting leads into actual loans more effectively.

B) Loan Products: Technology enables lenders to use data analytics and machine learning to create personalized loan products based on individual borrower profiles, helping offer more suitable financial solutions with better terms and conditions.

C) Loan Approval and Risk Management:

- **AI-driven credit scoring**: AI tools improve the loan approval process by assessing borrowers' creditworthiness more accurately and quickly, using a wider range of financial data and alternative credit metrics.
- **Real-time risk monitoring**: Technology helps lenders assess and manage risk by continuously analysing borrower behaviour and economic factors, enabling faster responses to potential defaults or financial instability.

D) Debt Collection:

- **Automated collection systems**: AI-driven collections platforms optimize recovery efforts by identifying the best time and communication method for reaching overdue borrowers, improving repayment rates.
- **Behaviour-based collections**: Predictive analytics help tailor collection strategies to individual borrower profiles, enhancing the likelihood of repayment and maintaining positive customer relationships.

4.7 Growth Drivers

- **Infrastructure Development and Industrialization**

The growth of CV industry is directly correlated with the industrial and infrastructure growth in the economy. With the government's increased spending in the infrastructure projects such as roads, irrigation, affordable housing, etc. and its ambitious Make in India programme supported by favourable schemes such as Production Linked Incentive scheme, the industrial and infrastructure growth of India is expected to pick-up. This can increase opportunities for financers to provide funding for CVs which are required for the development of infrastructure and the expansion of industrial sector.

- **Growing Logistics and Transportation Needs**

The demand for CVs is on an upward trajectory owing to the growth of e-commerce, increased manufacturing activities, and a booming retail sector. Businesses are expanding their fleet to meet the growing logistics and transportation needs, creating a demand for financers such as Banks and NBFCs to facilitate vehicle acquisitions.

- **Urbanization**

Urbanization is a key driver of India's overall growth. Urbanization of India's population is growing on a larger population base, warranting a need for more vehicles. This would create opportunity for sales of vehicles. Delhi, Mumbai, and Kolkata will be among the world's largest cities and cumulatively become home to ~100 million people. This rapid urbanization would increase the demand for vehicles across the country.

- **Hub and Spoke model**

The transportation of goods follows a hub and spoke model wherein goods arrive at certain key hubs through trucks and are transported in LCVs. Increased manufacturing and infrastructure activity have spurred the sales of medium and heavy commercial vehicle. The growing demand of freight transport is further aiding the demand for LCVs, which will create opportunities for financers to provide funding for acquisition of LCVs.

- **Rural Development**

Rural development can be a significant growth driver in auto financing by expanding access to vehicles in underserved areas. As rural economies grow, driven by improved infrastructure, agriculture, and small businesses, there is an increasing demand for mobility solutions, including personal and commercial vehicles. Auto lenders can tap into this market by offering tailored financing products that address the unique financial needs and challenges of rural customers, such as flexible payment terms and lower interest rates. Additionally, with the growth of digital platforms and mobile banking in rural regions, lenders can reach more customers, streamline loan processing, and boost vehicle ownership, further driving economic growth and mobility in rural areas.

4.8 Outlook

Domestic automobile sales increased by 7.3% y-o-y in FY25. The growth in sales volume across segments was supported by healthy demand in the urban areas, increasing replacement demand, growing demand for utility vehicles in the passenger vehicle segment, and vehicle scrappage policy. Exports increased by 19.2% in FY25 driven by a robust demand for passenger vehicles, two-wheelers, and commercial vehicles in overseas markets.

India is likely to be the third largest automobile sector by volume by FY26. It is also among the top 5 manufacturers of passenger and commercial vehicles. Across the industry segments, India is ranked amongst the world's leading markets. India's automobile sector is expected to witness growth supported by increasing household incomes, favourable demography with a high percentage of the youth population, growing R&D centres, and government initiatives. Apart from growth opportunities, India's encouraging Foreign Direct Investment (FDI) policy with 100% FDI under automatic route, comparatively low cost of manufacturing, and suitable manpower pool has drawn several foreign OEMs of the sector to make investments in India and establish a manufacturing presence.

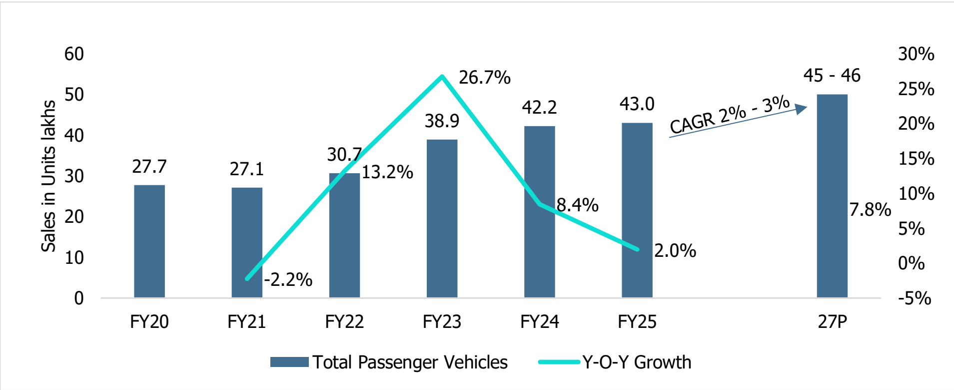
The CV segment is expected to grow in the range of 4%-6% in FY26 on the back of thriving economic activity and infrastructure development, due to the government's proposed infrastructural spending as per Budgetary announcements in FY25-26. This can be a major driver for the CV segment's future growth, amid recent industry correction which were led by disruptions due to low order books on account of implementation of the model code of conduct on account of general elections last year and following the structural upcycle in the previous financial years (FY23 & FY24).

5 Passenger Vehicle

5.1 Overview

The Indian passenger vehicle (PV) sector accounts for about 17% of the overall automobile industry in India, measured by domestic sales volume. The growth of the PV depends upon the rapid urbanization, middle-class aspirations and a robust manufacturing ecosystem. India's PV sector not only meets domestic demand but also serves globally as the export hub. The Indian PV has seen the huge growth post pandemic drastically, growing its volume by CAGR of 12.2% between FY21-25. This growth trend has been supported by improved vehicle availability and the introduction of new and updated models from various Original Equipment Manufacturers (OEMs). This upswing has been further supported by increased supplies and a wider range of products, catering to diverse consumer demands.

Chart 27: PV Sales Trend



Source: CareEdge Research, SIAM (Society of Indian Automobile Manufacturers)

India's auto savvy consumers are preferring mid-end or top end version of the vehicles moving away from the traditional fuel-efficient budget friendly small cars. They prefer premium larger cars that have loaded features which offer much more space, higher ride height, seamless connectivity, and improved performance.

