Research Report on NBFC Industry

December 2024

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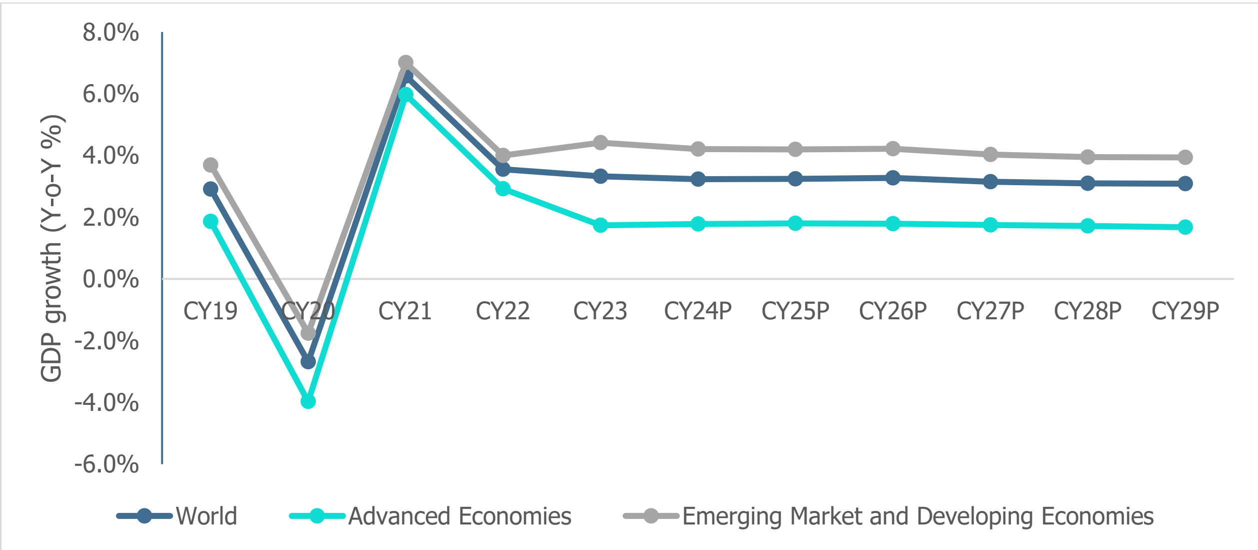
1 Economic Outlook

1.1 Global Economy

Global growth, which stood at 3.3% in CY23, is anticipated to fall and remain at 3.2% in both CY24 and CY25. The global real GDP growth outlook shows signs of improvement as cyclical imbalances ease, aligning economic activity with potential output in major economies. While global disinflation progresses, risks remain, particularly from financial market volatility and geopolitical tensions that could disrupt trade and increase commodity prices. Nonetheless, stronger public investment in advanced economies aimed at infrastructure and the green transition may stimulate private sector investment and bolster global demand. Additionally, accelerating structural reforms in both advanced and emerging markets could enhance productivity and support medium-term growth.

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



Notes: P-Projection; Source: IMF – World Economic Outlook,October 2024

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	CY24P	CY25P	CY26P	CY27P	CY28P	CY29P
India	-5.8	9.7	7.0	8.2	7.0	6.5	6.5	6.5	6.5	6.5
China	2.2	8.4	3.0	5.3	4.8	4.5	4.1	3.6	3.4	3.3
Indonesia	-2.1	3.7	5.3	5.0	5.0	5.1	5.1	5.1	5.1	5.1
Saudi Arabia	-3.6	5.1	7.5	-0.8	1.5	4.6	4.4	3.6	3.5	3.5
Brazil	-3.3	4.8	3.0	2.9	3.0	2.2	2.3	2.4	2.5	2.5
Euro Area	-6.1	6.2	3.3	0.4	0.8	1.2	1.5	1.4	1.3	1.2
United States	-2.2	6.1	2.5	2.9	2.8	2.2	2.0	2.1	2.1	2.1

P- Projections; Source: IMF- World Economic Outlook Database (October 2024)

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 slight slowdown to 2.2% 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 0.8% in CY24 and further to 1.2% 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 4.8% in CY24 to 4.5% in CY25 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 7% in CY24 and 6.5% 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 5.1% in CY25, an important concern for Indonesia is the trade fragmentation. **Saudi Arabia's** growth in CY24 is predicted to see a revamp in the growth rate to 1.5% on account of the extension of oil production cuts taking place in the country. Going forward, GDP is expected to grow at 4.6% in CY25. On the other hand, **Brazil's** growth is projected to be 3% 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 expected to slowdown in CY25 to 2.2%.

Despite the turmoil in the last 2-3 years, India bears good tidings to become a USD 5 trillion economy by CY27. According to the IMF dataset on Gross Domestic Product (GDP) at current prices, the nominal GDP has been at USD 3.6 trillion for CY23 and is projected to reach USD 5.2 trillion by CY27 and USD 6.3 trillion by CY29. 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.

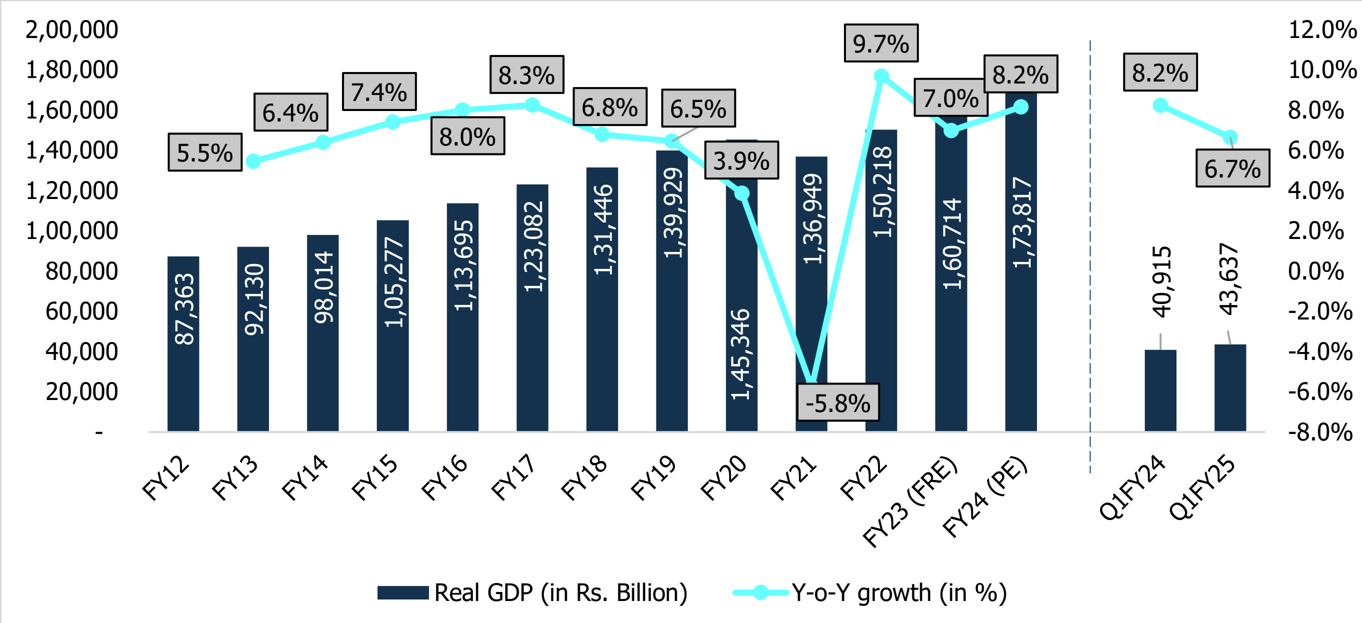
Besides, India stands out as the fastest-growing economy among the major economies. The country is expected to grow at more than 6.5% in the period of CY24-CY29, outshining China's growth rate. By CY27, the Indian economy is estimated to emerge as the third-largest economy globally, hopping over Japan and Germany. Currently, it is the third largest economy globally in terms of Purchasing Power Parity (PPP) with a ~7.9% share in the global economy, with China (~18.7%) on the top followed by the United States (~15.1%).

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: FRE – First Revised Estimates, PE – Provisional Estimate; Source: MOSPI

India's real GDP grew by 7.0% in FY23 and stood at ~Rs. 161 trillion, as per the First Revised Estimate, despite the pandemic in previous years and geopolitical Russia-Ukraine spillovers. Real GDP in the year FY24 is estimated to grow at 8.2% at Rs. 173.82 trillion as per provisional estimate of the Ministry of Statistics and Programme Implementation. It is expected that domestic demand, especially investment, to be the main driver of growth in India, amid sustained levels of business and consumer confidence.

In Q1FY25, real GDP grew by 6.7% y-o-y, hitting a 15-month low, as compared to 8.2% y-o-y in the previous quarter. Private consumption, a key driver of the GDP, showed resilience increasing by 7.45% while government spending contracted by 0.24%. This growth was largely driven by elections and extreme summer conditions, which impacted economic activities across several sectors.

GDP Growth Outlook

- Driven by fixed investment and improving global environment, domestic economic activity continues to expand. The provisional estimates (PE) placed real GDP growth at 8.2% for FY24.

- Industrial activity led by manufacturing continues its momentum on the back of strengthening domestic demand, lower input costs, and a supportive policy environment. The purchasing managers' index for both manufacturing and services sector remained elevated in September 2024, indicating a robust expansion.

- Domestic economic activity continues to remain steady. On the supply side, advancing monsoon has boosted kharif sowing and improved agricultural production prospects, while higher reservoir levels and good soil moisture conditions are favorable for the upcoming rabi crop. Additionally, growth in GVA for major non-agricultural sectors like manufacturing, construction, and utilities has stayed above 5% for Q1FY25, indicating expansion. On the demand side, household consumption is bolstered by an upward trend in rural demand while urban demand continues to hold firm. Additionally, improvement in government consumption can also be observed. Moreover, on the global trade front, services exports are supporting overall growth.

- Fixed investment activity is robust, supported by the government's ongoing focus on capital expenditure, healthy balance sheets of banks and corporates, and other policy measures. Private investment is picking up, driven by an increase in non-food bank credit, higher capacity utilization, and rising investment intentions.

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 October 2024 monetary policy, has projected real GDP growth at 6.6% y-o-y for FY25.

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

FY25P (complete year)	Q3FY25P	Q4FY25P	Q1FY26P	Q2FY26P
6.6%	6.8%	7.2%	6.9%	7.3%

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

1.2.2 Gross Value Added (GVA)

Gross Value Added (GVA) is the measure of the value of goods and services produced in an economy. GVA gives a picture of the supply side whereas GDP represents consumption.

Industry and Services sector leading the recovery charge

• The gap between GDP and GVA growth turned positive in FY22 (after a gap of two years) due to robust tax collections. Of the three major sector heads, the service sector has been the fastest-growing sector in the last 5 years.

• In FY23, **the agriculture sector** performed well despite weather-related disruptions, such as uneven monsoon and unseasonal rainfall, impacting yields of some major crops and clocked a growth of 4% y-o-y, garnering Rs. 22.3 trillion. The agriculture sector's growth slowed in FY24 to an estimated 1.4% rise for the year, down from 4.7% in FY23. The sector reached to Rs. 23.1 trillion for FY24 as per provisional estimate. In Q1FY25, the agriculture sector grew by only 2% y-o-y as compared to 3.7% in Q1FY24. Better monsoon conditions are expected to brighten outlook for the agriculture sector. Going forward, rising bank credit and increased exports will be the drivers for the agriculture sector.

• The **industrial sector** output in FY23 grew by only 2.1% with estimated value Rs. 44.74 trillion owing to decline in manufacturing activities. India's industrial sector experienced robust growth in FY24 supported by positive business sentiment, falling commodity prices, and government policies like production-linked incentives. The sector grew by 9.5% on y-o-y basis, reaching Rs. 48.9 trillion for FY24. In Q1FY25, the industrial sector grew by 8.3% y-o-y as compared to 6% in Q1FY24. This growth was driven mainly by sales growth in manufacturing companies, construction, and utility services. Construction grew at the highest rate of 10.5% as compared to a growth rate of 8.3% in the same quarter in previous year.

• In FY23, benefitting from the pent-up demand, the **services sector** was valued at Rs. 80.6 trillion and registered growth of 10.0% y-o-y. In FY24, India's services sector growth was driven by steady growth in various service sector indicators like air passenger traffic, port cargo traffic, GST collections, and retail credit. With this, the growth of service sector is estimated at Rs. 86.7 trillion registering 7.6% growth in FY24 overall. In Q1FY25, the services sector grew by only 7.2% y-o-y as compared to 10.7% in Q1FY24.

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

At constant Prices	FY19	FY20	FY21	FY22	FY23 (FRE)	FY24 (PE)	Q1FY24	Q1FY25
Agriculture, Forestry & Fishing	**2.1**	**6.2**	**4.1**	**3.5**	**4.7**	**1.4**	**3.7**	**2.0**
Industry	**5.3**	**-1.4**	**-0.9**	**11.6**	**2.1**	**9.5**	**6**	**8.3**
Mining & Quarrying	-0.9	-3.0	-8.6	7.1	1.9	7.1	7.0	7.2

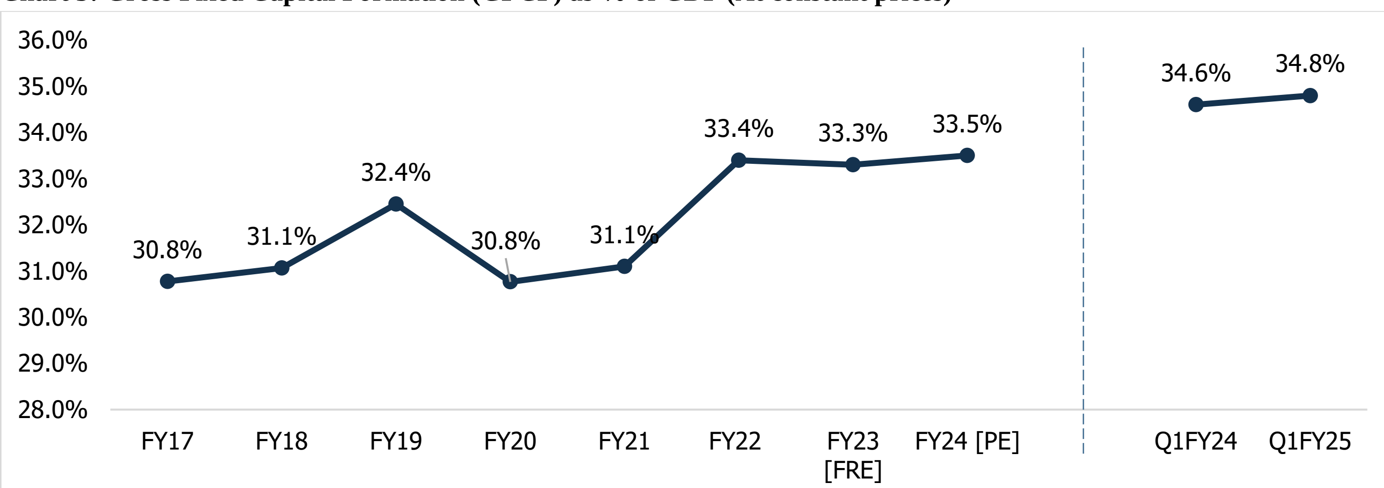
At constant Prices	FY19	FY20	FY21	FY22	FY23 (FRE)	FY24 (PE)	Q1FY24	Q1FY25
Manufacturing	5.4	-3.0	2.9	11.1	-2.2	9.9	5.0	7.0
Electricity, Gas, Water Supply & Other Utility Services	7.9	2.3	-4.3	9.9	9.4	7.5	3.2	10.4
Construction	6.5	1.6	-5.7	14.8	9.4	9.9	8.6	10.5
Services	**7.2**	**6.4**	**-8.2**	**8.8**	**10.0**	**7.6**	**10.7**	**7.2**
Trade, Hotels, Transport, Communication & Broadcasting	7.2	6.0	-19.7	13.8	12.0	6.4	9.7	5.7
Financial, Real Estate & Professional Services	7.0	6.8	2.1	4.7	9.1	8.4	12.6	7.1
Public Administration, Defence and Other Services	7.5	6.6	-7.6	9.7	8.9	7.8	8.3	9.5
GVA at Basic Price	**5.8**	**3.9**	**-4.2**	**8.8**	**6.7**	**7.2**	**8.3**	**6.8**

Note: FRE – First Revised Estimates, PE – Provisional Estimate; Source: MOSPI

1.2.3 Investment Trend in Infrastructure

Gross Fixed Capital Formation (GFCF) is a measure of the net increase in physical assets. In FY23, the ratio of investment (GFCF) to GDP remained flat, as compared to FY22, at 33.3%. Continuing in its growth trend, this ratio has reached 33.5% in FY24. In Q1FY25, GFCF as a proportion in GDP, reached 34.8% as compared to 34.6% in Q1FY24 mainly reflecting growth in private investment.

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



Note: 3RE – Third Revised Estimate, 2RE – Second Revised Estimates, 1RE – First Revised Estimates, PE – Provisional Estimate, FAE-First Advance Estimate; 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.

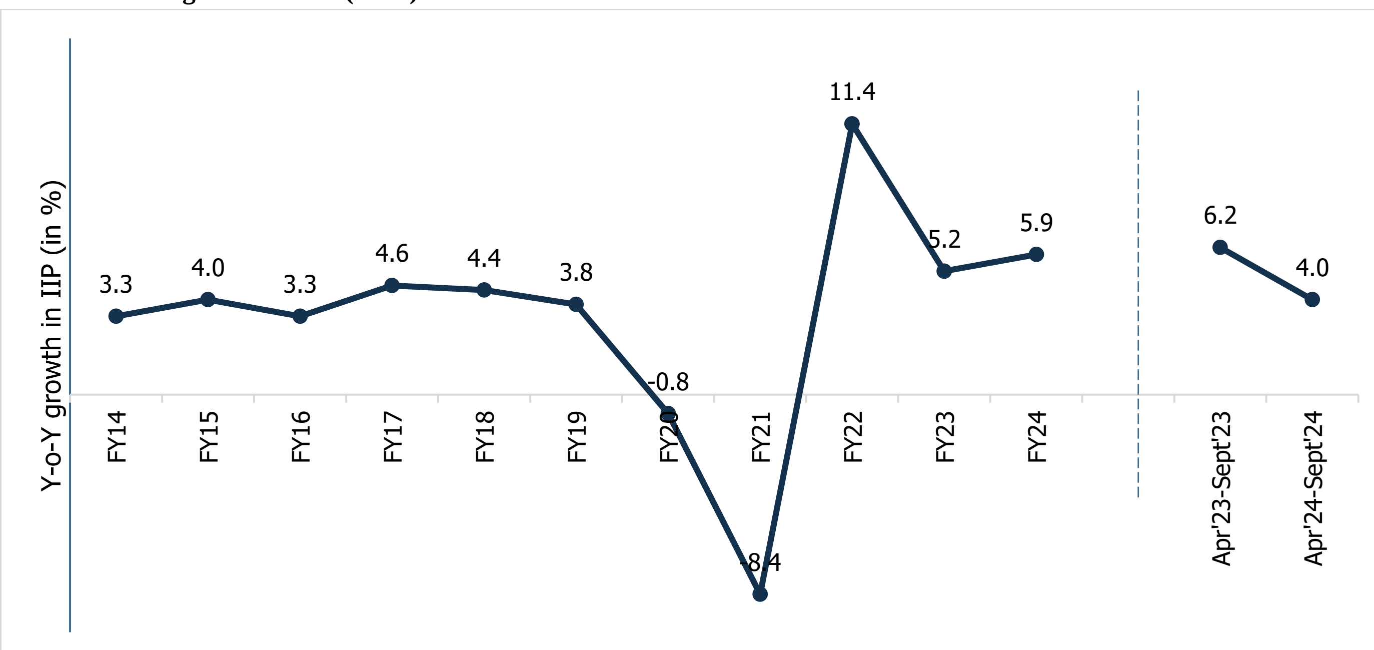
1.2.4 Industrial Growth

Improved Core and Capital Goods Sectors helped IIP Growth Momentum

The Index of Industrial Production (IIP) is an index to track manufacturing activity in an economy. During FY23, the industrial output recorded a growth of 5.2% y-o-y supported by a favorable base and a rebound in economic activities.

During FY24, the industrial output recorded a growth of 5.9% y-o-y supported by growth in manufacturing and power generation sectors. The period April 2024 – September 2024, industrial output grew by 4.0% compared to the 6.2% growth in the corresponding period last year. For the month of September 2024, the IIP growth increased by 3.1% as compared to the last year's IIP growth of 6.4%. This increase was on account of all the used based segments witnessing a growth in their Y-o-Y growth in September 2024 compared to August 2023. The manufacturing sector also grew modestly in September 2024 by 3.9% as compared to a growth of 5.1% in September 2023. Within the growth in manufacturing, the top three positive contributors were Manufacture of basic metals, Manufacture of electrical equipment, and Manufacture of coke and refined petroleum products. So far in the current fiscal, the government's strong infrastructure spending and rising private investment are evident, though consumer non-durables production has declined. Urban demand drives consumption, while rural demand improves, highlighting the importance of sustained consumption and investment for industrial performance.

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

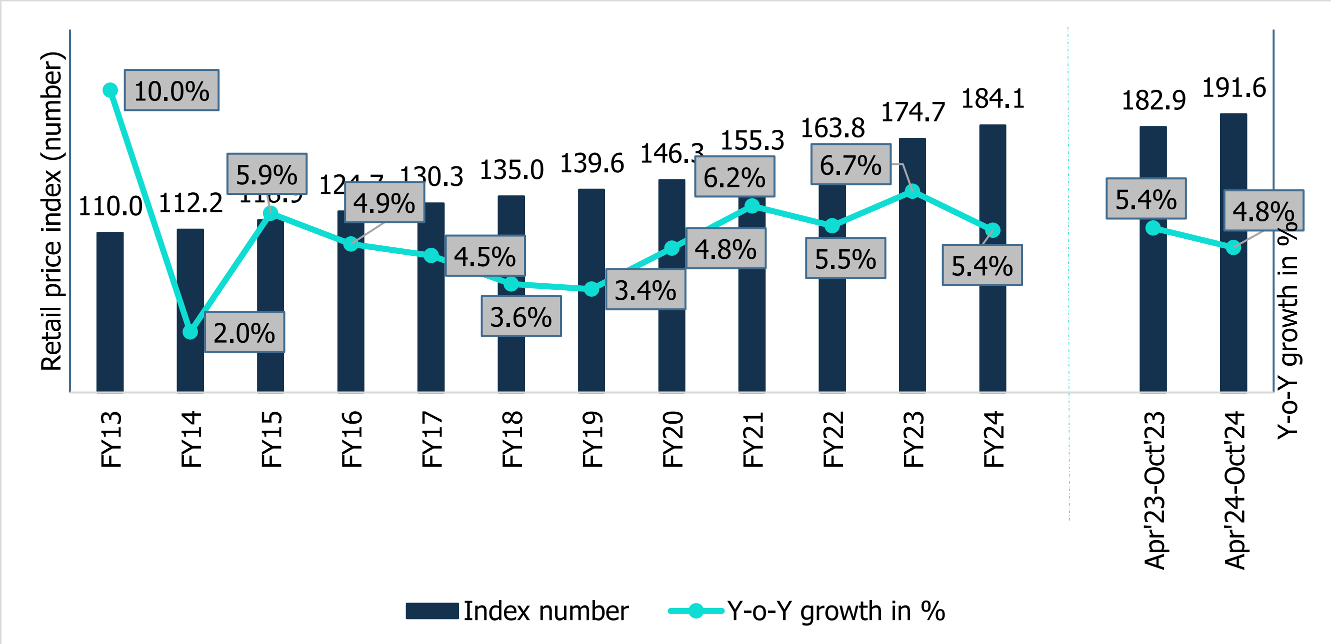


Source: MOSPI

1.2.5 Consumer Price Index

India's consumer price index (CPI) tracks retail price inflation in the economy. During FY23, CPI remained elevated at an average of 6.7%, above the RBI's tolerance level. In FY24, the Consumer Price Index (CPI) showed fluctuations, starting with a moderation to 4.3% in May 2023, followed by a spike to 7.4% in July 2023 due to rising food prices. Overall, inflation moderated to 5.4% for the year, remaining within the RBI's target range of 2% to 6%, despite volatility in food prices throughout the months. High inflation in specific food items poses inflation risk, even though an improvement in south-west monsoon and better kharif sowing are improving the food inflation outlook. The numbers for April 2024-October 2024 show a decline in inflation growth y-o-y to 4.8% as compared to inflation growth y-o-y of 5.4% in April 2023-October 2023 period. For October 2024, CPI inflation stood at 6.2% which has been the highest retail inflation since December 2023. There was a decline in inflation observed among the subgroups pulses & products, eggs, sugar & confectionery and spices subgroup.

Chart 5: Retail Price Inflation in terms of index and Y-o-Y Growth in % (Base: 2011-12=100)

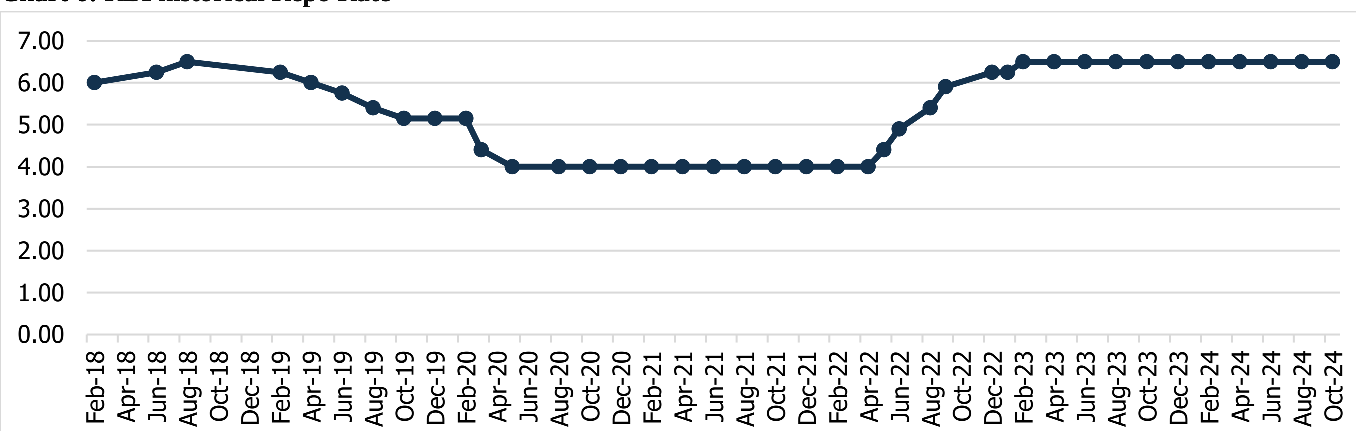


Source: MOSPI

The CPI is primarily factored in by RBI while preparing their bi-monthly monetory policy. At the bi-monthly meeting held in October 2024, RBI projected inflation at 4.5% for FY25 with inflation during Q2FY25 at 4.1%, Q3FY25 at 4.8%, Q4FY25 at 4.2%, and Q1FY26 at 4.3%.

Considering the current inflation situation, RBI has kept the repo rate unchanged at 6.5% again in the October 2024 meeting of the Monetary Policy Committee.

Chart 6: RBI historical Repo Rate



Source: RBI

Further, the central bank changed its stance to neutral. While headline inflation has started easing due to softening in core component and economic activity has been resilient supported by domestic and investment demand, volatility in food prices due to adverse weather conditions pose a risk to the path of disinflation. Core inflation has likely reached its lowest point, and fuel prices are contracting. Domestic growth remains strong, driven by private consumption and investment, allowing the MPC to focus on bringing inflation down to the 4% target. As a result, the MPC decided to adopt a 'neutral' stance, monitoring inflation while supporting growth.

1.2.6 Concluding Remarks

- **India's GDP growth is projected at 7% in CY24, well above the global average of 3.2%:** According to the IMF, India is expected to maintain strong growth in 2024, significantly outpacing the global economy. This growth is driven by robust domestic factors and a relatively resilient economic environment compared to other emerging economies.

- **Strong domestic demand, government support for capital expenditure, and moderating inflation are key growth drivers:** The continued healthy demand from Indian consumers and businesses, coupled with government initiatives to boost infrastructure and capital spending, provides a strong foundation for growth. Additionally, inflation is showing signs of moderation, easing pressure on consumers and businesses.

- **Improvement in high-frequency indicators like PMI, E-way bills, bank credit, and GST collections signals growth:** Several key economic indicators, such as the Purchasing Managers Index (PMI), e-way bills, bank credit growth, and GST collections, are showing positive trends, suggesting that economic activity is picking up. These indicators reflect stronger industrial activity, increased business investments, and a more efficient tax collection system.

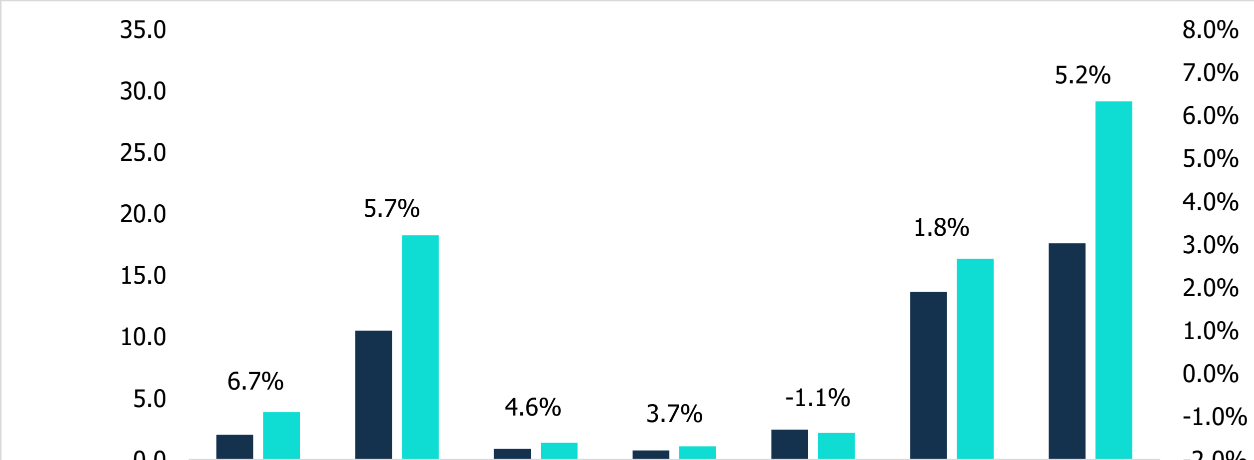
- **Ongoing reforms and a skilled workforce position India as a global manufacturing hub:** India is making significant strides in transforming itself into a major manufacturing hub. Government reforms aimed at improving ease of doing business, along with a large, skilled workforce and a growing startup ecosystem, are strengthening its position in global supply chains.

- **Increased public and private investment, along with improved rural demand, will further boost the economy:** The Indian government's strong focus on capital expenditure (Rs. 11.11 trillions allocated for FY25) and a recovering private investment outlook are expected to drive economic growth. Additionally, rural demand is rising due to good monsoon conditions and agricultural performance, further contributing to the overall economic expansion.

1.3 India is set to be one of the fastest growing Major economy

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 6.8%, 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 10.3% between CY24 and CY29, outpacing expansion in comparison to key developed and developing economies.

Chart 7: Size of the Global Economies in Last 10 Years (in USD Trillion)

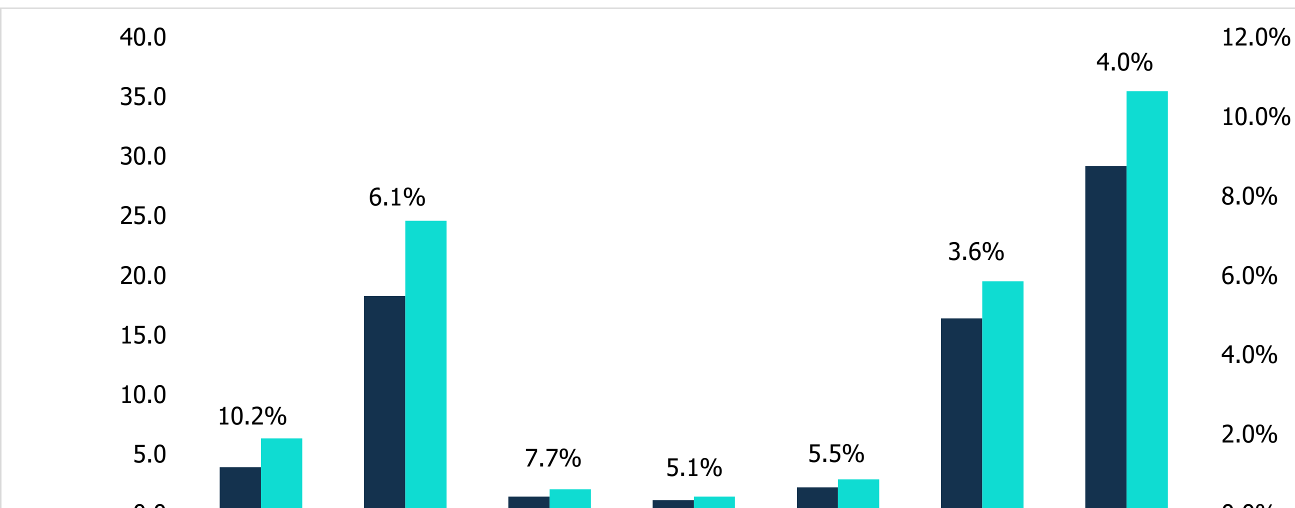


	India	China	Indonesia	Saudi Arabia	Brazil	Euro Area	United States
CY14	2.0	10.5	0.9	0.8	2.5	13.7	17.6
CY24P	3.9	18.3	1.4	1.1	2.2	16.4	29.2
CAGR (%)	6.7%	5.7%	4.6%	3.7%	-1.1%	1.8%	5.2%

Source: IMF World Economic Outlook Database (October 2024)

Note: CAGR is calculated for the period CY14 to CY24, P- Projections

Chart 8: Projected Size of the Global Economies for Next 5 Years (in USD Trillion)



	India	China	Indonesia	Saudi Arabia	Brazil	Euro Area	United States
CY24P	3.9	18.3	1.4	1.1	2.2	16.4	29.2
CY29P	6.3	24.6	2.0	1.4	2.9	19.5	35.5
CAGR (%)	10.2%	6.1%	7.7%	5.1%	5.5%	3.6%	4.0%

Source: IMF World Economic Outlook Database (October 2024)

Note: CAGR is calculated for the period CY24P to CY29, P- Projections

1.4 State wise key parameters

1.4.1 Contribution of Indian States to GDP

Table 4: State-wise Contribution to GDP (%)

State/UT	FY22	FY23	FY24
Maharashtra	11.78	12.89	13.87
Gujarat	7.86	8.43	NA
Tamil Nadu	7.73	8.35	9.04
Karnataka	7.11	7.68	8.19
Uttar Pradesh	6.99	7.62	8.19
West Bengal	4.53	4.83	5.20
Rajasthan	4.17	4.50%	4.86
Andhra Pradesh	4.16	4.40	4.72
Telangana	3.85	4.18	4.56
Madhya Pradesh	3.36	3.58	3.80
Delhi	3.34	3.60	3.87
Kerala	3.29	3.43	3.65
Haryana	3.13	3.38	3.65
Odisha	2.61	2.76	3.00
Punjab	2.52	2.68	2.85
Bihar	2.23	2.45	2.67
Chhattisgarh	1.61	1.74	1.85
Assam	1.49	1.62	1.83
Jharkhand	1.41	1.53	1.64
Uttarakhand	1.06	1.14	1.23
Himachal Pradesh	0.72	0.77	0.82
Jammu & Kashmir-UT	0.66	0.74	0.80
Goa	0.31	0.31	NA
Tripura	0.23	0.25	0.27
Chandigarh	0.18	0.19	NA
Meghalaya	0.14	0.15	0.16
Puducherry	0.14	0.15	0.15
Sikkim	0.12	0.13	0.14
Manipur	0.11	0.1	NA
Arunachal Pradesh	0.11	0.11	NA
Nagaland	0.11	0.12	NA
Mizoram	0.10	0.12	NA
Andaman & Nicobar Islands	0.04	0.04	NA

Source: MOSPI

The state of Maharashtra is the leading contributor to India's GDP, with its share rising from 11.78% in FY22 to an estimated 13.87% in FY24. The state's economy is diverse, driven by finance, entertainment, and technology, with Mumbai serving as a key financial hub. Tamil Nadu follows closely, increasing its GDP contribution from 7.73% in FY22 to 9.04% in FY24, due to a robust manufacturing sector and a growing IT industry.

Karnataka contributes 8.19% FY24, up from 7.11% in FY22. Uttar Pradesh shows significant growth, with a rise from 6.99% in FY22 to 8.19% in FY24, leveraging its diverse economy. Lastly, West Bengal's contribution has increased from 4.53% in FY22 to 5.20% in FY24.These states collectively play a crucial role in driving India's economic progress.