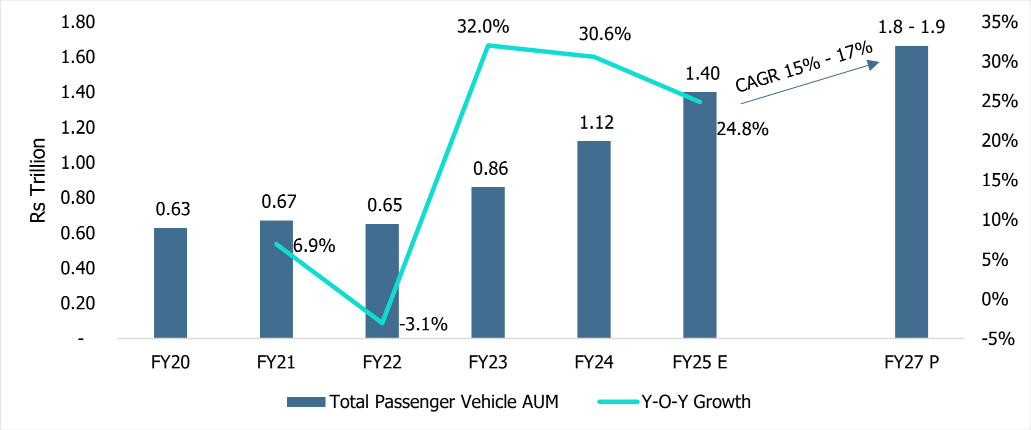
Looking ahead, the sales are projected to be in the range of 45 – 46 lakh units growing at a CAGR of 2%–3% between FY25 - FY27. This steady upward trajectory is supported by rising income levels, improving urbanization, increasing penetration in rural markets, and a growing preference for SUVs and EVs among consumers. Government initiatives like the PLI scheme for automobiles, FAME-II subsidies for EVs, and support for domestic manufacturing under the Make in India program further strengthen the industry's long-term outlook.

Among PVs, multi-utility vehicles (MUVs) have seen significant demand largely driven by their growing popularity among domestic consumers attracted to their versatility, spaciousness, often associated with luxury, comfort, and sophistication. Consumers are increasingly preferring MUVs over traditional hatchbacks due to the moderate price difference between the two, coupled with rising disposable incomes and evolving preferences. This increased demand for passenger vehicles is likely to create significant opportunities for NBFCs leading to increased credit deployed towards passenger vehicle segments.

5.2 PV Financing AUM

PV financing has witnessed significant growth over the past five years. Major PV financing NBFCs witnessed growth at a CAGR of 17% between FY20-25. Over the medium term, NBFCs credit towards PVs is projected to grow at a CAGR of 15%-17% between FY25-FY27. This growth is likely to be supported by under-penetration of the passenger vehicles, increase in disposable incomes, faster economic growth, younger population, and increased focus from international OEMs.

Chart 28: NBFC - Passenger Vehicle AUM Trend

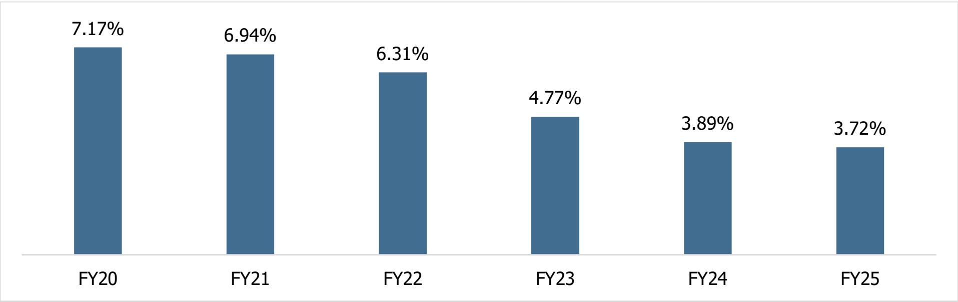


Source: CareEdge Research
E – Estimated, P - Projection
Note: The Consolidated Data includes the data from Shriram Transport Finance, Sundaram Finance, Cholamandalam Investment finance, Mahindra and Mahindra Financial services, Manappuram Finance.

5.3 Asset Quality – PV Financing

The improvement in the Asset quality has been substantial post pandemic it has reduced from 7.17% in FY20 to an estimated 3.72% in FY25.

Chart 29: Gross NPA



Source: CareEdge Research

E – Estimated, P - Projection
Note: The Consolidated Data includes the data from Shriram Transport Finance, Sundaram Finance, Cholamandalam Investment finance, Mahindra and Mahindra Financial services, Manappuram Finance.

In FY25, the gross NPA is estimated to have decreased to 3.72% from 4.77% in FY23. The GNPA is expected to gradually decline between FY25 - FY27, mainly due to sustained interest rates, strong rebound in the collection efficiencies and a rise in disposable income per capita.

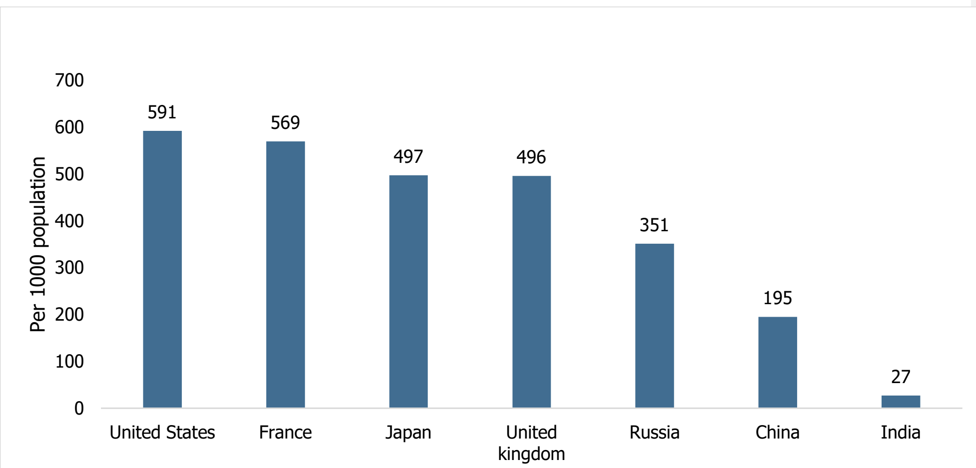
5.4 Growth Drive for the Passenger Vehicle and Used Passenger Vehicle

- **Passenger Vehicle**

Passenger Vehicle Market being Underpenetrated, Offering Strong Growth Potential in the Long Run.

As per CareEdge Research estimates, India had around 27 cars per 1,000 people as of fiscal 2025. Although the penetration grew from 22 cars per 1000 people in fiscal 2019 to 27 cars as of fiscal 2025, it is significantly lower than the developed nations and even emerging nations like Brazil, Russia, and Mexico. This major contrast underscores India's underpenetrated automotive market. This provides significant headroom for growth, especially given the expected increase in disposable incomes, faster economic growth, younger population, and increased focus from international OEMs. With penetration below the global average, India offers tremendous growth potential for automobile manufacturers.

Chart 30: Country-wise Car penetration



Note: Data for CY 2022, India Data for FY25.
Source: International Road Federation- World Road Statistics 2025, CareEdge Research

Regulatory Roadmap Critical to Driving Electric Mobility Growth in India.

The growth in the sale of passenger electric vehicles (EVs) in India is being significantly driven by proactive government policies aimed at promoting sustainable mobility. A key factor has been the government's sustained investment in expanding EV infrastructure, particularly the nationwide rollout of public charging stations. Additionally, initiatives such as the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles

(FAME) scheme—currently in its second phase—have played a pivotal role by offering direct subsidies to both consumers and manufacturers. The FAME II scheme, launched in 2019, allocated Rs 10,000 crore to support electric two-wheelers, three-wheelers, and passenger vehicles, enhancing their affordability and appeal.