1.4.2 State-wise GDP contribution and 3-year growth

Table 5: State-wise YoY-growth (%)

State/UT	FY22	FY23	FY24
Assam	4.16	8.89	13.33
Telangana	11.18	8.38	9.24
Bihar	4.96	9.85	9.20
Tripura	8.55	8.20	8.65
Sikkim	8.61	8.04	8.52
Odisha	16.42	6.06	8.43
Tamil Nadu	7.89	8.13	8.23
Rajasthan	8.95	7.81	8.03
Haryana	9.72	7.88	7.97
West Bengal	11.85	6.65	7.65
Uttarakhand	10.49	7.63	7.58
Maharashtra	10.57	9.44	7.57
Jharkhand	12.02	7.84	7.52
Uttar Pradesh	11.42	9.00	7.48
Delhi	8.76	7.85	7.39
Andhra Pradesh	9.56	5.81	7.35
Jammu & Kashmir-UT	2.67	11.83	7.26
Himachal Pradesh	7.60	6.89	7.07
Punjab	7.39	6.33	6.62
Karnataka	9.82	8.07	6.60
Chhattisgarh	11.71	7.67	6.56
Kerala	11.78	4.24	6.52
Madhya Pradesh	8.03	6.58	6.01
Meghalaya	8.31	7.69	5.80
Puducherry	1.96	4.79	3.79
Gujarat	10.03	7.35	NA
Goa	1.07	2.39	NA
Chandigarh	6.95	10.66	NA
Manipur	10.56	11.38	NA
Arunachal Pradesh	0.86	1.06	NA
Nagaland	3.50	10.18	NA
Mizoram	7.52	14.22	NA
Andaman & Nicobar Islands	5.46	7.62	NA

Source: MOSPI

Assam had the highest year-on-year growth in FY24, with its GDP growth accelerating from 4.16% in FY22 to an impressive 13.33% in FY24. Similarly, Odisha demonstrated strong growth, beginning at 16.42% in FY22 after a decelerating growth in FY21 due to COVID-19 at -2.13% and moderating to 8.43% by FY24, largely due to its focus on industrialization and attracting investments. Other notable states, such as Telangana and Bihar, also maintained robust growth rates exceeding 9% in FY24.

In contrast, Arunachal Pradesh exhibited minimal growth, starting at 0.86% in FY22 and slightly increasing to 1.06% in FY23, indicating considerable economic challenges. Puducherry and Goa also reported lower growth rates of 4.79% and 2.39%, respectively.

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

Table 6: State-wise GST collection

State	SGST (in Rs. Crore)				
	FY22	FY23	FY24	Apr-Aug (2023)	Apr-Aug (2024)
Maharashtra	70,516	85,532	100,843	1,284	1,289
Gujarat	32,724	37,802	42,371	1,130	1,172
Tamil Nadu	29,441	36,353	41,082	3,555	3,890
Karnataka	28,660	35,429	40,969	284	316
Uttar Pradesh	23,766	27,366	32,534	2,202	2,507
West Bengal	18,164	21,514	23,436	8,304	9,664
Haryana	15,116	18,143	20,334	6,430	7,342
Telangana	14,603	16,877	20,012	7,167	7,569
Rajasthan	13,443	15,636	17,531	13,552	15,146
Odisha	12,743	14,211	16,455	3,444	3,768
Delhi	11,329	13,619	15,647	237	165
Andhra Pradesh	10,567	12,542	14,008	306	263
Kerala	9,887	12,311	13,967	131	125
Madhya Pradesh	9,433	10,937	13,072	148	181
Jharkhand	6,328	7,813	8,840	132	138
Bihar	6,083	7,543	8,535	223	227
Punjab	6,896	7,660	8,406	269	268
Chhattisgarh	6,818	7,489	8,175	2,458	2,709
Assam	4,638	5,180	6,010	10,062	10,313
Uttarakhand	3,780	4,787	5,415	3,824	3,719
Jammu and Kashmir	2,066	2,350	2,945	6,870	7,816
Himachal Pradesh	1,997	2,346	2,597	3,505	3,674
Goa	1,418	2,018	2,352	5,334	5,783
Chandigarh	507	629	689	17,439	18,925
Dadra and Nagar Haveli	537	637	661	0	0
Arunachal Pradesh	337	494	628	268	317
Meghalaya	367	489	607	42,053	46,588
Tripura	388	435	512	16,628	18,631
Puducherry	366	463	509	945	1,068
Sikkim	254	301	420	14	3
Manipur	287	321	346	5,819	6,034

State	SGST (in Rs. Crore)				
	FY22	FY23	FY24	Apr-Aug (2023)	Apr-Aug (2024)
Nagaland	190	228	307	16,638	18,535
Mizoram	163	230	273	204	225
Ladakh	99	171	250	99	95
Other Territory	126	201	231	7,909	8,437
Andaman and Nicobar Island	170	183	206	5,905	6,147
Lakshadweep	9	10	19	79	90
Daman and Diu	1	0	1	95	80
Total	**344,216**	**410,251**	**471,195**	**194,949**	**213,219**

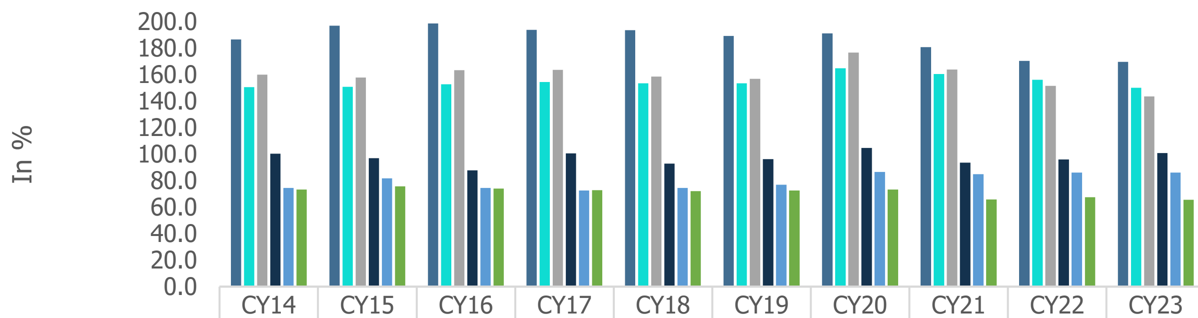
Source: Goods and Services Tax

Maharashtra is the leading state in Goods and Services Tax (GST) collection, with revenues rising from ₹70,516 crore in FY22 to an estimated ₹100,843 crore in FY24. This growth reflects the state's significant commercial activity, supported by a collection of ₹1,289 crore from April-August 2024. Gujarat follows with GST collections increasing from ₹32,724 crore in FY22 to ₹42,371 crore in FY24, driven by its strong industrial sector. Tamil Nadu ranks third, with collections rising from ₹29,441 crore in FY22 to ₹41,082 crore in FY24, bolstered by its diverse economy.

In contrast, Lakshadweep has the lowest GST collection, reporting just ₹9 crore in FY22, which increased slightly to ₹19 crore in FY24. The limited economic activity and smaller population in Lakshadweep contribute to its minimal tax revenue, underscoring the challenges faced by smaller regions in generating significant GST collections compared to more economically robust states.

1.5 Credit Penetration in India

1.5.1 Overview of Credit Market in India vis a vis Other matured markets GDP



	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23
Australia	186.7	197.1	198.7	193.9	193.6	189.3	191.3	180.7	170.4	169.8
United States	150.7	150.9	152.7	154.4	153.6	153.4	164.8	160.5	156.1	150.1
United Kingdom	160.0	157.8	163.3	163.7	158.5	157.0	176.6	163.9	151.5	143.7
India	100.4	97.0	87.9	100.7	92.9	96.2	104.8	93.6	95.9	100.9
Brazil	74.4	81.8	74.4	72.5	74.4	77.0	86.5	84.9	86.1	86.2
South Africa	73.2	75.8	74.0	72.8	72.0	72.5	73.2	65.8	67.4	65.5

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 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, 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.

State wise credit to GDP ratio:

State	FY22	FY23	FY24
ANDHRA PRADESH	47.9%	49.2%	53.0%
ASSAM	23.4%	23.5%	23.4%
BIHAR	30.2%	31.1%	32.4%
CHHATTISGARH	33.6%	35.6%	38.3%
HARYANA	42.9%	46.1%	53.1%
HIMACHAL PRADESH	23.8%	24.4%	26.6%
JAMMU & KASHMIR	42.4%	41.8%	43.4%
JHARKHAND	24.5%	26.2%	28.4%
KARNATAKA	44.9%	45.3%	49.5%
KERALA	45.9%	47.8%	50.7%
MADHYA PRADESH	32.9%	33.0%	35.9%
MAHARASHTRA	86.4%	91.4%	99.7%
MEGHALAYA	23.6%	25.5%	26.9%
NCT OF DELHI	161.7%	151.4%	153.7%
ODISHA	26.3%	28.5%	31.2%
PUDUCHERRY	39.5%	41.0%	45.7%
PUNJAB	45.9%	46.2%	50.5%
RAJASTHAN	37.0%	37.9%	40.3%
SIKKIM	13.8%	13.8%	13.5%
TAMIL NADU	55.9%	55.4%	58.2%
TELANGANA	58.8%	59.2%	62.6%
TRIPURA	21.8%	20.0%	21.1%
UTTAR PRADESH	32.6%	33.1%	36.3%
UTTARAKHAND	25.4%	25.4%	27.4%
WEST BENGAL	36.1%	35.0%	35.4%

Source: RBI, MOSPI, CareEdge Research

The credit-to-GDP ratio of below mentioned states has shown an increase from FY22 to FY24, however the lower ratio indicates more scope for credit growth, which can be supported by banks and NBFCs.

- **Rajasthan**: From 37% in FY22 to 40.3% in FY24
- **Madhya Pradesh**: From 32.9% in FY22 to 35.9% in FY24
- **Chhattisgarh**: From 33.6% in FY22 to 38.3% in FY24

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 Company (NBFC)

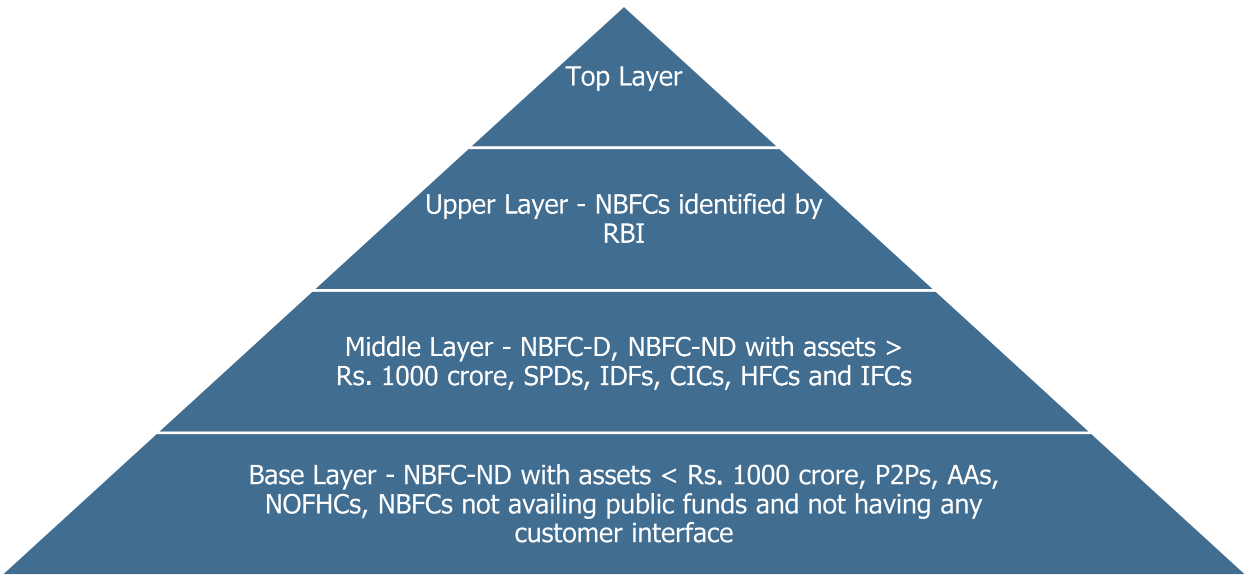
2.1 Introduction to Non-banking Financial Institutions (NBFIs)

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.

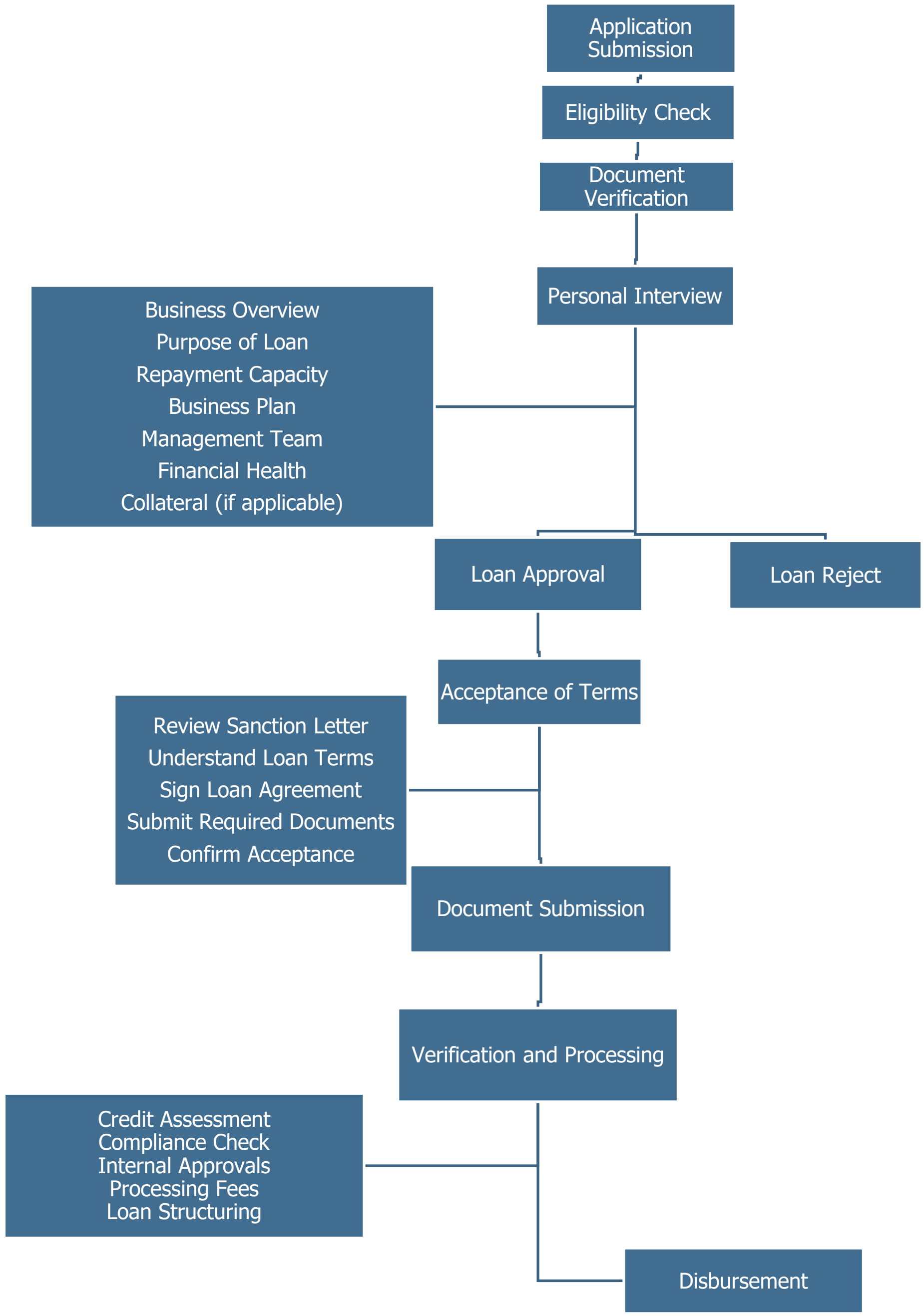
And since NBFCs cater to niche areas, they are also categorized on the basis of the activities they undertake. Till February 21, 2019, NBFCs were divided into 12 categories. Thereafter, these categories were harmonized in order to provide NBFCs with greater operational flexibility. As a result, asset 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 in the activity-based classification.

Table 7: Types of NBFCs

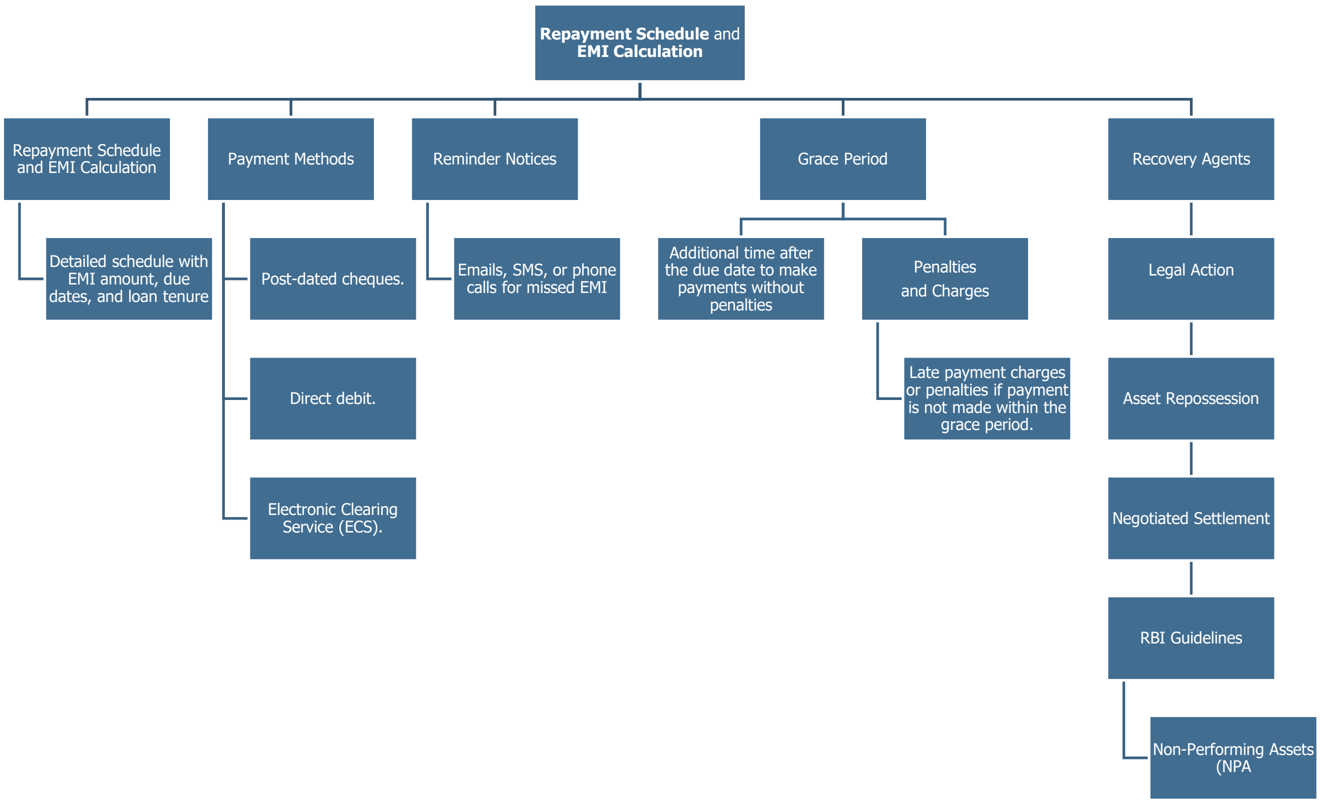
Classification	Activity
Investment and Credit Company (NBFC-ICC)	Lending which supports productive/economic activities and acquisition of securities for investment.
NBFC-Infrastructure Finance Company (NBFC-IFC)	Infrastructure loans.
Core Investment Company (CIC)	Investment in equity shares, preference 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

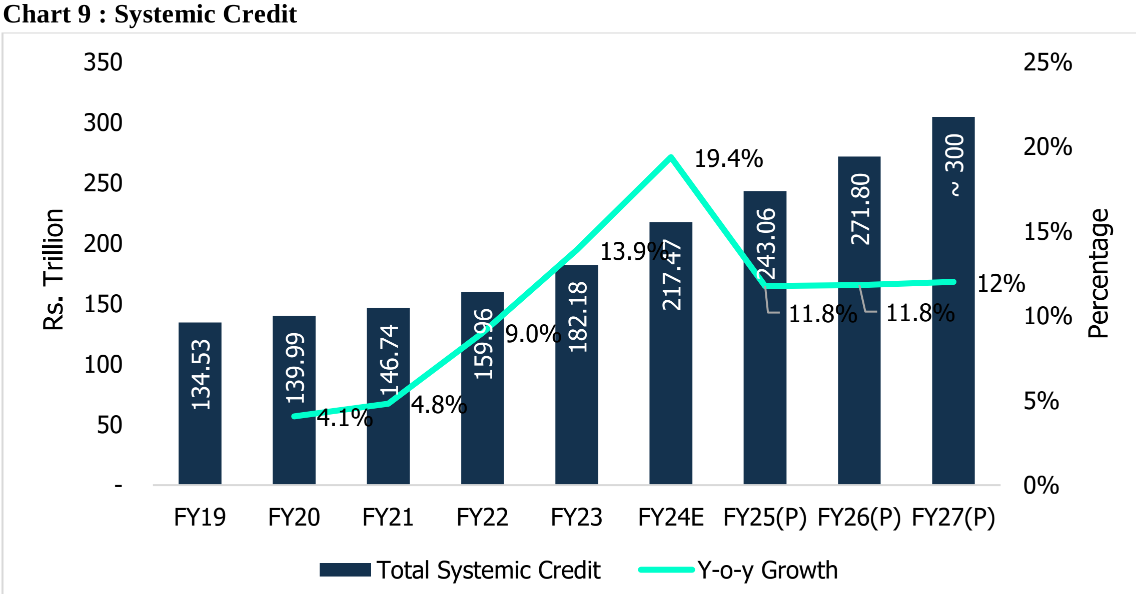


2.4 Loan Collection Process



2.5 Systemic Credit

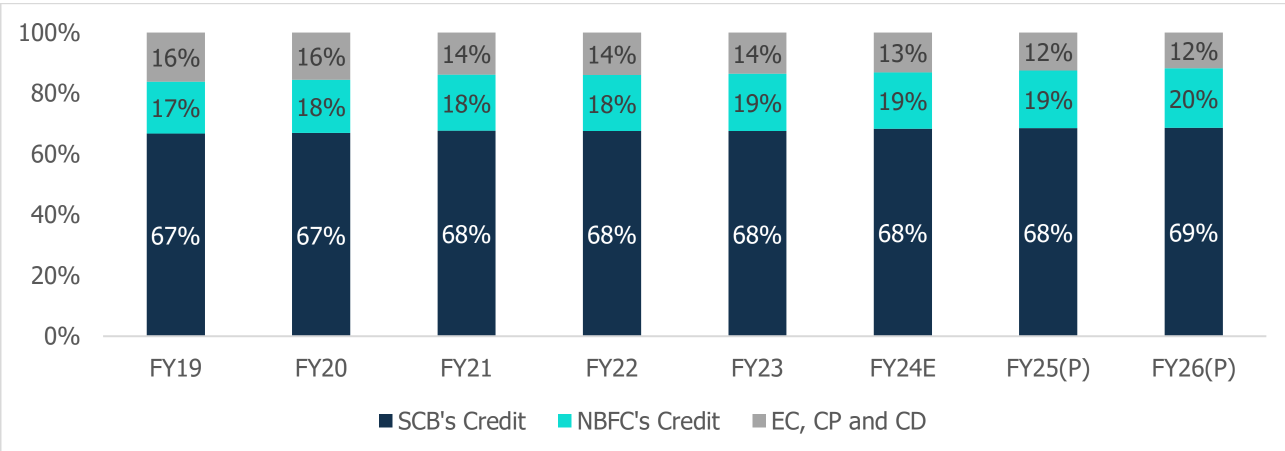
Chart 9 : Systemic Credit



Source: RBI, CareEdge Estimates
Note: Systemic Credit includes SCB's Outstanding credit (excluding the Credit provided to NBFC's), NBFC's Outstanding Credit, Commercial Paper, Certificate of Deposits and External commercial borrowings. E Refers to Estimated and P refers to Projected.

Total systemic credit has shown consistent growth from FY19 to FY24, with a notable acceleration in recent years. FY23 saw a sharp increase, with a year-on-year (Y-o-Y) growth of 13.9%, reflecting the economic recovery post-pandemic and increased credit demand across various sectors. In FY24, the Y-o-Y growth is expected to remain strong at 19.4%, driven by sustained economic momentum and higher borrowing activity. Looking ahead, systemic credit is projected to grow at a stable rate of 11.8% in both FY25 and FY26, with total credit expected to reach Rs. 243.06 trillion in FY25 and Rs. 271.80 trillion in FY26 and approx. Rs. 300 trillion in FY27, reflecting ongoing growth in both corporate and retail lending as the economy continues to expand.

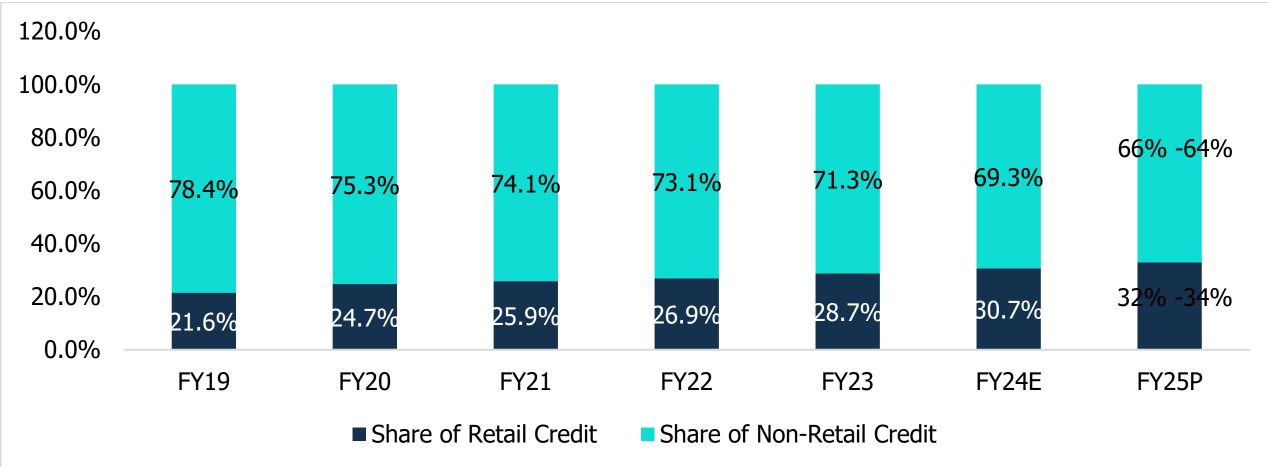
Chart 10: Share of NBFC's in the Systemic Credit



Source: RBI, CareEdge Estimates
Note: P indicates Projected

SCBs (Scheduled Commercial Banks) have consistently held the largest share of total systemic credit, accounting for 67-68% from FY19 to FY24E, and are projected to maintain a similar share through FY26. Meanwhile, credit from NBFCs (Non-Banking Financial Companies) has seen a gradual increase, rising from 17% in FY19 to 19% in FY23, and it is expected to continue its upward trajectory, reaching 20% of the total systemic credit by FY26. NBFC credit has been the fastest-growing segment within the credit market, reflecting the growing role of NBFCs in providing financing to underserved sectors like small and medium enterprises (SMEs) and retail customers. This rapid growth is driving the increase in their share of total credit.

Chart 11: Retail Credit as % of Total Credit

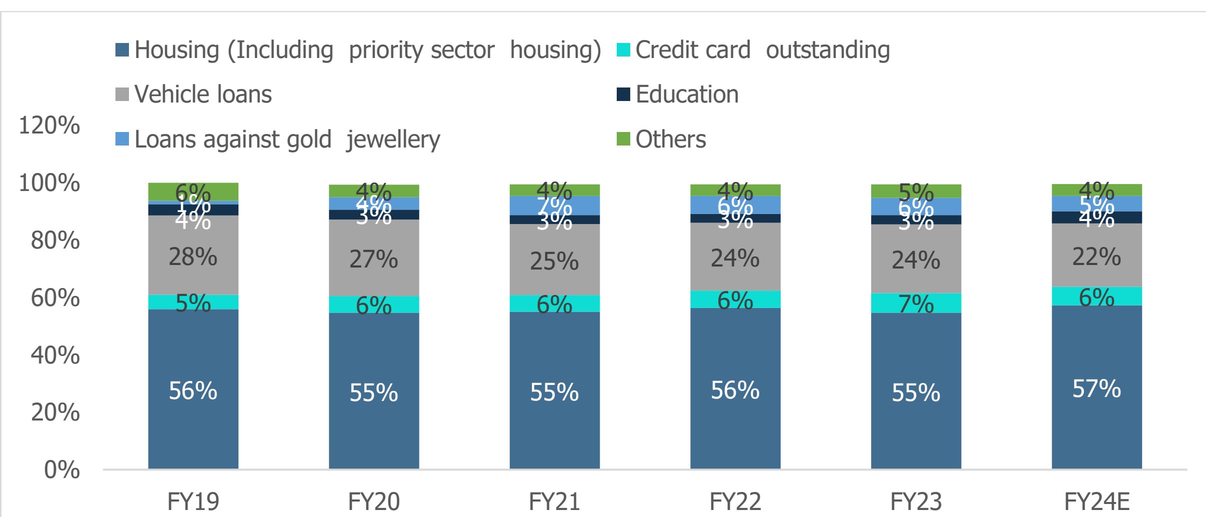


Source: RBI, CareEdge Estimates
Note: P indicates Projected

The share of retail credit in total systemic credit has been steadily increasing from 21.6% in FY19 to an expected 30.7% in FY24E and it is expected to be in the range of 32% to 34% in FY25. This growth reflects the rising demand for consumer loans, including home loans, personal loans, and auto loans, driven by factors such as increased income levels, higher consumer spending, and greater access to financing.

The retail credit which includes Housing (Including priority sector housing), Consumer durables, Credit card outstanding, Vehicle loans, Education, Advances against fixed deposits, Advances to individuals against share, bonds, etc. and Loans against gold jewellery, grew at a CAGR of 18.2% from FY19 to FY24. In FY23, the y-o-y growth of the retail credit was 22% and is expected to be 28% for FY24. The growing demand in the Indian retail credit market, driven by factors such as rising consumer confidence, increased disposable incomes, and greater access to credit, creates a compelling opportunity for both banks and Non-Banking Financial Companies (NBFCs).

Chart 12: Trend in Retail Credit Mix

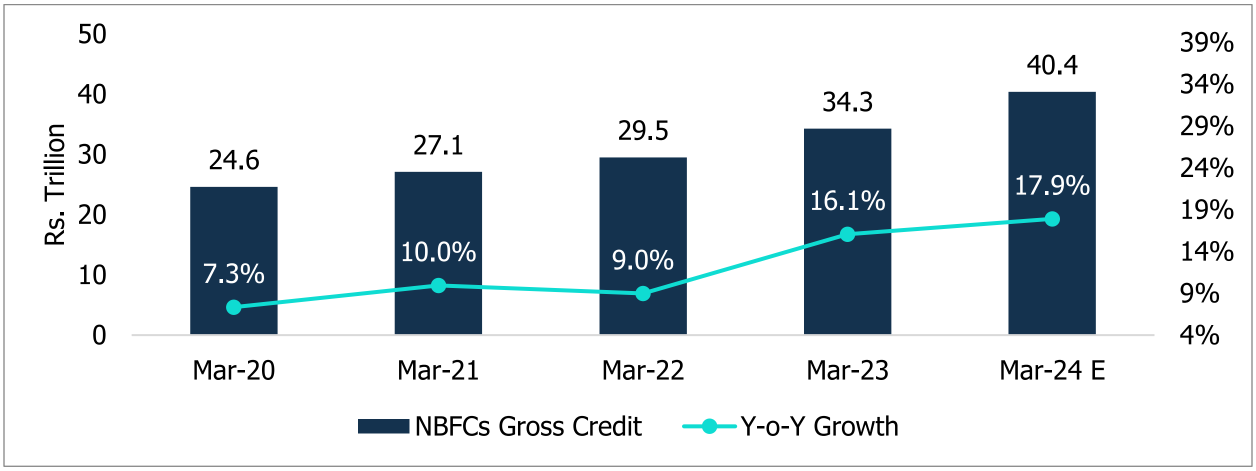


Source: RBI, CareEdge Estimates
Note: Others include Consumer Durables, Advances against fixed deposits and Advances to individuals

Share of Housing has remained range bound and is between 55% to 57% historically, however the share of vehicle loan is has declined from 28% to 22%. The housing credit by SCBs has seen a y-o-y growth of 36.5% in FY24, while the housing credit by NBFC has seen a y-o-y growth of 53% in FY24. The vehicle credit by SCBs has seen a y-o-y growth of 17.4% in FY24, while the housing credit by NBFC has seen a y-o-y growth of 25% in FY24.

2.6 Trends in NBFCs Credit in India

Chart 13: Gross Credit Deployed by NBFCs



Source: RBI, CareEdge Research

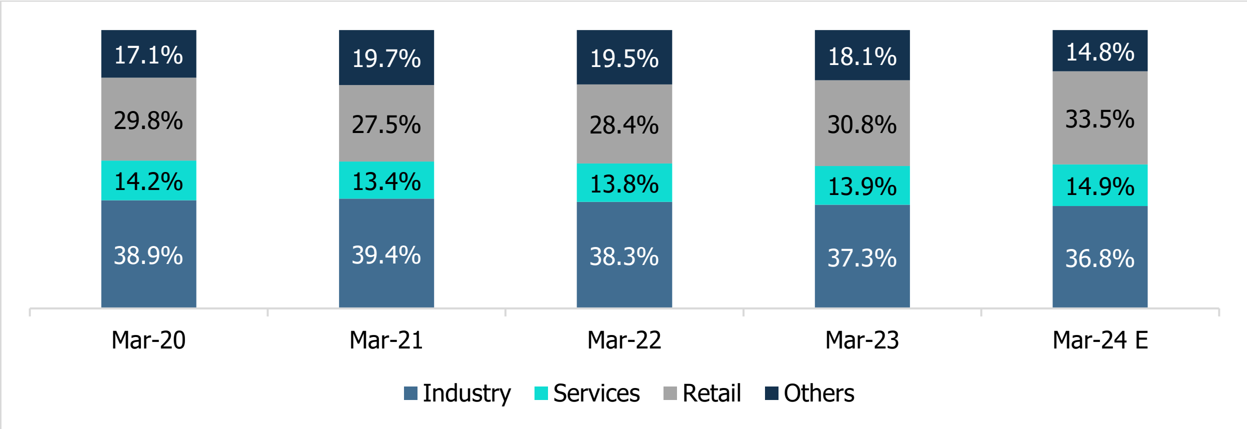
Note: Data are provisional; E indicates Estimated

As of Mar-24, the credit growth rate has seen an uptick of 17.9% y-o-y and is estimated to have crossed Rs. 40 trillion. The upward growth trajectory of NBFC credit indicates its importance in India's Financial System. This resilience in growth can mainly be attributed to the increasing demand for unsecured loans, retail credit mainly vehicle and housing loans and the growing demand for MSME Loans has also supported growth in credit.

CareEdge expects that over the medium-term demand for infrastructure loans is expected to see an uptick owing to Government's focus towards the sector. However, unsecured loans growth is likely to be impacted by RBI's increased risk-weight from 100% to 125% in last fiscal.

2.7 Sectoral Distribution of NBFCs Credit

Chart 14: Sectoral Distribution 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 indicates Estimated

The industry sector has remained the largest recipient of credit extended by NBFCs followed by retail loans, services, other non-food credit, and agriculture & allied activities. NBFCs growth in credit deployed towards industry is mainly attributable to increase in infrastructure lending by large government-owned NBFCs. Furthermore, NBFCs have steadily expanded their micro, small and medium enterprises (MSMEs) portfolio, addressing the credit needs of the sector and contributing to overall financial inclusion and economic growth. As of Mar-24, industry credit contributed Rs. 14.9 trillion, indicating around 16.2% y-o-y growth in NBFCs' credit to industry, as per the RBI.

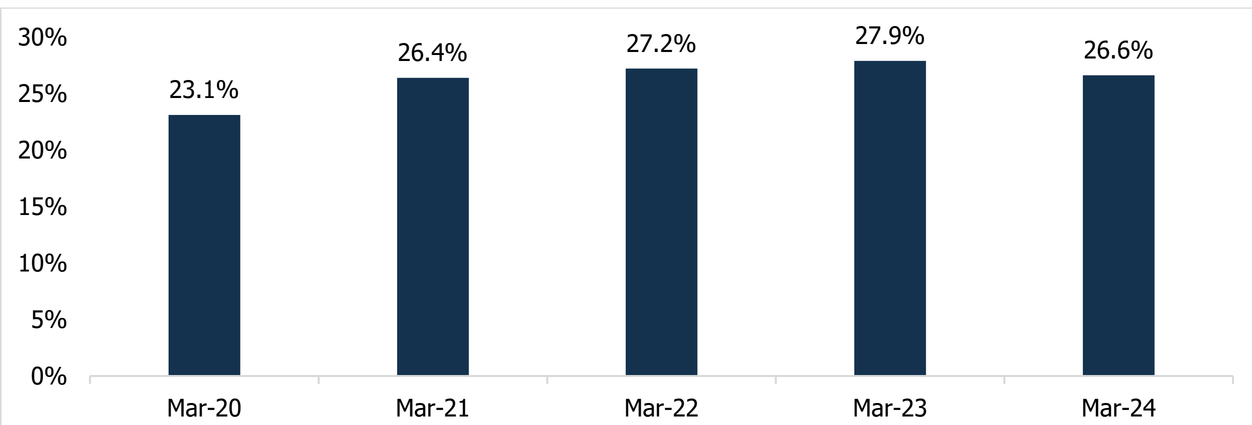
While NBFCs' credit to the industry is growing, their credit to services is expected to increase as compared to last three years. As of Mar-24, as per data published by RBI, credit deployed to the service sector has reached around Rs. 6 trillion indicating 26.3% y-o-y growth in NBFC credit deployed towards service sector.