- **Used Vehicles**

Leveraging Digital Platforms for Lead Generation in the Expanding E-commerce Landscape.

The expanding e-commerce ecosystem has significantly transformed India's used vehicle market, offering a more seamless, transparent, and efficient process for both buyers and sellers. Digital platforms such as Cars24, Spinny, and CarDekho have been instrumental in this shift, utilizing advanced technologies—such as AI-based vehicle valuation, online documentation, and end-to-end digital financing—to simplify traditionally fragmented processes. These platforms have introduced structured inspection protocols, verified listings, and doorstep delivery services, enhancing trust and convenience in what was once an opaque and informal sector.

A key enabler of this transformation is the growing penetration of internet and smartphone usage, which has allowed these digital marketplaces to expand their reach beyond Tier 1 cities into Tier 2, Tier 3, and even Tier 4 towns. As per reports from industry analysts, increasing disposable incomes and heightened digital literacy in non-metro regions are contributing to the rising demand for affordable mobility solutions, particularly in the pre-owned vehicle segment. This democratization of access has not only improved customer experience but has also widened the seller base, creating a more dynamic and scalable used car ecosystem. As a result, the used car market in India—already larger in volume than the new car market—is poised for accelerated growth, supported by digital innovation and rising consumer confidence in online transactions.

Accelerated Replacement Cycles and Shifting Consumer Preferences Post-Covid.

In the aftermath of the COVID-19 pandemic, India has witnessed a significant transformation in consumer behaviour within the automotive sector. One notable change is the shortening of the vehicle ownership cycle. Historically, Indian consumers retained their vehicles for an average of 6–8 years. However, recent trends indicate a reduction to approximately 4–5 years, with projections suggesting a further decline to around 3.5 years in the near future.

The influx of relatively newer, well-maintained vehicles has expanded the inventory available to pre-owned car buyers. Consequently, value-conscious consumers now have access to high-quality used vehicles at more affordable prices. The digital transformation of the automotive retail landscape has also played a pivotal role. Online platforms and organized dealerships have streamlined the buying and selling process, offering services such as virtual showrooms, online financing, and home delivery.

5.5 PV Financing Outlook for the next 3 years

The domestic sales in the PV industry grew at a 9.2% CAGR during FY20-FY25 period. Despite the pandemic hit, the industry surpassed record high sales of FY19; led by the sharp rise in traction for the SUV segment, increased vehicle launches coupled with the entry of newer players. The relatively lower impact on disposable income of the upper middle class led to significant growth in the SUV segment driving overall PV sales. In FY25, the industry reached a historic high of about 43 lakh vehicle sales.

Automobile manufacturers launched a series of new models equipped with modern designs and advanced features, catering to evolving consumer aspirations. These launches played a pivotal role in stimulating market demand.

These favourable macroeconomic factors are expected to aid the consumer disposable income levels which will eventually help the PV industry to grow at a higher pace. CareEdge projects the industry of PV to clock 2%-3% CAGR between FY25-FY27 period to reach 45 - 46 lakh units domestic vehicle sales. With healthy outlook for the PV segment, CareEdge projects NBFCs credit towards PV financing to grow at a CAGR of 15%-17% between FY25-FY27, with AUM reaching between Rs.1.8-1.9 trillion by FY27. This growth is likely to be supported by under penetration of the auto industry in India. There is an increase in demand for personal mobility, and the expansion of NBFCs' reach into semi-urban and rural markets.

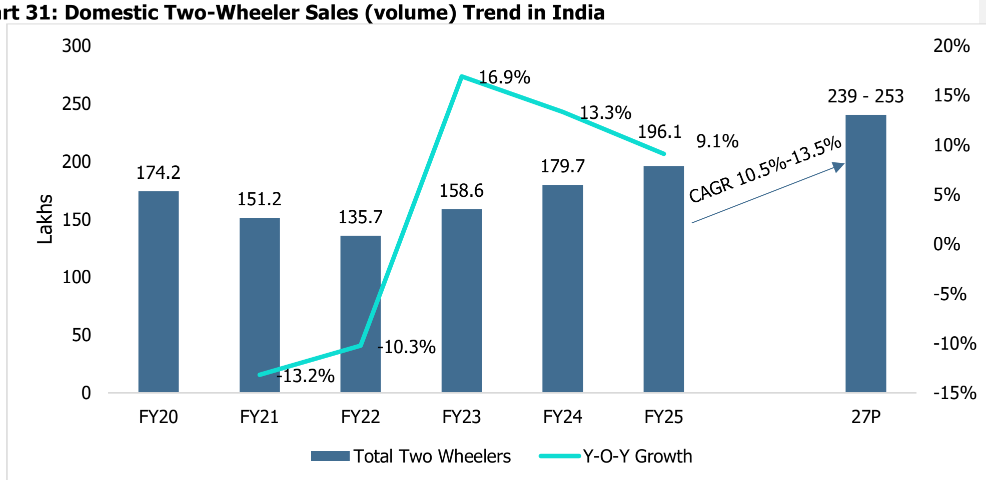
6 Two-Wheeler

6.1 Overview of Two- Wheeler Industry

The two-wheeler (2Ws) segment takes the largest chunk of the pie in the Indian automobile industry, with over 75% share in the total domestic sales volume. The two-wheeler industry has three sub-segments namely, Motorcycles, Scooters, and Mopeds.

The two-wheeler industry had witnessed domestic sales growth of 9% on y-o-y basis in FY25. The key drivers for growth included increased purchasing power led by distribution of harvest payments to farmers along with the ongoing wedding season. Additionally, the availability of a wide range of models and variants, coupled with favourable weather conditions and a generally positive market sentiment, contributed to this growth. Enhanced product acceptance, particularly among the youth, and lucrative financial options, coupled with the anticipation of price increases in January 2024, spurred purchases during FY24.

Chart 31: Domestic Two-Wheeler Sales (volume) Trend in India



Source: SIAM, CareEdge Research

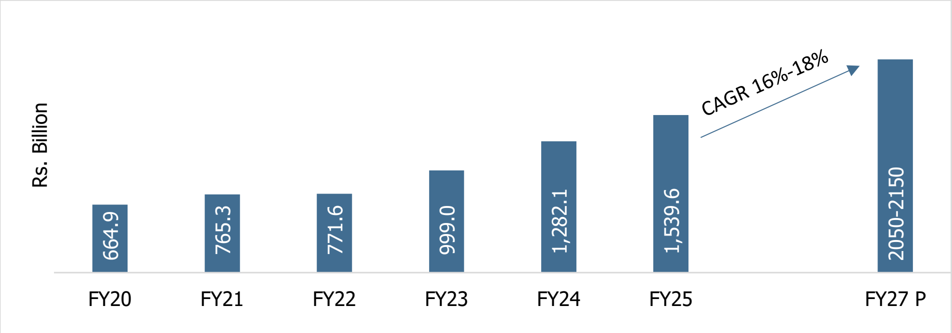
The two-wheeler segment domestic sales volume grew by 17% in FY23, after witnessing de-growth in FY21 and FY22. The consumer demand dipped because of rise in vehicle prices, commodity price escalations, high petrol prices and inflationary headwinds, amid job losses and income uncertainty. This segment is yet to reach the pre-pandemic level and domestic sales are still below the 2014-15 level. Owing to changes in consumer demand trends, new regulatory norms and high cost of vehicle ownership, sales of entry-level vehicle category are expected to remain moderate in the near term. This segment is still below the pre-covid level (212 lakhs in FY19), as demand from rural India continues to remain moderate in light of the inflationary and high-interest rate environment across all discretionary spend categories. By FY27, two-wheelers are expected to reach between 239-253 lakhs of sales, indicating 10.5%- 13.5% CAGR from FY25 to FY27.