Retail loans comprise housing loans, vehicle loans, loans against gold, consumer durables loans, and other such personal loans. Over the last couple of years, NBFCs have shifted their focus to retail lending in order to grow their business. There has been significant ramp-up in demand for retail credit as more and more consumers are getting comfortable with borrowing funds to meet their changing lifestyle needs.

The growth in NBFCs unsecured retail lending has outpaced the growth in NBFCs aggregate gross credit deployed. As of Mar-24, retail loans reached 13.5 trillion forming over a third of NBFCs gross credit deployed. Furthermore, in terms of delinquencies retail loans have lower delinquencies when compared to MSME/corporate lending, another major factor for the NBFCs increased focus towards retail lending.

2.8 Capital Adequacy of NBFCs

Chart 15: CRAR of NBFCs

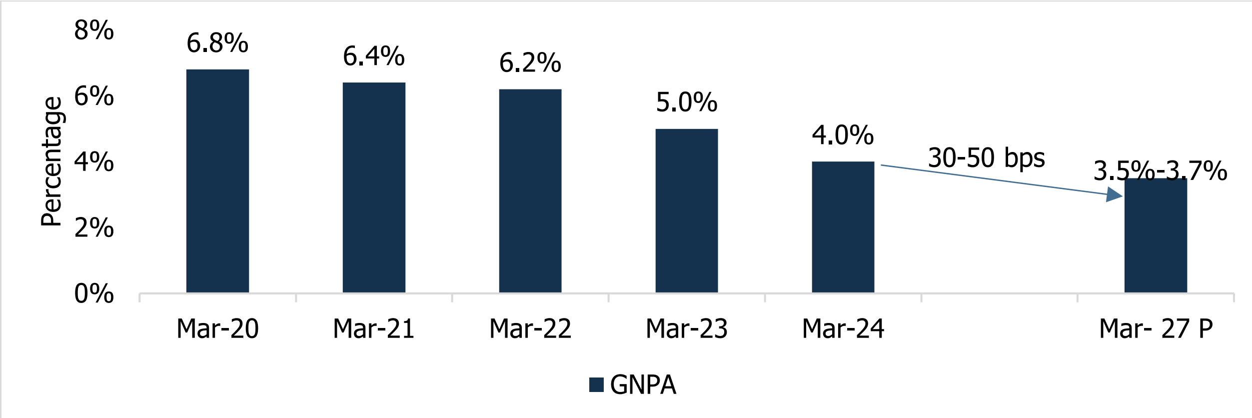


Source: RBI, CareEdge Research
Note: Data is provisional

As of the end of March 2023, Non-Banking Financial Companies (NBFCs) were well-capitalized, with capital to risk-weighted assets ratios (CRARs) significantly exceeding the regulatory minimum requirement of 15 percent for total risk-weighted assets, which includes both on- and off-balance sheet items. The sector's CRAR reached a healthy 27.9 percent by the end of March 2023.

2.9 Asset Quality of NBFCs

Chart 16: Asset Quality of NBFCs



Source: RBI, CareEdge Research
Note: P indicates projected

The asset quality of NBFCs has seen continued improvement on account of strong balance sheets, an increase in provisions and improved collection efficiency. Additionally, restructuring of their loan book and NPA write-offs have also aided the improvement in the asset quality of NBFCs. As per RBI, as of Mar-24, the GNPA of NBFCs has improved to 4% from an earlier 5% in Mar-23.

MFIs, with their high exposure to unsecured loans, face increased default risks, and financial strain, especially in tough economic conditions. In contrast, NBFCs with secured portfolios benefit from lower risk, and greater stability, allow them to better navigate economic challenges and continue growing.

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 expects NBFCs credit to grow between 12%-15% y-o-y in FY25. This growth is expected to be driven by continued demand for retail loans, particularly vehicle loans, home loans, credit towards MSMEs, and microfinance loans.

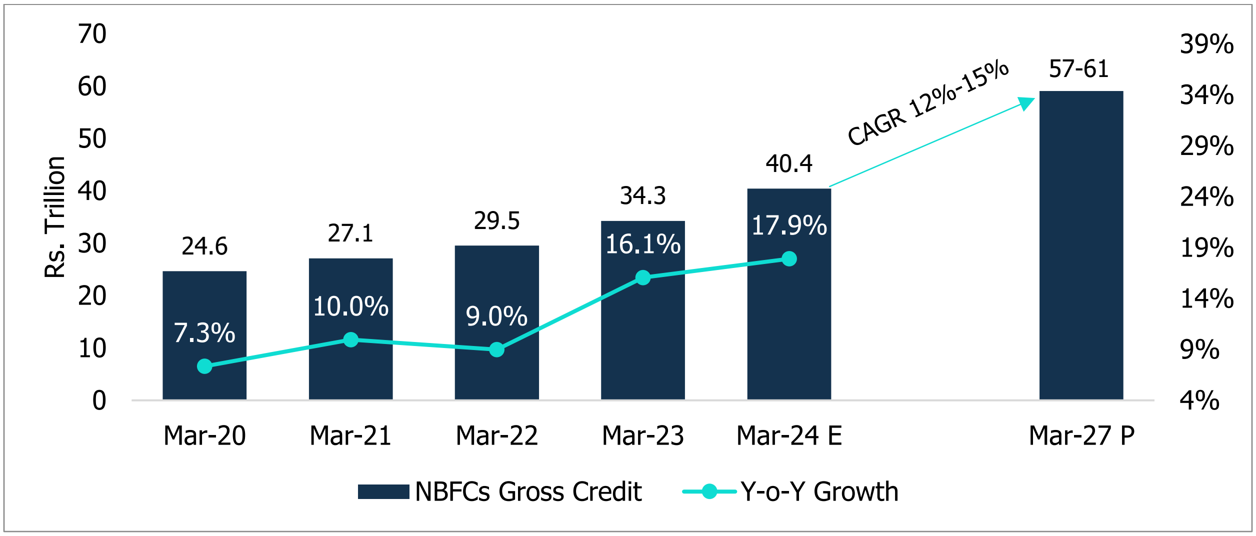
In the near term, while NBFCs can draw comfort from strong balance sheet, improved provisioning and asset quality in the coming year. FY25 is likely to bode-well for NBFCs as credit off-take is expected to remain healthy owing to strong public capex as well as anticipated revival of private expenditure, 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 12%-15% CAGR.

2.12.1 NBFC Gross Credit to Grow

Chart 17 : Gross Credit Deployed by NBFCs



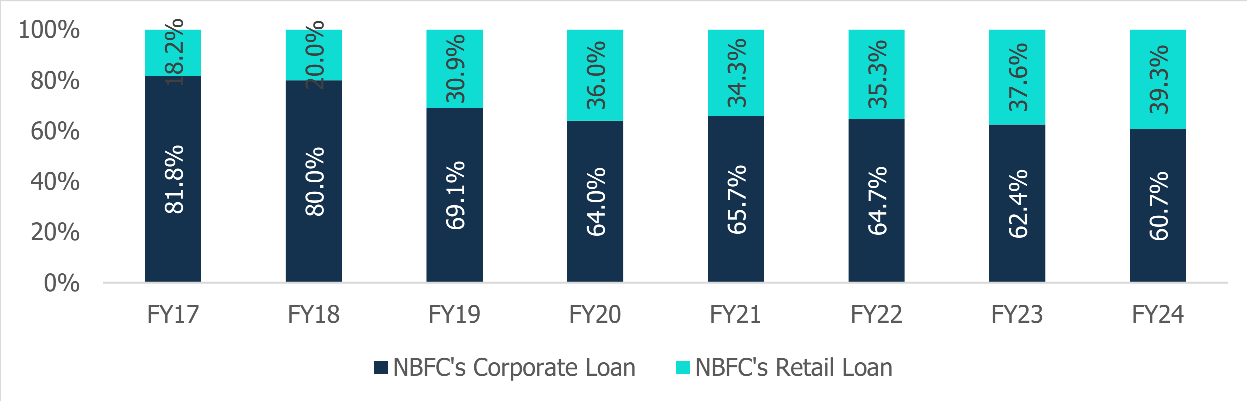
Source: RBI, CareEdge Research
Note: Data are provisional, E indicates Estimated, P indicates Projected

As of Mar-24, the credit growth rate has seen an uptick of 17.9% y-o-y and is estimated to have crossed Rs. 40 trillion. The upward growth trajectory of NBFC credit indicates its importance in India's Financial System. This resilience in growth can mainly be attributed to the increasing demand for unsecured loans, retail credit mainly vehicle and housing loans and the growing demand for MSME Loans has also supported growth in credit.

Over the medium term, the credit growth of NBFCs is projected to grow at a CAGR of 12%-15% between FY24-FY27. These growth projections are largely driven by increased demand for MSME and retail loans such as home loans, vehicle loans, gold loans, Loan against property (LAP). Further, over the medium-term demand for infrastructure loans is expected to see an uptick owing to Government's focus towards the sector. However, unsecured loans growth could be cliffed by RBI's increased risk-weight from 100% to 125% in last fiscal.

2.12.2 Increasing Share of the NBFC Credit in the Retail Segment

Chart 18 : Share of NBFC's in Corporate and Retail loan

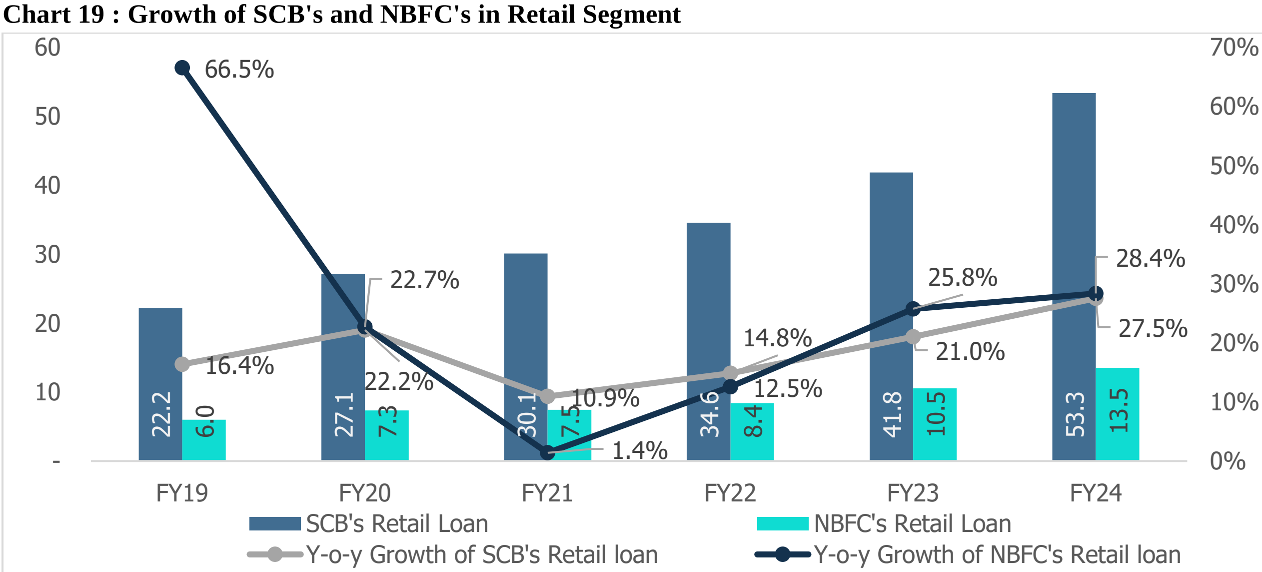


Source – RBI, CareEdge Research,
Note 1: Data for FY24 of NBFC's are Projected

The IL&FS Crisis of 2018 and DHFL Crisis in 2019 revealed serious mismanagement and triggered a major liquidity crisis, deeply affecting the Non-Banking Financial Company (NBFC) sector. In response to the scandal, NBFCs confronted increased risk and liquidity issues, forcing them to scale back on high-risk corporate loans, especially those tied to large infrastructure projects. To manage these risks, they shifted their focus toward retail loans, such as personal and auto loans, which are viewed as more stable and less likely to default. Consequently, during FY18-19, retail loan disbursements by NBFCs surged Y-o-y by 66%, followed by a 22.7% increase in FY19-20. This trend stabilized somewhat due to the impacts of COVID-19 in FY20-21.

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

Chart 19 : Growth of SCB's and NBFC's in Retail Segment



Source – RBI, CareEdge Research, Note 1: Data for FY24 of NBFC's are Projected

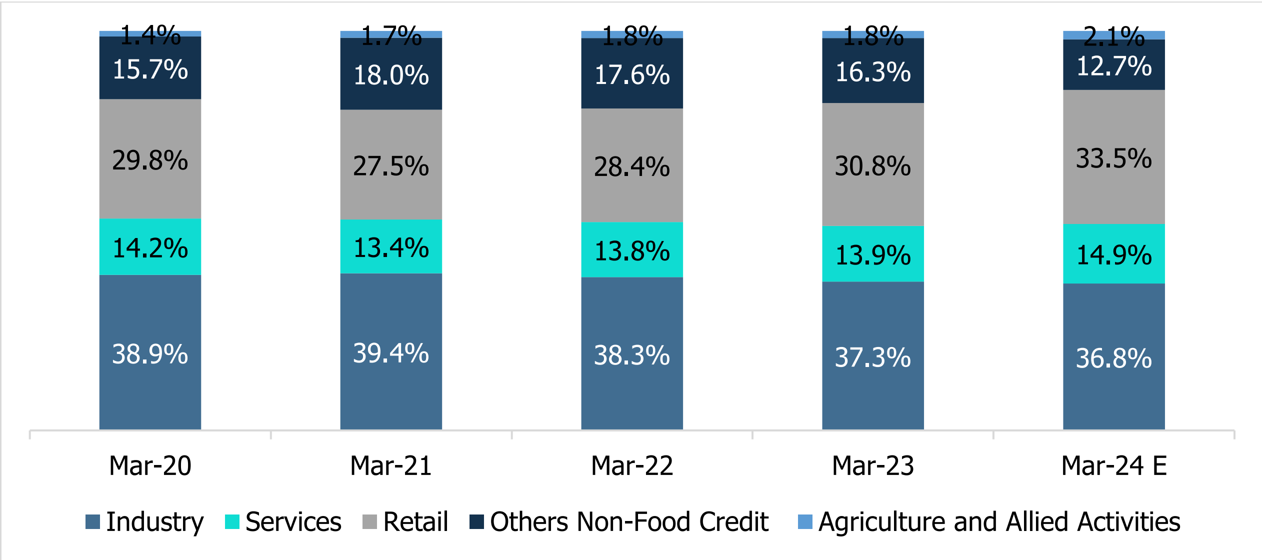
This shift was accompanied by a broader strategy of asset diversification, as NBFCs sought to stabilize their financial positions by investing in more secured and lower-risk assets. The liquidity crunch also made it increasingly difficult for

NBFCs to raise funds, exacerbating their financial strain. The impact of the IL&FS crisis extended to Scheduled Commercial Banks (SCBs) as well, leading them to also reduce their corporate loan exposures in response to increased risk aversion and stricter regulatory scrutiny. This collective adjustment reflected a more cautious and diversified approach in the financial sector to prevent future crises.

In response to the COVID-19 pandemic, coupled with significant instability in raw material prices due to geopolitical conflicts and volatile macroeconomic conditions, both banks and NBFCs have seemingly adjusted their lending strategies. Aftermath of pandemic has led financial institutions to be risk averse, resulting in decline in credit deployed towards corporate lending. Consequently, NBFCs have redirected their focus toward retail loans, aiming to minimize risk and target the more stable, lower-risk household sector.

2.12.4 Share of NBFC's across segments

Chart 20 : Share of NBFC's across segment

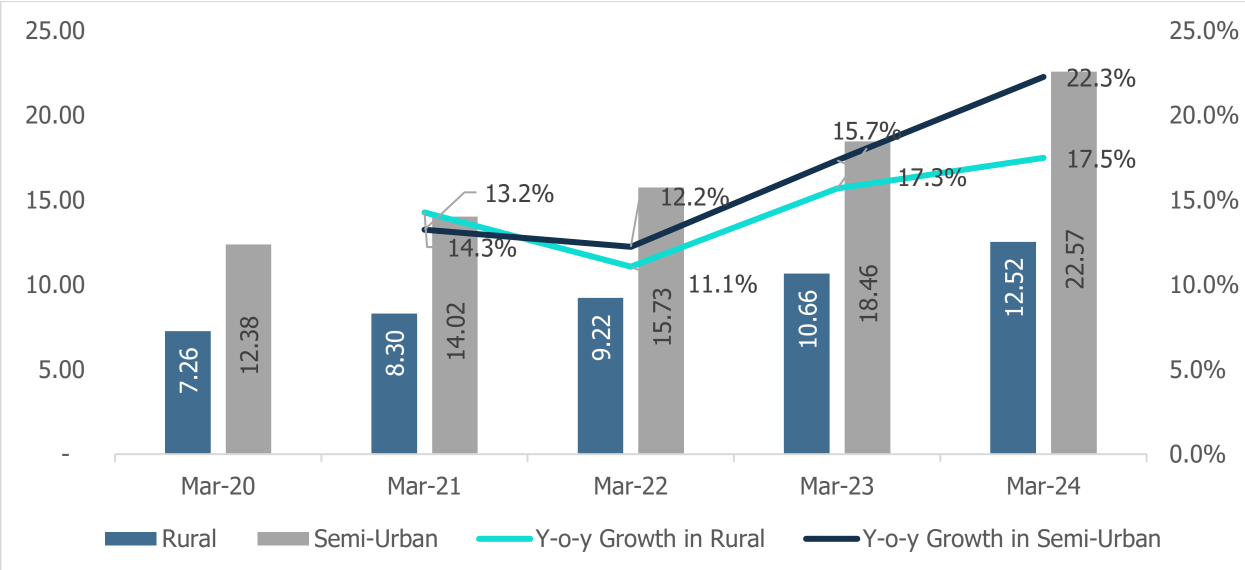


Source – RBI, CareEdge Research.

The shifting dynamics in the credit portfolio of non-banking financial companies (NBFCs) from FY20 to FY24 Expected reveal significant trends, particularly in the retail loans segment, which has increased its market share from 29.8% in FY20 to 33.5% in FY24 Expected. NBFCs are more agile in reaching underserved 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 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 21 : Share of SCB's Region Wise



Source – RBI, CareEdge Research

Between March 2020 and March 2024, total credit in rural areas grew significantly from ₹7.26 trillion to ₹12.52 trillion, achieving a robust year-on-year growth rate of 17.5% in March 2024. In semi-urban areas, credit surged from ₹12.38 trillion to ₹22.57 trillion, reflecting an impressive growth rate of 22.3%. This growth is primarily driven by a significant increase in microfinance institution (MFI) lending, which has become a critical source of credit for underserved populations in both rural and semi-urban regions. MFIs have effectively catered to the financial needs of low-income households and small businesses, empowering them to invest in income-generating activities. Additionally, the rise in lending to micro, small, and medium enterprises (MSMEs) has been instrumental, as these businesses often rely on credit for operational expenses, expansion, and technology adoption. The government's emphasis on promoting MSMEs has further stimulated lending, positioning them as a key driver of economic growth.