6.2 Credit Growth of "Two-Wheeler Financing"

India is a consumption-driven economy, and the spending power of the increasing middle class has grown enormously. With convenient financing alternatives now accessible, people are adopting aspirational brand names when making purchases. Given higher prices, India's two-wheeler market was very modest. However, vehicle manufacturers have learned to cater to price-sensitive Indian consumers by offering specific versions and models. The approach has the potential to greatly enhance market growth.

Compared to banks, NBFCs are the leading financiers of two-wheeler vehicles. NBFCs have expanded their market share, owing to their regional expertise, improved customer relationship management, and flexibility in financing vehicles.

Chart 32: NBFC - Two-Wheeler Financing AUM



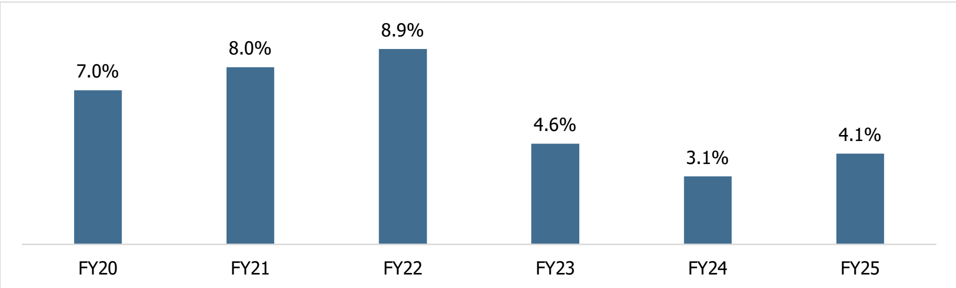
Source: CareEdge Research Estimates

The NBFC-driven two-wheeler finance segment has demonstrated strong growth momentum over the past few years. This continued growth momentum is largely driven by supported by improving rural consumption, better credit penetration, and recovery in vehicle sales.Furthermore, the two-wheeler finance segment is witnessing rising competitive intensity, driven by increased participation from NBFCs aiming to tap into the sector's high-growth potential. NBFCs with strong technology infrastructure, diversified sourcing channels, and disciplined risk management are best positioned to capitalise on the sector's long-term growth opportunity. Going forward, NBFCs credit towards two-wheeler financing is expected to grow at a CAGR of 16%-18% between FY25-FY27.

6.3 Asset Quality

Asset quality is anticipated to improve slightly as macroeconomic activity remains strong. Stress levels for NBFCs, which peaked during the pandemic, have since reverted to pre-pandemic levels. The asset quality for two-wheelers is likely to remain within a range due to the borrower segments' characteristics.

Chart 33: NBFC - Asset Quality of Two-wheeler segment



Source – CareEdge Estimates

Gross NPAs in the two-wheeler financing segment surged from 7% in FY20 to 8.9% in FY22, primarily due to Covid-led disruptions. NBFCs faced heightened defaults from low-income and semi-urban borrowers amid job losses and weak repayment capacity. Furthermore, declining collection efficiency and relaxed underwriting also contributed to the asset quality stress. However, in the post-Covid era, GNPA's from two-wheelers have decreased amid reducing defaults and improving collections. Additionally, increased provisioning, write-offs, growing loan book have also led to decline in GNPA.

6.4 Two- Wheeler Financing Outlook for next 3 years

CareEdge Research expects the two-wheeler domestic demand to improve in the near term. This growth would be supported by new model launches, better crop realizations, good harvesting season, and increasing demand for premium products, particularly in the 125cc+ segments.

India's NBFC sector continues to play an important role in driving credit growth for the country's underserved groups. NBFCs account for about 65%- 68% of all two-wheeler loans in India.

Two-wheeler manufacturers expect an influx of first-time consumers and an increase in rural demand to drive growth in the near term, supported by pipeline of new product launches. Many businesses are seeing an encouraging uptick in first-time purchasers. Demand would be supported by personal consumption, a recovery in consumer sentiment, and high disposable income.

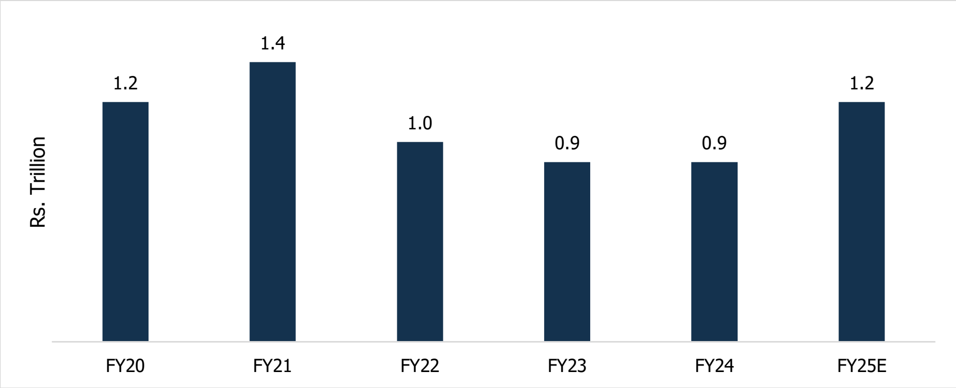
Further, increasing penetration of NBFCs are likely to fuel the growth of lending business in coming years. NBFCs two-wheeler segment is expected to grow at a CAGR of 16%-18% from FY25 to FY27, and is expected to reach around Rs. 2,050-2150 billion.

7 Overview on Construction Finance Portfolio of NBFCs

A construction loan or construction finance is a type of loan designed to finance the construction projects, for successful project management and ensuring adequate cash flow throughout the construction process. Generally, these funds are used to cover the cost of materials, labour, equipment or other expenses incurred in construction projects.

Construction finance helps real estate developers to deal with large upfront costs and manage their cashflows effectively. This source of funding also reinforces mitigation of risk.

Chart 34: Aggregate Construction Finance Portfolio of HFCs and NBFCs



Source: CareEdge Estimates
Note: E – Estimated

The construction finance portfolio of HFCs and NBFCs saw significant decline in FY22. This decline was majorly on account of decline in infrastructure activity, migration of labour following the Covid-19 pandemic. However, construction activity started to pick up slowly and this led to increase in need for funding of such projects. As of FY25, NBFCs and HFCs are estimated to have a construction finance portfolio of around Rs. 1.2 trillion, indicating 33.3% growth as of FY25 over FY24.

Furthermore, the Government of India has taken initiatives to facilitate the growth of the construction sector by implementing policies that encourage foreign investment, streamline approval processes, and promote sustainable development practices. The emergence of innovative financial instruments, like Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs), has also contributed to diversifying the financing options available for construction projects. The significant need for improved infrastructure is aiding ramp-up of construction activity in India thereby creating continuous opportunities for financial institutions to provide funding for construction projects.

8 Overview of Wholesale Finance

Wholesale finance refers to loans disbursed by banks to corporates belonging to the manufacturing and services sector. In the post pandemic era with the resumption of infrastructure activities, growth in businesses, increased demand from aviation, transport operators and commercial real-estate sectors has led to significant contribution of wholesale credit in credit deployed by SCBs. Over the years, there has been moderation in growth of bank credit towards industry and services post the IL&FS crisis.

Infrastructure segment of industry has been the highest recipient of credit from bank's credit towards industry. This is majorly driven by the increase in demand for credit from power sector for setting up of power plants, credit for transmission and distribution activities and demand for credit development of roads.

NBFCs also play a vital role in funding to these segments. NBFCs engaged in wholesale finance primarily cater to the funding requirements of sectors such as infrastructure, real estate, renewable energy, large SMEs, and financial intermediaries (like microfinance institutions and fintechs). These NBFCs structure products such as term loans, working capital finance, project finance, and structured credit solutions to meet the complex funding needs of large borrowers. NBFCs have emerged as significant players in wholesale finance due to their ability to offer flexible, innovative, and quicker solutions compared to traditional banks. Their strength lies in understanding niche sectors, providing last-mile funding, and addressing segments that may be underserved by banks due to regulatory or risk considerations.

The growing demand for infrastructure investments under initiatives like the National Infrastructure Pipeline (NIP), increased focus on renewable energy, and the rise of fintech ecosystems have further boosted opportunities for wholesale-focused NBFCs. However, wholesale finance exposes NBFCs to concentration risks, asset-liability mismatches, and cyclical downturns in sectors like real estate and infrastructure.

9 About the company

Laxmi India Finance Limited (LIFL), earlier know as Laxmi India Finance Private Limited, headquartered in Jaipur, Rajasthan, is a distinguished non-banking financial company (NBFC) with a strong track record of providing comprehensive financial solutions, particularly in underserved regions. Established in 1996, the company now has presence in Rajasthan, Gujarat, Madhya Pradesh, Chhattisgarh and Uttar Pradesh with a total of 158 branches. The company plans to further expand its branch network, enhancing its reach and service delivery.

They have a diverse range of product portfolio which includes MSME loan, Commercial Vehicle loan, Tractor Loan, Two-Wheeler loan, Personal loan, Construction loan. LIFL is serving all its seven products in Tier- II & Tier – III cities of both the states with an aim to support the wording of our honourable Prime Minister "sabka saath sabka vikas sabka vishwas" & "Make in India" concept too. Over the years, the Company has consistently expanded their branch network by strengthening their presence in existing markets, exploring new regions, and enhancing their penetration in high-potential areas. Their branch network has grown progressively from 93 branches as of Mar'22 to 158 branches by Mar'25.

10 Peer Profiling

Company Name	Description	Product & Service	Presence in States
MAS Financial Service Limited	Incorporated in 1995, MFSL was registered as an NBFC in 1998 with	• Micro Enterprise Loans (MEL) • Salaried Personal Loans (SPL)	• Gujarat • Maharashtra • Rajasthan • Madhya Pradesh

Company Name	Description	Product & Service	Presence in States

	RBI. It was initially engaged in the lending of two-wheeler and ME loans, and later engaged in CV loans, SME loans, salaried personal loans, and housing loans. In 2008, MFSL floated a subsidiary, MRHMFL is a non-deposit-taking, National Housing Bank (NHB) registered HFC, which provides housing loans to the low-income group segment in rural and semi-urban areas	• Two-Wheeler Loans
		• Small & Medium Enterprises Loans (SME)
		  ○ Machinery Loans
		  ○ Industrial Shed Loans
		  ○ Working Capital Loans
		  ○ Loan Against Property
		  ○ Business Loans Surrogate Program
		• Commercial Vehicles Loans
		• Used Car Loans
		• Tractor Loans
		• Partnership with NBFC-MFI, HFCs and MFIs
		• Housing Loans
			• Tamil Nadu
			• Karnataka
			• Chhattisgarh
			• New Delhi
			• Uttarakhand

Five Star Business Finance Limited	Founded in 1984, Five-Star is a non-deposit taking NBFC (loan company), registered with RBI. Five-Star lends mortgage loans for commencement of new businesses / improvement of their existing businesses (primarily towards the service sector), construction, takeover, home repairs and improvements, and personal loans among others, to salaried 5 CARE Ratings Ltd. Press Release and self-employed customers. All these loans are collateralised and secured against the residential property of the customers and are given targeting the middle and lower middle-class segment in urban, semi urban, and fast-	• Business Loans • Mortgage Loans	• Tamil Nadu • Andhra Pradesh • Telangana • Karnataka • Madhya Pradesh • Maharashtra • Chhattisgarh • Uttar Pradesh • Rajasthan • Puducherry

Company Name	Description	Product & Service	Presence in States
	growing rural geographies.		
Small Business FinCredit Finance Limited (SBFC)	SBFC Finance Limited is RBI registered systematically important non-deposit taking NBFC. The company commenced its operations in September 2017 after acquiring the secured retail portfolio from Karvy Financial Service Ltd along with its branch infrastructure and staff.	• Secured MSME • Loan Against Gold	• Uttar Pradesh • Haryana • Madhya Pradesh • Maharashtra • Karnataka • Bihar • Uttarakhand • Gujarat • Andhra Pradesh • Telangana • Tamil Nadu • Assam • Delhi • Rajasthan • West Bengal • Punjab
U Gro Capital	UGRO Capital Limited is a Data Tech Lending platform that uses its strong distribution reach and Data-tech methodology to solve the small business credit gap in India.	• Secured Business Loans • Business Loans • Machinery and Equipment Financing • Retailer Financing • Green Financing • Gro X • Pragati (Special loans for Women) • Industry Specific Products	• Chandigarh • Chhattisgarh • Delhi • Gujarat • Uttar Pradesh • Karnataka • Madhya Pradesh • Maharashtra • Punjab • Rajasthan • Tamil Nadu • Telangana • West Bengal • Andhra Pradesh • Haryana
Consolidated Securities Limited (CSL)	CSL Finance Limited (formerly known as Consolidated Securities Limited) was incorporated on 28th December 1992. They are a RBI registered NBFC.	• Wholesale Loans • Retail Loans • Emergency Credit Line Guarantee Scheme (ECLGS)	• Delhi (NCR) • Gujarat • Haryana • Punjab • Rajasthan • Uttar Pradesh • Uttarakhand
AKME Fintrade (India)	Akme Fintrade (India) Limited is an Udaipur based diversified RBI registered NBFC. Incorporated in 1996, the	• Micro Enterprise Loans • SME Loans • Two-Wheeler Loans • Used Car Loans • Commercial Vehicle Loans	• Rajasthan • Maharashtra • Madhya Pradesh • Gujarat