Scheduled Commercial Banks (SCBs) have also prioritized lending to these sectors, reinforcing their commitment to priority sector lending. This focus has resulted in tailored financial products aimed at enhancing accessibility for borrowers in rural and urban areas. Initiatives such as government schemes to support agricultural financing have further bolstered credit availability, creating a conducive environment for growth. The sustained rise in MFI lending, coupled with increased MSME financing and robust priority sector lending strategies, is expected to continue driving credit demand, fostering economic development and financial inclusion in both rural and semi-urban sectors.

Table 8: 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 9: 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.

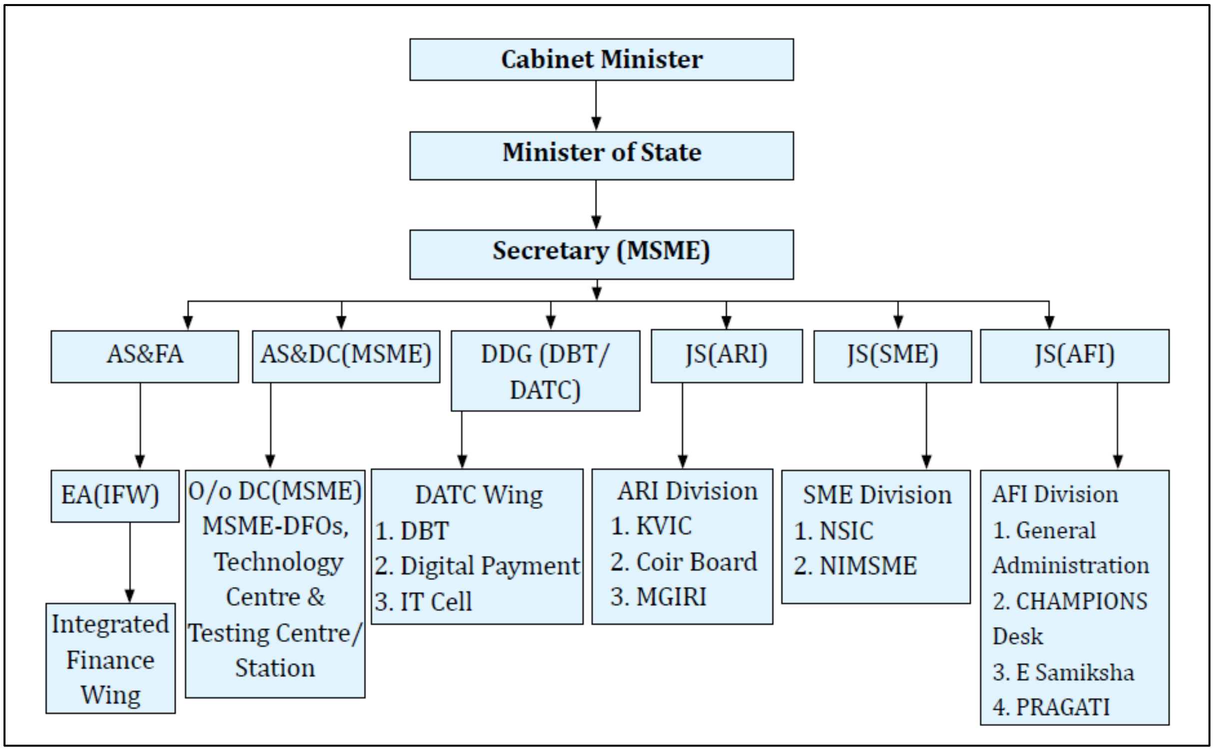
MSMEs are widening their domain across sectors of the economy, producing a diverse range of products and services to meet demands of domestic as well as global markets.

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

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 2022-23

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	3,83,50,240	98.0
Small	7,16,480	1.8
Medium	67,955	0.2
Total	3,91,34,675	100.0

Source: Udyam portal (includes Udyam assist platform (UAP) registrations), Data as of 26th August 2024

As per the Udyam portal, more than 3.9 crore MSMEs are registered under Udyam portal, of which around 98% enterprises are micro category and around 1.5% of the enterprises fall under small category and the remaining are medium enterprises.

As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office, Ministry of Statistics & Programme Implementation during the period 2015-16, there were 63,388 thousand unincorporated non-agriculture MSMEs in the country engaged in different economic activities (manufacturing, electricity, trade and other services). Of this, micro enterprises sector with 63,052 thousand accounts for more than 99% of total estimated number of MSMEs. While the small enterprise sector with around 331 thousand makes up 0.52% of total estimated number of MSMEs and medium enterprise sector with around 5 lakh that is around 0.01% of total estimated MSMEs, respectively.

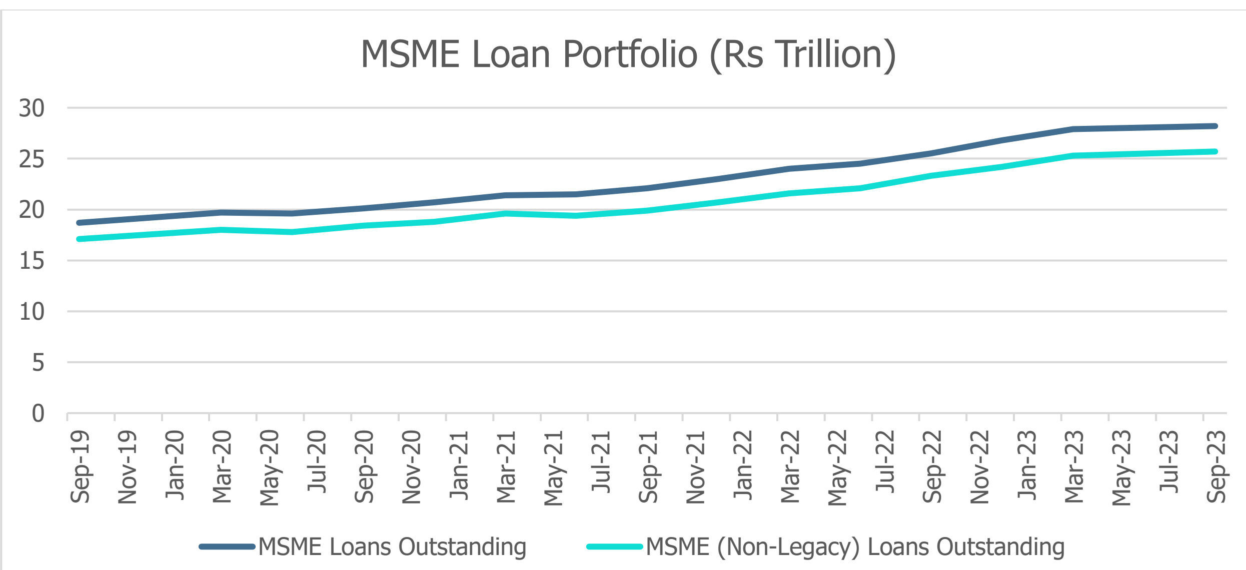
3.3 State-wise Distribution of estimated MSMEs

State/UT	Share (in %)			
	FY21	FY22	FY23	FY24
Uttar Pradesh	7.64%	8.04%	17.14%	14.19%
West Bengal	2.23%	3.31%	3.26%	13.98%
Tamil Nadu	10.96%	10.51%	8.53%	7.81%
Maharashtra	22.74%	18.93%	14.20%	7.54%
Karnataka	5.35%	6.12%	4.93%	6.05%
Bihar	3.17%	4.30%	3.77%	5.44%
Andhra Pradesh	2.29%	2.86%	2.86%	5.34%
Gujarat	8.68%	7.74%	6.11%	5.23%
Rajasthan	8.28%	7.64%	6.06%	4.23%
Madhya Pradesh	3.92%	4.78%	9.84%	4.21%
Telangana	3.44%	3.14%	2.71%	-

Source: MSME Annual Report 2023-24, CareEdge Research

3.4 Credit growth in MSME lending

- ***Commercial credit outstanding across all MSMEs stood at Rs. 28.2 Trillion as on Sep-23 and increased at a CAGR of 11% over the last 4 years***



Source: TransUnion CIBIL, CareEdge Research

Commercial credit to MSMEs in India grew at a steady pace of 11% CAGR in the 4-year period from Sep-19 to Sep-23. 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.

Approximately 10% of the MSME portfolio is in the 720+ delinquency bucket which was affected by multiple factors including Covid. Excluding this portfolio, the non-legacy MSME commercial credit stood at Rs. 25.7 trillion as on Sep-23. This portfolio presents a more accurate perspective on the MSME credit and grew at a CAGR of 13.6% in the recent 2 years period of Sep-21 to Sep-23.

- ***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***

Table 10: 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: TransUnion CIBIL, 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 11: 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
Sep-22	499.7	151.0	650.7	5,729.6	2,250.8	7,980.4
Mar-23	716.4	200.7	917.1	5,983.9	2,560.2	8,544.1
Sep-23	838.8	185.5	1,024.3	6,296.8	2,617.0	8,913.8
Mar-24	NA	NA	NA	7,263.2	3,040.0	10,303.1

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.

NBFCs mainly deploy credit to MSMEs belonging to the services and agricultural sectors. In comparison, bank credit to MSMEs witnessed a consistent growth. Bank credit deployed 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.

- ***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 12: 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: TransUnion CIBIL, 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.

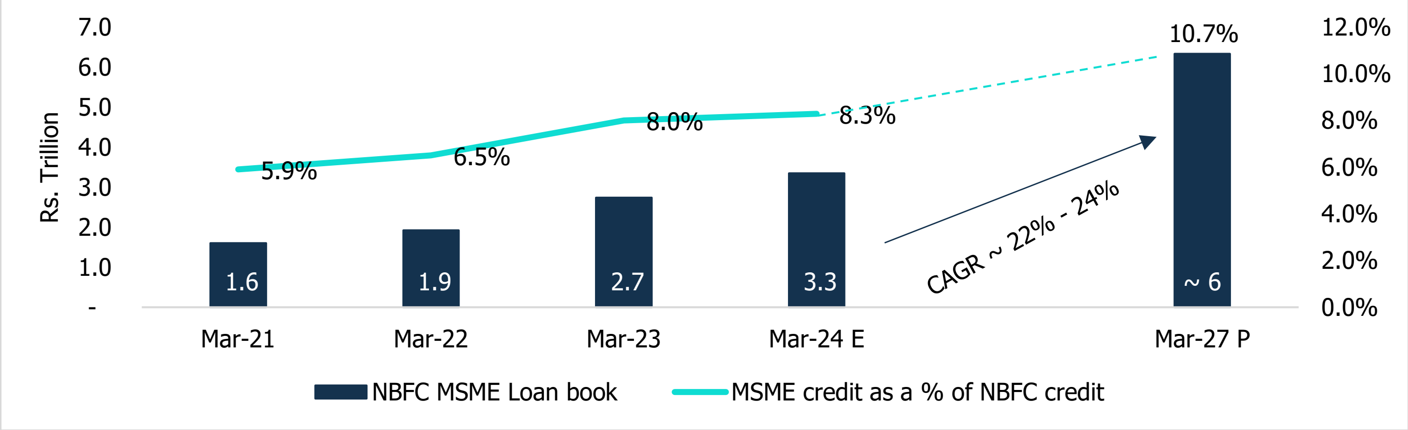
There is some cyclicality in the disbursements with March ending quarters being 11% more than the average quarterly disbursements and June ending quarters being 17% less than the average.

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, especially those targeting small-ticket sizes, has been remarkable, with a reported CAGR of 31.2% for FY21 to FY23, 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. 22% to 24% 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 22: 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. Notably, these entities have seen the substantial percentage increase in their share of MSME lending, also reflected in their loan book growth compared to banks, with NBFCs reporting more than 3x growth in FY23 y-o-y compared to both PSBs and PVBs.

3.5 Distribution of Credit within MSME sub segments of Micro, Small and Medium

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

Table 13: Distribution of MSME commercial credit outstanding across segments

Category*	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Micro	25%	25%	26%	26%	26%	26%	26%	25%	25%	25%	25%	26%	26%
Small	41%	41%	41%	41%	42%	41%	42%	42%	42%	42%	42%	42%	42%
Medium	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%

Source: TransUnion CIBIL, 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 category has the highest % of the credit outstanding to MSME sector ranging between 41-42%, followed by Medium segment at 33% and then by Micro sub-segment ranging between 25-26%.

This contrasts with 98.0% of the Udyam registered MSMEs being the Micro category followed by 1.8% in Small category and then by 0.2% 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 recent period has shown reducing share of Medium category with rise in Micro category.***

Table 14: Distribution of MSME commercial credit outstanding across segments

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

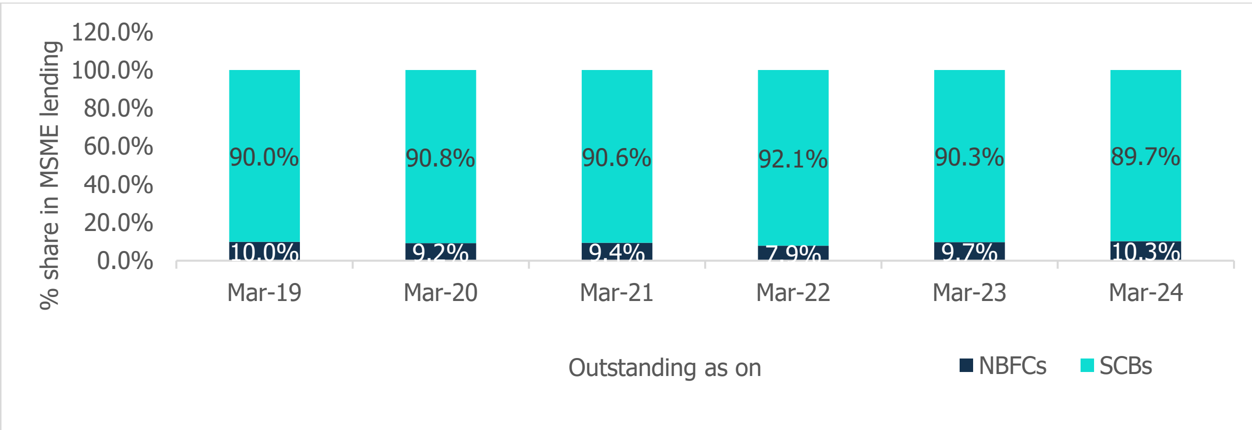
Source: TransUnion CIBIL, CareEdge Research *Micro: Exposure upto Rs 1 crore; Small: Exposure between Rs. 1 crore to Rs. 10 crore; Medium: Exposure between Rs. 10 crore to Rs. 50 crore

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.

3.6 Share of Banks & Non-Banks in MSME lending

- ***NBFCs share of MSME lending has been increasing post the Covid period***

Chart 23: Share of banks & NBFCs in MSME lending



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.

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 September 2023, the proportion of NBFCs has increased to 10.30% compared to previous years.

NBFCs share in disbursements is increasing steadily in different MSME categories

Table 15: % 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: TransUnion CIBIL, 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 16: Distribution (%) of MSME loans originated by NBFCs across sectors

MSME Sub Sectors	Sep-19	Sep-20	Sep-21	Sep-22	Sep-23
Manufacturing	23	24	24	23	24
Trade	25	27	25	25	28
Professional & Other Services	27	22	25	26	25
Other Sectors	25	26	27	26	24

Source: TransUnion CIBIL, 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 17: 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 18: 90+ DPD* of MSMEs across categories & lenders

	Sep-19	Mar-20	Sep-20	Mar-21	Sep-21	Mar-22	Sep-22	Mar-23	Sep-23
90+ DPD	4.2	3.9	3.4	3.7	4.4	2.9	3.0	2.4	2.3
					*By Category***				
90+ DPD Micro	4.7	4.7	4.0	4.0	5.4	4.0	3.8	3.1	3.1
90+ DPD Small	4.3	3.8	3.1	3.9	4.1	2.6	2.8	2.1	2.1
90+ DPD Medium	3.7	3.3	3.1	3.2	3.9	2.6	2.7	2.1	2.1

By Lender Type									
90+ DPD Private Bank	2.3	2.0	2.0	2.3	2.7	1.6	1.8	1.4	1.5
90+ DPD PSB	3.6	5.2	4.2	4.6	5.4	3.7	3.7	3.0	3.2
90+ DPD NBFC	3.6	5.2	5.1	5.7	6.6	5.7	5.2	4.0	2.9

Source: TransUnion CIBIL, 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 2.3% as on Sep-23.

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 2.9% as on Sep'23 which is the lowest in the last 4 years.

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 9,000 crore 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.

3.7 Recent Developments in the sector

- The government has revised definition for micro, small and medium enterprises (MSMEs). The government will now accord MSME status to retailers and wholesale traders. The decision will benefit 2.5 crores retail and wholesale traders in the country. This is a positive move to provide easier access to credit and loans millions of retailers and wholesalers to modernise and expand their business. It will aid in boosting informal retail sector's contribution towards GDP & overall economic growth.
- In April 2021, the non-banking finance companies (NBFCs) requested the Reserve Bank of India to extend the one-time restructuring scheme of MSME advances till March 31, 2022, as these players are unable to revive their businesses.
- In March 2021, the Ministry of MSME, through the Development Commissioner (DC-MSME) implemented the Technology Centre Systems Program (TCSP) to establish 15 new Technology Centres (TC). The centres provide assistance to the industry predominantly MSMEs in General Engineering, Automotive, Fragrance & Flavour and ESDM sectors.
- In March 2021, the Finance Ministry allowed private retirement funds to invest up to 5% in Category I & II AIFs regulated by SEBI; this will help widen the fundraising options for MSMEs and expand the domestic pool of capital.