Company Name	Description	Product & Service	Presence in States
	Company is engaged in providing specialized retail financing services to the lower income and middle-income groups of the society. Since over two decades, the Company primarily caters to the financially underserved masses spread across urban, semi-urban, and rural areas in the formal and informal sectors.		
Moneybox Finance Limited	MFL is a RBI registered non-deposit taking, base layer NBFC (NBFC-BL) and listed on the BSE. It is promoted by Moneyboxx Capital Pvt Ltd and provides small-ticket business loans to micro and small enterprises. MFL commenced commercial operations in February 2019.	• Moneyboxx Vyapaar Loans (Secured) • Moneyboxx Vyapaar Loans (Secured) • Saral Mortgage Loans • Sikka – Buy Digital Gold	• Rajasthan • Madhya Pradesh • Haryana • Punjab • Uttar Pradesh • Chhattisgarh • Bihar • Gujarat

11 Peer Benchmarking

Financial Performance for FY25: -

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
Number of Branches	Count	158	204	748	205	235	43	29	163
Number of Employees	Count	1,434	4200+	11,934	4,294	1,678^	460	243	2000+
AUM	Rs. Million	12,770.18	1,20,998.00	1,18,770.00	87,470.00	1,20,030.00	11,950.00	6,186.10	9,270.00
AUM Growth	%	32.83%	19.50%	23.19%	28.22%	32.67%	16.02%	53.23%	26.99%
Disbursements	Rs. Million	7,185.34	NA	49,697.00	NA	NA	11,190.00	2,537.80	5,950.00
Disbursement Growth	%	36.75%	NA	1.81%	NA	NA	6.37%	161.49%	-10.53%
Average ticket size on Disbursement	Rs. Million	0.43	NA	0.36	0.94*	NA	1.00	0.15 - 0.20	0.34
AUM per branch	Rs. Million	80.82	593.13	158.78	426.68	510.77	277.91	213.31	56.87
AUM per employee #	Rs. Million	8.91	28.81	9.95	20.37	71.53	25.98	25.46	4.64
Net worth	Rs. Million	2,574.62	25,858.00	63,046.07	31,900.73	20,463.89	5,416.47	3,822.07	2,607.19
CRAR	%	20.80%	24.72%	50.10%	36.10%	19.14%	47.00%	57.58%	29.25%
Average cost of Borrowing	%	12.02%	9.17%	9.38%	9.05%	10.86%	10.84%	14.69%	11.72%
Total Income	Rs. Million	2,480.38	15,204.50	28,660.24	13,067.46	14,418.46	2,160.43	1,027.21	1,992.27
Net interest income	Rs. Million	1,166.85	5,672.60	20,982.97	7,781.43	3,310.34	1,341.92	628.52	1,072.94
PAT after OCI	Rs. Million	359.10	3,202.10	10,695.88	3,399.07	1,512.25	720.81	335.80	11.35
Yield on average gross loan	%	21.92%	16.24%	25.89%	17.95%	14.36%	19.39%	20.63%	29.19%
Spread	%	9.90%	7.07%	14.39%	8.42%	3.50%	8.56%	5.94%	17.47%
Net Interest Margin	%	9.73%	5.46%	16.07%	9.94%	4.29%	12.03%	11.31%	13.30%
Impairment to total average asset	%	0.99%	1.21%	0.68%	0.94%	2.24%	1.07%	0.53%	3.49%
Return on Assets	%	3.00%	3.08%	8.19%	4.34%	1.96%	6.46%	6.04%	0.14%
RONW	%	15.66%	14.71%	18.60%	11.39%	8.68%	14.18%	11.09%	0.53%

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
GNPA	%	1.07%	2.44%	1.79%	2.74%	2.30%	0.46%	2.77%	6.61%
NPA	%	0.48%	1.62%	0.88%	1.51%	1.60%	0.34%	1.27%	3.42%
Disbursement per branch per month	Rs. Million	3.79	NA	5.54	NA	NA	21.69	7.29	3.04
Disbursement per employee per month	Rs. Million	0.42	NA	0.35	NA	NA	2.03	0.87	NA
PAT per Employee #	Rs. Million	0.25	0.76	0.90	0.79	0.90	1.57	1.38	0.01
PAT per Branch	Rs. Million	2.27	15.70	14.30	16.58	6.44	0.06	0.05	0.00
Net Assets Value (NAV)	Rs.	61.57	142.50	214.13	29.40	222.57	241.21	89.56	79.85

Source – Company Reports

Note – 1) * Secured MSME, Spread for Five Star Business Finance Ltd and SBFC Finance Ltd are provided as per the company reports.

2) ^ indicates number of employees for UGRO Capital in FY24 (FY25 data not available)

3) # indicates that for calculation of AUM per employee, PAT per employee: number of employees considered for MAS Financial Services Limited is 4200, for UGRO Capital Limited is 1,678 (FY24), for Moneyboxx Finance Limited is 2000.

Financial Performance for FY24: -

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
Number of Branches	Count	135	189	520	183	150	29	12	100
Number of Employees	Count	1,144	3,692	9,327	3,758	1,678	421	125	1,802
AUM	Rs. Million	9,613.69	1,01,256.00	96,410.00	68,219.00	90,470.00	10,300.00	4,037.20	7,300.00
AUM Growth	%	39.98%	25.12%	39.42%	38.02%	48.77%	37.52%	13.99%	115.98%
Disbursements	Rs. Million	5,254.28	NA	48,814.00	NA	1,02,170.00	10,520.00	970.50	6,650.00
Disbursement Growth	%	53.06%	NA	43.95%	NA	41.90%	38.60%	23.88%	95.01%
Average ticket size on Disbursement	Rs. Million	0.48	NA	0.34	0.97	1.30	1.20	NA	0.30

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
AUM per branch	Rs. Million	71.21	535.75	185.40	372.78	603.13	355.17	336.43	73.00
AUM per employee	Rs. Million	8.40	27.43	10.34	18.15	53.92	24.47	32.30	4.05
Net worth	Rs. Million	2,012.15	17,689.50	51,961.55	27,780.66	14,383.16	4,748.27	2,232.39	1,688.52
CRAR	%	21.81%	24.05%	50.50%	40.52%	21.00%	51.00%	49.86%	28.28%
Average cost of Borrowing	%	12.06%	9.53%	8.81%	9.04%	11.22%	9.38%	14.79%	12.27%
Total Income	Rs. Million	1,750.18	12,292.80	21,951.01	10,199.20	10,816.81	1,666.00	735.01	1,280.00
Net interest income	Rs. Million	813.65	4,081.20	16,480.89	5,676.22	2,617.07	1,104.17	413.75	648.00
PAT after OCI	Rs. Million	226.21	2,635.00	8,341.48	2,350.12	1,138.50	632.93	185.28	89.65
Yield on average gross loan	%	20.87%	15.52%	25.64%	17.92%	15.25%	18.79%	18.92%	29.38%
Spread	%	8.81%	5.49%	14.56%	7.70%	4.03%	9.40%	4.13%	17.10%
Net Interest Margin	%	9.23%	4.86%	16.16%	8.86%	4.94%	12.52%	10.01%	12.96%
Impairment to total average asset	%	0.21%	1.07%	0.54%	0.73%	2.20%	0.58%	1.38%	1.42%
Return on Assets	%	2.57%	3.14%	8.18%	3.67%	2.15%	7.18%	4.48%	1.79%
RONW	%	12.80%	16.09%	17.50%	10.43%	9.40%	15.12%	8.66%	7.31%
GNPA	%	0.73%	2.25%	1.38%	2.43%	2.00%	0.44%	3.63%	1.54%
NPA	%	0.33%	1.51%	0.63%	1.36%	1.10%	0.25%	1.74%	1.04%
Disbursement per branch per month	Rs. Million	3.24	NA	7.82	NA	56.76	30.23	6.74	5.54
Disbursement per employee per month	Rs. Million	0.38	NA	0.44	NA	5.07	2.08	0.65	0.31
PAT per Employee	Rs. Million	0.20	0.71	0.89	0.63	0.68	1.50	1.48	0.05
PAT per Branch	Rs. Million	1.68	13.94	16.04	12.84	7.59	0.06	0.05	0.01
Net Assets Value (NAV)	Rs.	101.30	107.87	177.68	25.87	154.95	208.42	52.31	55.38

Source – Company Reports

Note - Spread for Five Star Business Finance Ltd and SBFC Finance Ltd are provided as per the company reports.

Financial Performance for FY23: -

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
Number of Branches	Count	119	149	373	152	98	26	9	61
Number of Employees	Count	906	1,154	7,347	28,219	1,261	257	114	735
AUM	Rs. Million	6,867.67	80,926.00	69,150.00	49,428.00	60,810.00	7,490.00	3,541.61	3,380.00
AUM Growth	%	29.19%	29.55%	36.47%	54.85%	104.75%	44.32%	0.81%	179.34%
Disbursements	Rs. Million	3,432.91	NA	3,3910.00	NA	72,000.00	7,590.00	783.40	3,410.00
Disbursement Growth	%	45.09%	NA	93.11%	NA	27.39%	54.58%	300.92%	203.60%
Average ticket size on Disbursement	Rs. Million	0.57	NA	0.30	0.99	1.80	1.10	NA	0.30
AUM per branch	Rs. Million	57.71	543.13	185.39	325.18	620.51	288.08	393.51	55.41
AUM per employee	Rs. Million	7.58	70.13	9.41	1.75	48.22	29.14	31.07	4.60
Net worth	Rs. Million	1,523.27	15,057.00	43,395.30	17,272.68	9,840.00	3,624.00	2,047.10	764.00
CRAR	%	23.09%	25.25%	67.17%	31.90%	20.00%	50.00%	51.19%	30.96%
Average cost of Borrowing	%	12.24%	9.85%	7.74%	8.24%	11.64%	8.81%	13.74%	12.67%
Total Income	Rs. Million	1,306.68	9,398.50	15,290.00	7,403.61	6,837.63	1,175.00	697.50	504.40
Net interest income	Rs. Million	619.65	3,225.10	12,325.33	3,777.00	1,896.39	813.53	351.02	271.91
PAT after OCI	Rs. Million	160.28	1,815.10	6,012.86	1,498.77	399.27	456.28	148.39	-66.93
Yield on average gross loan	%	21.34%	15.24%	25.14%	17.69%	15.44%	17.63%	18.33%	27.02%
Spread	%	9.10%	5.39%	14.10%	7.50%	3.79%	8.81%	4.60%	14.35%
Net Interest Margin	%	9.27%	4.69%	16.38%	7.36%	5.30%	12.41%	9.18%	11.53%
Impairment to total average asset	%	0.24%	0.77%	0.27%	0.62%	1.59%	0.59%	0.94%	1.44%

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
Return on Assets	%	2.40%	2.64%	7.99%	2.92%	1.12%	6.96%	3.88%	-2.84%
RONW	%	11.51%	12.75%	14.94%	9.94%	4.10%	13.34%	8.66%	-12.07%
GNPA	%	0.58%	2.15%	1.36%	2.60%	1.60%	0.61%	4.70%	0.59%
NPA	%	0.32%	1.52%	0.69%	1.58%	0.90%	0.35%	3.54%	0.30%
Disbursement per branch per month	Rs. Million	2.40	NA	7.58	NA	61.22	24.33	7.25	4.66
Disbursement per employee per month	Rs. Million	0.32	NA	0.38	NA	4.76	2.46	0.57	0.39
PAT per Employee	Rs. Million	0.18	1.57	0.82	0.05	0.32	1.78	1.30	-0.09
PAT per Branch	Rs. Million	1.35	12.18	16.12	9.86	4.07	0.06	0.04	-0.02
Net Assets Value (NAV)	Rs.	76.69	275.46	148.94	19.26	139.46	174.85	64.63	32.64

Source – Company Reports

Note - Spread for Five Star Business Finance Ltd and SBFC Finance Ltd are provided as per the company reports.

Financial Performance for FY22: -

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
Number of Branches	Count	93	125	300	135	90	22	9	30
Number of Employees	Count	605	946	5,675	2,048	1,111	200	160	313
AUM	Rs. Million	5,316.02	62,468.00	50,670.00	31,920.00	29,700.00	5,190.00	3,513.20	1,210.00
AUM Growth	%	15.04%	16.28%	13.99%	41.24%	125.51%	NA	-16.55%	92.06%
Disbursements	Rs. Million	2,366.00	NA	17,560.00	NA	56,520.00	4,910.00	195.40	1,123.20
Disbursement Growth	%	48.06%	NA	41.04%	NA	124.82%	14.19%	-63.67%	104.22%
Average ticket size on Disbursement	Rs. Million	0.51	NA	0.27	0.95	1.60	1.30		0.30
AUM per branch	Rs. Million	57.16	499.74	168.90	236.44	330.00	235.91	390.36	40.33

Comparison of KPIs with Industry Peers	Unit	Laxmi India Finance Limited	MAS Financial services Limited	Five Star Business Finance Limited	SBFC Finance Limited	U GRO Capital Limited	CSL Finance Limited	AKME Fintrade (India) Limited	Moneyboxx Finance Limited
AUM per employee	Rs. Million	8.79	66.03	8.93	15.59	26.73	25.95	21.96	3.87
Net worth	Rs. Million	1,261.87	13,406.00	37,103.50	12,871.67	9,660.00	3,217.00	1,378.48	345.14
CRAR	%	23.41%	26.35%	75.20%	26.20%	34.00%	64.00%	35.06%	30.59%
Average cost of Borrowing	%	12.46%	9.00%	9.97%	7.45%	7.49%	7.29%	12.75%	10.53%
Total Income	Rs. Million	982.45	6,570.80	12,560.00	5,307.02	3,134.16	746.00	675.00	233.10
Net interest income	Rs. Million	452.49	4,870.30	9,031.66	2,525.30	1,347.64	569.50	299.43	117.36
PAT after OCI	Rs. Million	145.72	1,499.80	4,513.10	647.99	147.96	335.00	43.28	-36.56
Yield on average gross loan	%	18.06%	19.30%	25.45%	18.59%	14.58%	16.32%	17.17%	24.62%
Spread	%	5.60%	10.30%	13.50%	7.20%	7.09%	9.03%	4.42%	14.08%
Net Interest Margin	%	8.46%	8.67%	14.88%	5.59%	5.85%	12.95%	7.22%	10.99%
Impairment to total average asset	%	0.11%	0.61%	0.75%	0.80%	1.28%	0.84%	2.56%	1.25%
Return on Assets	%	2.72%	2.67%	7.44%	1.44%	0.64%	7.62%	1.04%	-3.42%
RONW	%	12.94%	11.19%	14.97%	5.20%	1.54%	11.55%	3.22%	-12.46%
GNPA	%	2.84%	2.28%	1.05%	2.90%	1.90%	1.73%	4.90%	0.62%
NPA	%	1.91%	1.70%	0.68%	1.41%	1.40%	0.96%	4.05%	0.31%
Disbursement per branch per month	Rs. Million	2.12	NA	4.88	NA	52.33	18.60	1.81	3.12
Disbursement per employee per month	Rs. Million	0.33	NA	0.26	NA	4.24	2.05	0.10	0.30
PAT per Employee	Rs. Million	0.24	1.59	0.80	0.32	0.13	1.67	0.27	-0.12
PAT per Branch	Rs. Million	1.57	12.00	15.04	4.80	1.64	0.06	0.01	-0.03
Net Assets Value (NAV)	Rs.	79.41	239.37	127.35	15.42	136.99	155.07	63.19	15.98