- Category 1 AIFs consists of infrastructure, venture capital, angel and social venture funds. Category II AIFs covers funds where at least 51% of the size can be invested in either infrastructure, SMEs, venture capital or social welfare entities.
- In March 2021, MSME support and development organisation, National Small Industries Corporation (NSIC) announced that they will assist MSMEs working with the Agricultural and Processed Food Products Export Development Authority (APEDA) across multiple areas.
- The relationship will also support promotion of green & sustainable manufacturing technology for MSME clusters, enabling units to switch to sustainable and green production processes and products.
- In February 2021, Walmart's Vriddhi programme was extended to Uttar Pradesh, with launch of an e-institute to facilitate small businesses in granting access to skills and competencies across online and offline platforms such as Flipkart's marketplace and Walmart's global supply chain. The company stated that this new e-institute will benefit 50,000 MSMEs across the country to expand domestically and globally.
- In February 2021, Indian Bank signed a memorandum of understanding (MOU) with the Society for Innovation and Development (SID), a project of the Indian Institute of Science, to provide exclusive credit to start-ups and MSMEs.
- In February 2021, the Small Industries Development Bank of India (SIDBI), a financial institution dedicated to the promotion, financing, and development of micro, small, and medium enterprises (MSMEs), signed an agreement with the government of Andhra Pradesh to help expand the state's MSME ecosystem.
- Udyam Registration: In 2020, the Ministry classified MSMEs based on investment in plant & Machinery/equipment and turnover of MSMEs as a composite criteria for classification. Initially, the process was filed by Udyog Aadhaar Memorandum which is now replaced by 'Udyam' registration on a portal developed by this Ministry.
- Exemption from requirement of having GSTIN: The ministry has exempted from the requirement of having GSTIN shall be as per the provisions of the Central Goods and Services Tax Act, 2017, that will lead to increase in the registration on Udyam Registration portal.
- Also, the Government has included Retail and Wholesale Trades as MSMEs from 2nd July, 2021 and are allowed to be registered on Udyam Registration Portal. The Government has also included Street Vendors as Retail Trades as MSMEs from 2nd August, 2021.

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 Long term and complex debt funding requirements are catered to.	Caters to a very niche segment of the MSME space. 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 35% as on Mar-24.

as % of PSL Loans as on March 31st 2024	
Micro and Small Enterprises	28%
Medium Enterprises	7%
Total	35%

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. 15.48 Trillion and constituted 9.4% of the gross bank credit as on March 31st, 2024.

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 FY24 was Rs. 2.05 Trillion. Out of this Rs. 1,01 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**

- ***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 August 28, 2024 there were 53.13 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 18,592 Crore in FY2023-24. During the same period, the value of transactions has grown from Rs. 952 trillion to Rs. 3,658 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 by 2025. In addition to this, MSMEs are expected to contribute more than 40% of India's nominal gross domestic product (GDP) by financial year 2025 for which it will require immense support from the Government, institutions and banks.

4 Auto Financing

4.1 Introduction to Auto Financing

The automotive industry is considered to be 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, aluminum, 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 the largest manufacturer of two-wheelers, three-wheelers, and tractors. With a vibrant supply chain ecosystem, favorable policies, close proximity to port and other factors, India's southern states continue to be the front runners in EV manufacturing and consumption. Hosur is actually 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.

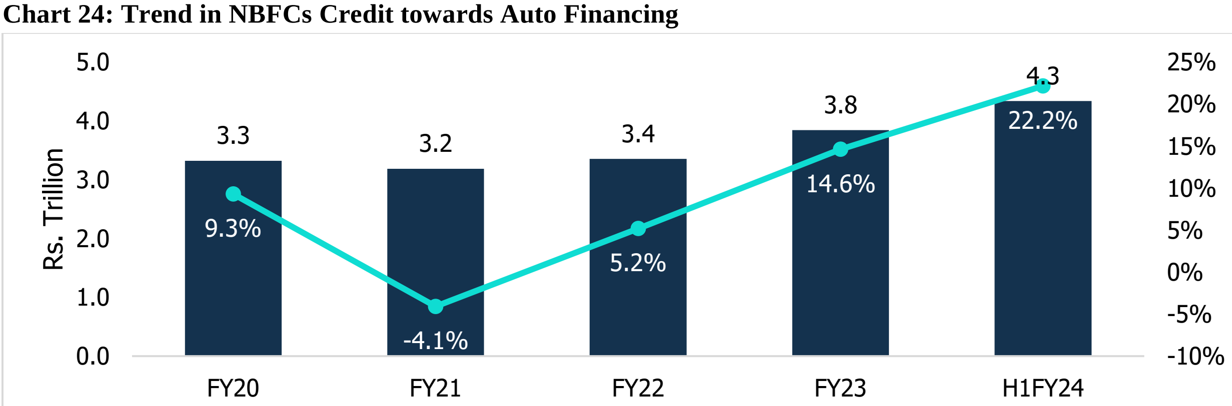
And auto financing has emerged as a pivotal component in India's rapidly growing automotive industry. As the demand for vehicles continues to rise, auto financing plays a crucial role in bridging the gap between a savings of the borrower and the cost of their desired vehicle, making vehicle ownership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

Non-Banking Finance Company (NBFCs) has 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 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 (Loan outstanding, Asset Quality and Profitability)

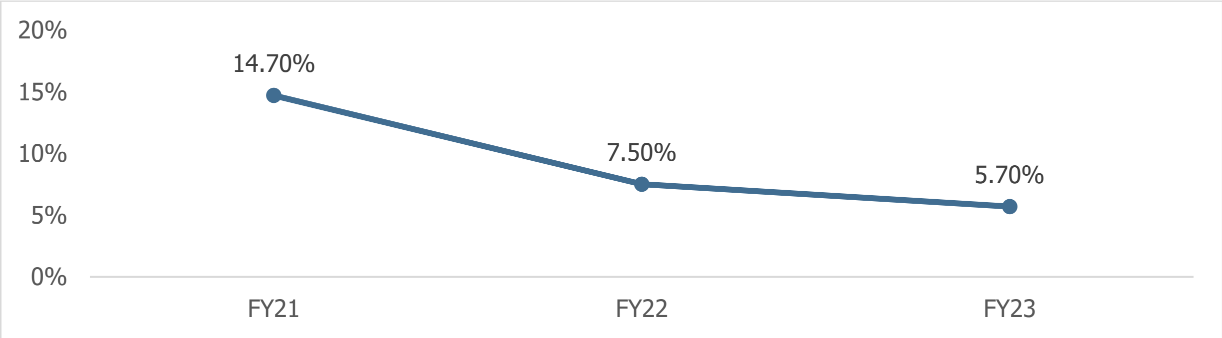
Chart 24: Trend in NBFCs Credit towards Auto Financing



Source: RBI, CareEdge Research

In FY21, the retail auto financing book witnessed a marginal dip of 4.1% y-o-y amid significant decline in automobile sales. During the Covid-19 pandemic the demand for automobiles was impacted on account of shutting down of manufacturing firms, auto dealer showrooms, halt in movement of goods and services. However, in the post-Covid era there has been significant growth in automobile sales especially in the passenger and commercial vehicles segment. This 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. This segment has seen continued improvement reaching Rs. 4.3 trillion as of Sep'23, indicating 22.2% y-o-y growth over Sep'22.

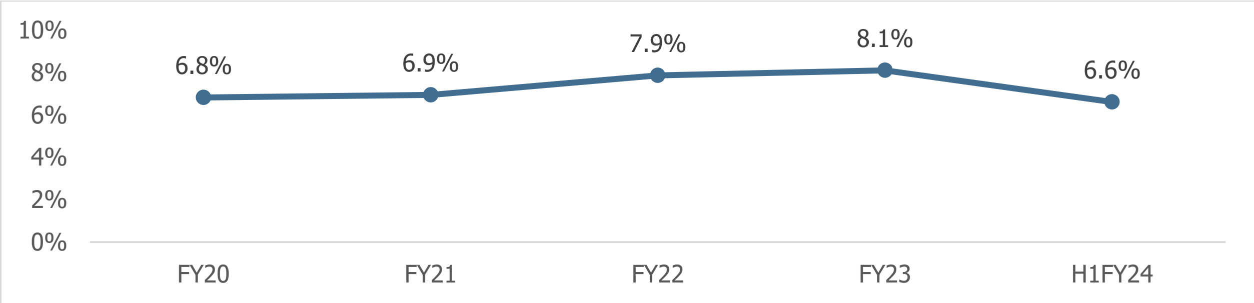
Chart 25: Gross Non-Performing Assets of NBFCs Auto Finance Portfolio



Source: RBI, CareEdge Research

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 14.7% in FY21 to a staggering 7.5% in FY22. This improvement in asset quality comes on the back of improved customer sentiments, resumption in movement of goods and services and overall sustained macroeconomic activity.

Chart 26: Net Interest Margin of Auto Finance NBFCs



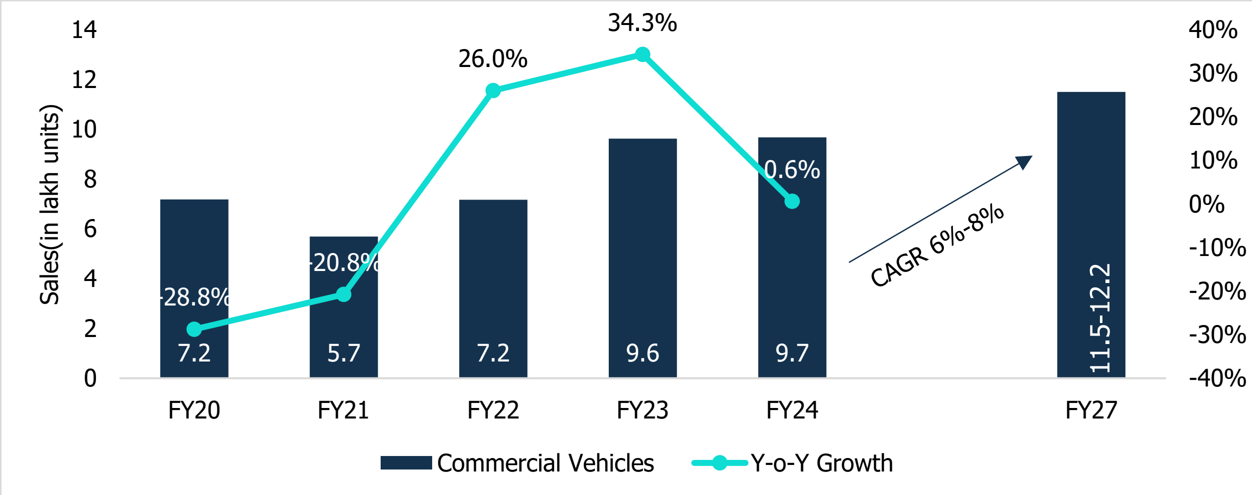
Source: CareEdge Estimates

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 87% of the passenger traffic in the country moves 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&HCV) is considered to be a crucial indicator for pickup in investment activities while growth in Light Commercial Vehicles (LCV) is considered an indicator of consumption demand.

Chart 27: Domestic sales of Commercial Vehicles in India

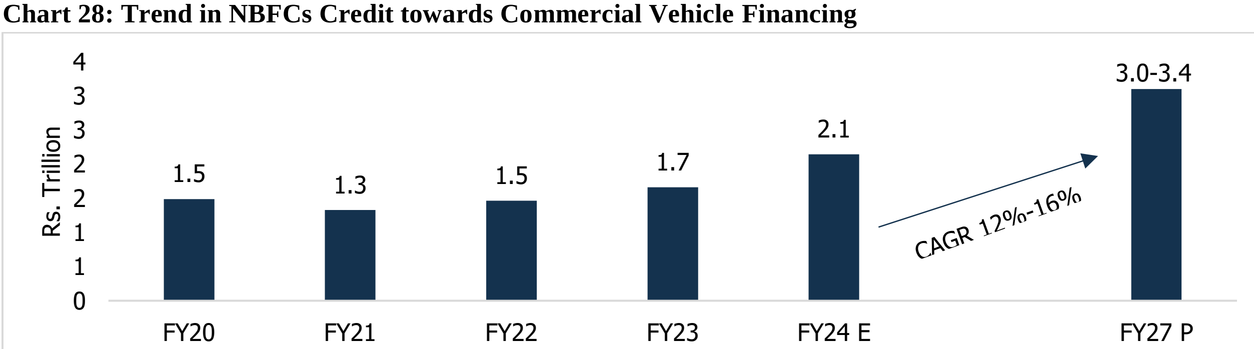


Source: Society of India Automobile Manufacturers (SIAM), CareEdge Research

During FY24, sales of commercial vehicle (CV) remained flat at 9.68 lakh units in FY24 compared to nearly 9.62 lakh units in previous year. However, the demand could witness uptrend subject to adequate deployment of funds from the Central Government towards Infrastructure development, which fostered an environment for bulk deals, especially in Tippers and government sectors. Furthermore, there was a discernible improvement in market sentiment, supporting a healthy traction in HCVs, Buses and LCVs and signaling a revitalized tourism market. CareEdge projects domestic commercial vehicles to grow at a CAGR of 6%-8% between FY24-FY27 largely driven by ramp-up in infrastructure activities and increased demand from end-user industries.

The commercial vehicle segment posted sales volume growth of 34% y-o-y in FY23, the second-highest domestic sales, and is close to the previous peak of FY19. The industry has showcased excellent performance growth due to structural upcycle over the past few years. In FY23, the demand sentiments across the segment showed healthy growth led by a strong infrastructure push by the Central Government, improved freight availability, and pre-buying ahead of the implementation of phase II of the BS-VI emission norms.

Chart 28: Trend in NBFCs Credit towards Commercial Vehicle Financing



Source: CareEdge Estimates

Note: E indicates estimated; P indicates Projected

In FY21, commercial vehicle financing declined on account of decline in sale of commercial vehicles amid halt in logistics and transport operations, economic standstill, shutting of manufacturing operations and dealership showrooms. Post Covid-19, the commercial vehicle finance segment has seen good growth in like with the industry. This growth is attributed to increased demand for commercial vehicles amid improvement in economic activity, revival of construction / mining activities. As of FY24, the commercial vehicle finance segment is expected to have witnessed nearly 30% y-o-y growth reaching Rs. 2.1 trillion, this growth is likely to have been driven by rise in demand for used vehicle financing, pent up demand for commercial vehicles, infrastructure development and overall economic activity.

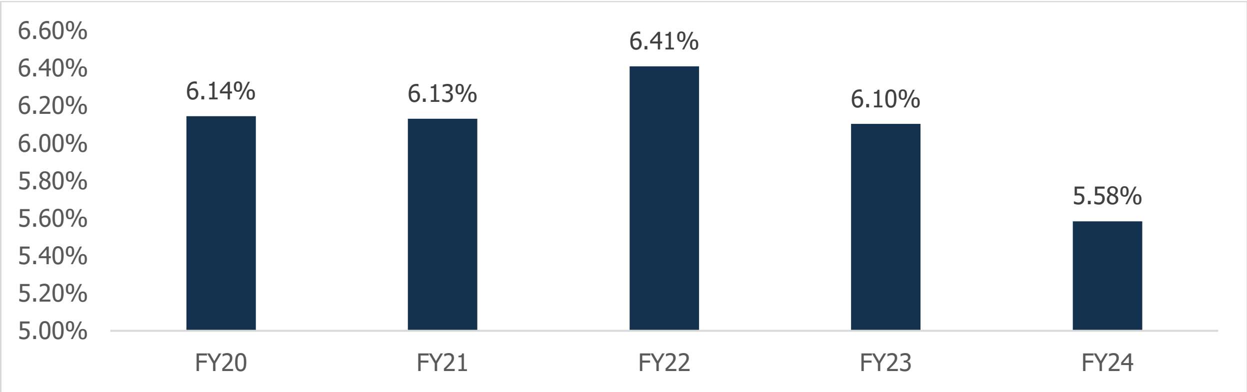
Over the medium term, CareEdge Research projects NBFCs commercial vehicle financing to grow at a CAGR of 12%-16% between FY24-FY27. This growth is expected to be largely supported by increase in big ticket financing and Government's thrust towards infrastructure development. Further, expected demand for commercial vehicles from end-user industries especially steel and cement is also likely to aid demand for commercial vehicle loans. The used vehicle segment financing is also expected to pick-up for NBFCs banks due to its increased focused as well as presence in non-metro cities.

Rural borrowers form a major part of the total borrowers of CV financing NBFCs. These were affected dur to Covid-19 due to increased infections in rural areas. Also, the lockdowns had cash flows to a prolonged period of restricted economic activity which has affected their repayment capacity. Health and income stresses during the Covid-19 period of FY21 and FY22 to a certain extent had been more pronounced in the rural and semi-urban areas, which formed a large part of the borrower base. This, along with persistent stress in urban markets lead to higher non-performing loans and impairment costs.

The asset quality of commercial vehicle loans of auto finance NBFCs is estimated to improve in the near term, on account of low delinquencies, sustained economic activity and boost in logistics and transportation sectors. Commercial vehicle 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 impact 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 commercial vehicle loan portfolios remains robust.

4.4 Profitability Trends in Commercial Vehicle Financing

Chart 29: Profitability Trend (NIMs)



Source – Company Reports,
Note: Company financial of top 6 companies are taken – Sundaram Finance, Shriram Transport Finance, Mahindra and Mahindra Financial Services Ltd., Indostar Finance, Cholamandalam Finance, Tata Motor Finance

In recent years, the Net Interest Margin (NIM) of the finance company providing commercial vehicle loans has shown a slight downward trend. From 6.41% in FY22, the NIM decreased to 6.10% in FY23 and further contracted to 5.58% in FY24. This decline suggests a potential tightening in profit margins, likely due to factors such as increased competition, rising funding costs, or changing loan portfolio dynamics. Despite the drop, the NIM remains above 5%, indicating a still favorable, though reducing, profitability from interest income in the commercial vehicle financing sector.

4.5 Used Commercial Vehicle Financing

The Covid-19 pandemic had a profound impact on the commercial vehicles (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 commercial vehicles. However, this downturn in new vehicle production had an unexpected consequence - a surge in demand for used commercial vehicles.

Over the past few years the demand for used commercial vehicles has seen good growth as businesses are becoming aware 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 commercial vehicle can also be attributed to of expanding logistics and transportation requirement, leading to rising need for financial options for used commercial vehicles.

Non-banking financers in the used commercial vehicle financing landscape. Their 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 commercial vehicle 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 commercial vehicles, instilling confidence among buyers about the longevity and efficiency of these vehicles.

The used commercial vehicle has been gaining significant traction in recent times and established financial institutions, including banks and non-banking financial companies (NBFCs), are recognizing the potential of the used commercial vehicle financing segment and are actively expanding their portfolios to cater to the growing demand. With the realization that businesses, especially small and medium enterprises (SMEs), often prefer the cost-effectiveness of acquiring used commercial vehicles, 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 cars, driven by factors such as rising new car 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 commercial vehicle 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 favorable 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 commercial vehicles required for the development of infrastructure and the expansion of industrial sector.

- **Growing Logistics and Transportation Needs:**

The demand for commercial vehicles 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, NBFCs and FIs 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 Light commercial vehicles (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 grew by 20% on a year-on-year (y-o-y) basis in FY23, the first full year without any impact of the pandemic after a gap of two years. 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, vehicle scrappage policy, and higher infrastructure spending.

Despite inflationary pressure throughout the year, preponing purchases before the implementation of new fuel emission norms (BS-VI Phase -II), easing of semiconductor chip supply, and pent-up demand supported the sales growth.