Source – Company Report

Note - Spread for Five Star Business Finance Ltd and SBFC Finance Ltd are provided as per the company reports.

- Laxmi Finance has recorded second highest return on net worth in FY25 among the peers compared. It has also shown an increase in return on net worth to 15.7% in FY25 as compared to 12.8% in FY24.

- Among its peers, Laxmi Finance is one of the fastest growing players in terms of AUM. The company witnessed y-o-y growth of 32.83% in FY25. Additionally, Laxmi Finance yield on average gross loans increased to nearly 22% in FY25 as compared to ~21% in FY24.

- Laxmi Finance performs best in key parameters such as asset quality compared to its peers in FY25. With a GNPA of 1.07% and NNPA of 0.48%, it leads the peer group (except CSL Finance), demonstrating strong risk management and a healthy loan book.

- Laxmi Finance has the widest reach in Rajasthan in terms of having highest number of branches amongst its peers for the period ending FY25.

Definition of KPIs

Sr. No	KPI	Definition
1	Number of Branches	Number of branches represents aggregate number of branches as of the last day of relevant period/ year.
2	Number of Employees	Number of employees represents aggregate number of employees as of the last day of relevant period/ year.
3	AUM	AUM is the aggregate of (i) Loan Assets (Loans), which is aggregate amount of loan receivable from customer and includes future principal outstanding and overdue principal outstanding and (ii) Assigned Assets & business correspondence assets (Off Book), which represents aggregate amount of future principal outstanding and overdue principal outstanding for off book loan assets as at the last day of the relevant fiscal year/cut-off date.
4	AUM Growth (%)	AUM growth represents the growth percentage in AUM as of the last day of the relevant period/ year over AUM as of the last day of the previous period/year.
5	Disbursements	Disbursements is the aggregate of all loan amounts extended to customers in the relevant period/ year.
6	Disbursement Growth (%)	Disbursement growth represents the percentage growth in disbursement for the relevant period/ year over disbursement for the previous period/ year.
7	Average ticket size on Disbursement	Average ticket size on disbursement represents the Total disbursement extended to customers in the relevant period/ year divided by number of disbursements during the relevant period
8	AUM per branch (%)	AUM per branch represents AUM as of the last day of the relevant period/ year divided by the aggregate number of our branches as of the last day of relevant period/ year.
9	AUM per employee (%)	AUM per employee represents AUM as of the last day of the relevant period/ year divided by the aggregate number of our employees as of the last day of relevant period/ year.

Sr. No	KPI	Definition
10	Net worth	Net worth, which is a non-GAAP measure, means the aggregate value of the Equity Share capital and Other equity, after deducting the prepaid expenses as at the end of relevant period/ year.
11	CRAR	CRAR is computed by dividing our Tier I and Tier II capital by risk weighted assets, each as computed in accordance with relevant RBI guidelines.
12	Average cost of Borrowing	Average cost of borrowing is Adjusted finance cost divided by average Total borrowings. Average Total Borrowings is the simple average of our total Borrowings outstanding as at the end of the previous year and the last day of the relevant year. Total borrowing represents the aggregate of debt securities, borrowing (other than debts securities) and subordinated liabilities. Adjusted finance cost represents the finance costs reduced by interest on lease liability for the relevant period/ year.
13	Total Income	Total Income represents the Total Income for the relevant period/ year.
14	Net Interest Income	Net interest income represents the difference between interest income and finance costs for the period/ year. Interest income represents the sum of interest income on financial assets measured at amortized cost, interest on deposits with Bank and income on investment, for the relevant period/ year.
15	PAT after other comprehensive income (OCI)	Profit for period/ year represents the profit after OCI for relevant period/ year.
16	Yield on average gross loan	Yield on average gross loans is Interest income on financial assets measured at amortised cost divided by average gross loans.
17	Spread	Spread is the difference between yield on average gross loans and average cost of borrowing.
18	Net Interest Margin	Net Interest Margin represents the difference between interest income and finance costs for the period/ year to the average total assets for the period/ year.
19	Impairment to total average asset	Impairment on financial instruments to average total assets represents impairment on loans, bad debts written off (net of recoveries) for the relevant period/ year to the average total assets for the relevant period/ year.
20	Return on Assets	Return on Average Total assets (RoTA) represent profit for the period/ year divided by average of total assets as at the end of the relevant period/ year and our total assets as at the end of the previous year.
21	Return on Net-worth (RONW)	Return on Average Net Worth (RoNW) is calculated as the profit for the period/ year as a percentage of Average Total Net Worth for such period/ year.
22	Gross non-performing assets (GNPA)	GNPA ratio is Gross non-performing assets divided by Gross Loans outstanding as of the end of the relevant period/ year. Gross non-performing assets is the aggregate of Gross Loans - Stage 3 and Gross Loans – Regulatory Stage 3 as of the end of the relevant period/year.

Sr. No	KPI	Definition
23	Net non-performing assets (NNPA)	Net NPAs to net advances (Net NPA Ratio) represents our NNPAs to our Gross Loans reduced by impairment loss allowance on Gross Non-performing assets as of the end of the relevant period/ year. Net NPA represents Gross non-performing assets reduced by provisions for NPAs (excluding provisions on standard assets) as at the end of relevant period/ year. Gross non-performing assets is the aggregate of Gross Loans - Stage 3 and Gross Loans – Regulatory Stage 3 as at the end of the relevant period/ year.
24	Disbursement per branch per month	Disbursement per branch per month represents Disbursement as of the last day of the relevant period/ year divided by the aggregate number of our branches divided by number of months as of the relevant period/ year
25	Disbursement per employee per month	Disbursement per employee per month represents Disbursement as of the last day of the relevant period/ year divided by the aggregate number of our employee divided by number of months as of the relevant period/ year
26	PAT per Employee	PAT per employee represents PAT as of the last day of the relevant period/ year divided by the aggregate number of our employee as of the last day of relevant period/ year.
27	PAT per Branch	PAT per branch represents PAT as of the last day of the relevant period/ year divided by the aggregate number of our branches as of the last day of relevant period/ year.
28	Net Assets Value (NAV)	Net asset value per share (NAV) is computed as the Net Worth as of the last day of the relevant period divided by the outstanding number of equity shares as of the last day of the relevant period.

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About:

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