The domestic automobile sales volume is expected to show moderate growth by 7-9% in FY24, after witnessing double-digit growth in FY23. Overall, the domestic automobile industry sales are expected to grow with a CAGR of around 5%-7% over the period of 2024-2028. Although consistently high inflationary and interest rate environment could dampen consumer sentiment, monsoons remain a key monitorable for rural demand growth going forward. NBFCs credit towards the auto loans segment is expected to witness growth of 13%-16% in FY24 driven by uptick in domestic automobile sales.

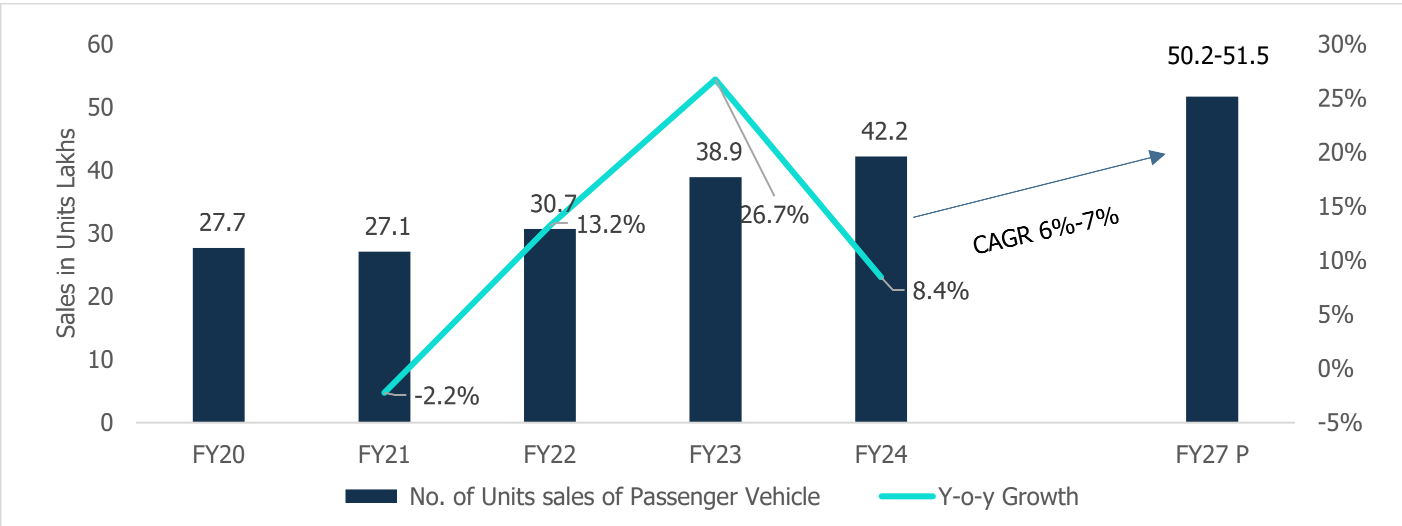
The commercial vehicle segment is expected to witness rise in demand in FY24. This growth is expected to be largely supported by freight demand, replacement demand, structural economic recovery and higher infra spends by the Government. However, the increase in fuel prices and its impact on viability of fleet operators will remain a key challenge in the near term. The expected growth in demand for commercial vehicle is expected to drive growth in NBFCs credit towards commercial vehicle segment.

5 Passenger Vehicle

5.1 Overview

The Indian passenger vehicle (PV) sector accounts for about 18% of the overall automobile industry in India, measured by domestic sales volume. The growth of the passenger vehicle depends upon the rapid urbanization, middle-class aspirations and a robust manufacturing ecosystem. India's passenger vehicle sector not only meets domestic demand but also serves globally as the export hub. The Indian Passenger Vehicle has seen the huge growth post pandemic drastically, growing its volume by the CAGR 15.9% from FY21-24. 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 30: Passenger Vehicle Sales Trend



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

There has been Premiumization in the Average Selling Price of the Vehicle, the average selling price (ASP) between fiscal 2019 and 2023 increased at a CAGR of 7-9% because of premiumization trend as well as sharp rise in vehicle prices. Modern consumers in India are preferring mid-end or top end version of the vehicles moving away from the traditional fuel-efficient budget friendly small cars towards higher priced feature loaded larger cars which offer much more space, taller ride height, seamless connectivity, and improved performance.

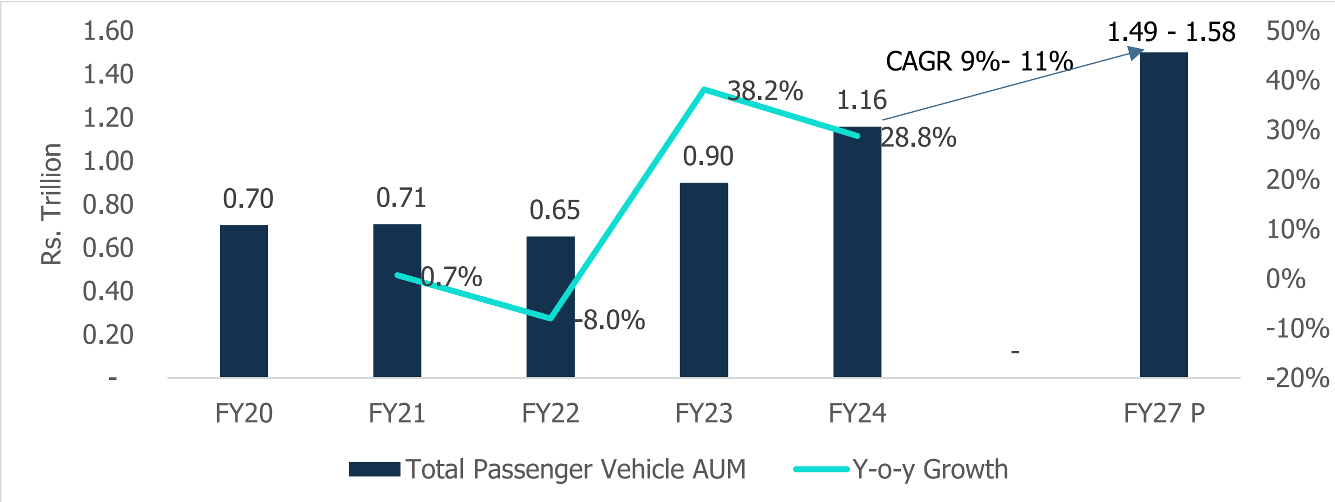
The Indian PV market is one of the fastest growing in the world (CAGR 2021-2023), growing at 15.4% vs. 6.8% for Global passenger vehicle market. It was ranked second in terms of annual sales (after China) in 2023. However, the market is still highly underpenetrated compared with most developed economies, or even developing countries such as China, Brazil and Mexico.

Among passenger vehicles, 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 Passenger Vehicle Financing loan outstanding

Passenger vehicle financing has witnessed significant growth over the past five years. Top 5 NBFCs PV financing witnessed growth at a CAGR of 13% between FY20-24. Over the medium term, NBFCs credit towards passenger vehicles is expected to grow at a CAGR of 9-11% between FY24-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 31: Passenger Vehicle Loan Outstanding Trend



Source: CareEdge Research

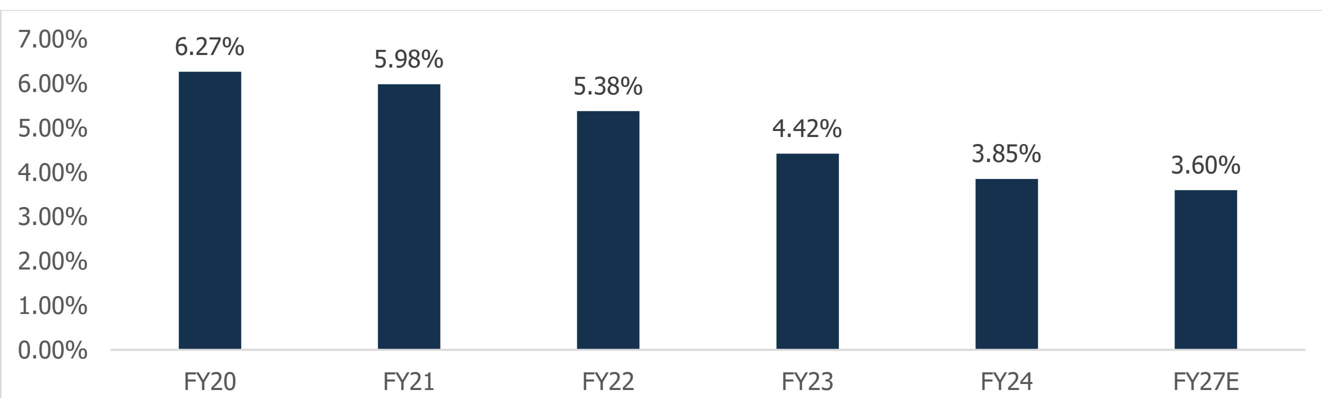
Note: The Consolidated Data includes the data from Shriram Transport Finance, Sundaram Finance, Cholamandalam Investment finance, Tata Motor Finance and Mahindra and Mahindra Financial services.

P indicates Projected

5.3 Asset Quality – Passenger Vehicle Financing

The improvement in the Asset quality has been substantial post pandemic it has reduced from 6.27% in FY20 to 3.85% in FY24.

Chart 32: Gross NPA



Source: CareEdge Research

Note: The Consolidated Data includes the data from Shriram Transport Finance, Sundaram Finance, Cholamandalam Investment finance, Tata Motor Finance and Mahindra and Mahindra Financial services.

E indicates Estimated

In FY24, the gross NPA improved to 3.85% from 4.42% in FY23, indicating 57 bps improvement in the asset quality. The GNPA is expected to gradually decline between FY24-FY27, mainly due to sustained interest rates, strong rebound in the collection efficiencies and rise in disposable income per capita.

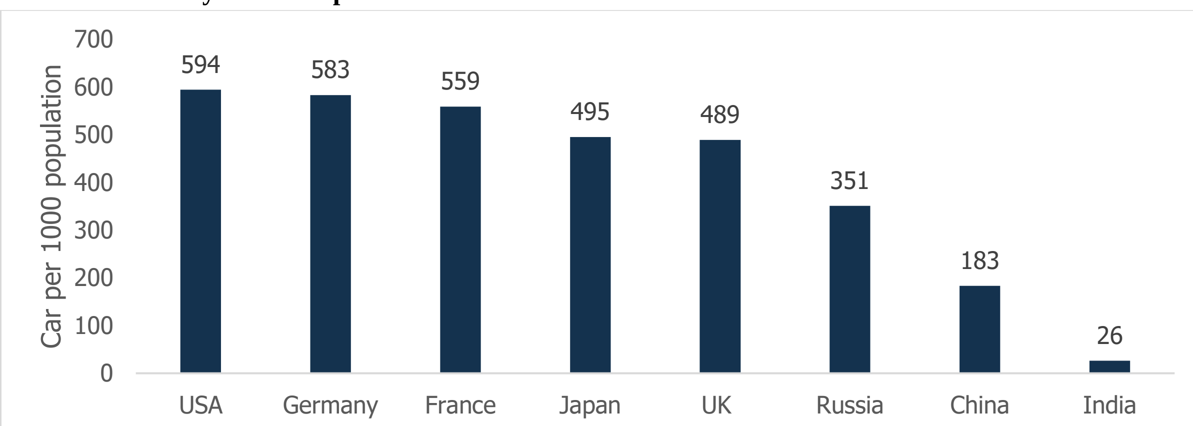
5.4 Growth Drive for the Passenger Vehicle and Used Passenger Vehicle

➢ **Passenger Vehicle**

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

According to Careedge Research, India had 26 cars per 1,000 people as of fiscal 2024. Although the penetration grew from 22 cars per 1000 people in fiscal 2019 to 26 cars as of fiscal 2024, it is significantly lower than the developed nations and even emerging nations like Brazil, Russia, and Mexico. 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 33: Country-wise Car penetration



Source: 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 largely driven by the government's focus on building EV infrastructure and offering attractive tax incentives. With increased investment in expanding the EV charging network and initiatives like the FAME scheme providing subsidies for both consumers and manufacturers, EVs are becoming more accessible and affordable. These regulatory measures are expected to significantly boost the adoption of passenger EVs, accelerating their growth in the Indian market.

➢ **Used Vehicle**

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

The growing e-commerce landscape has revolutionized the sale of used vehicles, offering a seamless and efficient way for consumers to buy and sell pre-owned cars. Digital platforms like Cars24 and Spinny have played a pivotal role in this transformation by leveraging technology to streamline the entire process, from vehicle inspection to financing and delivery. These platforms have simplified lead generation, providing a trusted, transparent, and user-friendly experience, making it easier for buyers to find the right car and for sellers to reach a wider audience. Moreover, the reach of these platforms has expanded beyond Tier 1 cities, penetrating Tier 2, 3, and even Tier 4 cities, where growing internet access and increasing disposable incomes are fueling demand for used vehicles. This digital shift is accelerating growth in India's used vehicle market, improving convenience and accessibility across regions.

Accelerated Replacement Cycles and Shifting Consumer Preferences Post-Covid.

The accelerated replacement cycle of cars has amplified both the demand and supply of used cars. New vehicles are now being replaced approximately every 4-5 years, a shift from the previous 6-8 years cycle. This phenomenon has created strong demand for both new and used cars. Consumers who may not be able to afford a brand-new car can now access high-quality, well-maintained pre-owned vehicles at more affordable prices, offering them a cost-effective option without compromising on quality. At the same time, those upgrading to new cars are contributing to the availability of newer used cars, further stimulating growth in the used car market. This dynamic has benefited both segments, driving the overall automotive market forward.

5.5 Passenger Vehicle Financing Outlook for next 3 years

The domestic passenger vehicle industry grew at a 11.1% CAGR during FY20-FY24 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. Relatively lower impact on disposable income of the upper middle class led to a significant growth in the SUV segment driving overall PV sales. In FY24, the industry reached a historic high of about 42 lakh vehicle sales. Over the medium term, with projected improvement in macro-economic scenarios, inflation levels expected to remain subdued in the 3-5% range in FY25, which is within the RBI's target band. Fuel prices are also expected to remain near steady in the next 5 years.

These favorable macroeconomic factors are expected to aid the consumer disposable income levels which will eventually help the Passenger vehicle industry to grow at higher pace. CareEdge projects the industry of Passenger Vehicle to clock 6%-7% CAGR between FY24-FY27 period to reach 50.2-51.5 lakh units domestic vehicle sales. With healthy outlook for the passenger vehicle segment, CareEdge projects NBFCs credit towards passenger vehicle financing to grow at a CAGR of 9%-11% between FY24-FY27, with AUM reaching between Rs.1.49-1.58 trillion. This growth is likely to be supported by under penetration of the auto industry in India.

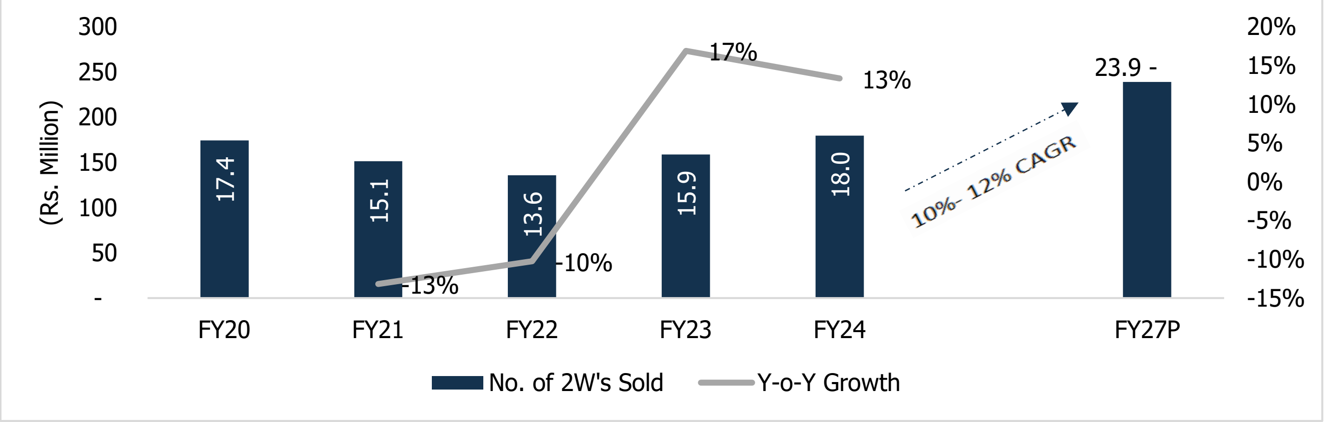
6 Two-Wheeler

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 around 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 13% on y-o-y basis in FY24. 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 favorable 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 34: Domestic Two-Wheeler Sales Trend in India



Source: SIAM, CareEdge Research
Note: P indicates Projected

The two-wheeler segment domestic sales volume grew by 17% in FY23, after witnessing de-growth in the last three consecutive fiscals. 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 (21.2 million 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.

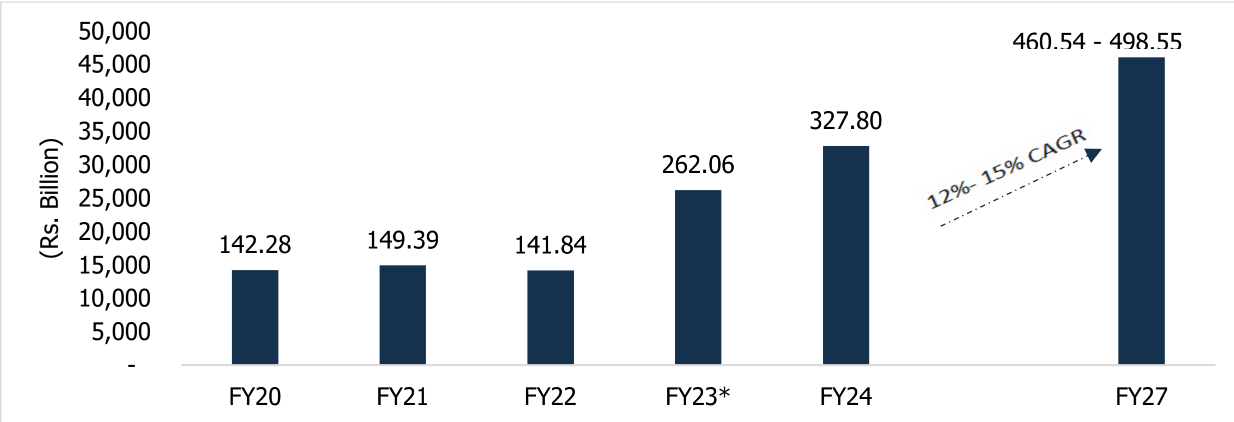
By FY27, two-wheeler is expected to reach between 239 and 253 lakhs of sales, indicating 10%- 12% CAGR from FY24 to FY27.

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. The NBFC AUM in two-wheeler segment is expected to increase by around 12%- 15% CAGR by FY27, following several slow-downs in the previous years.

Chart 35: Two-Wheeler Financing Loan Outstanding



Source: Companies Financials

Note: (*) From FY23 onwards data from Shriram Finance is included

P indicates Projected

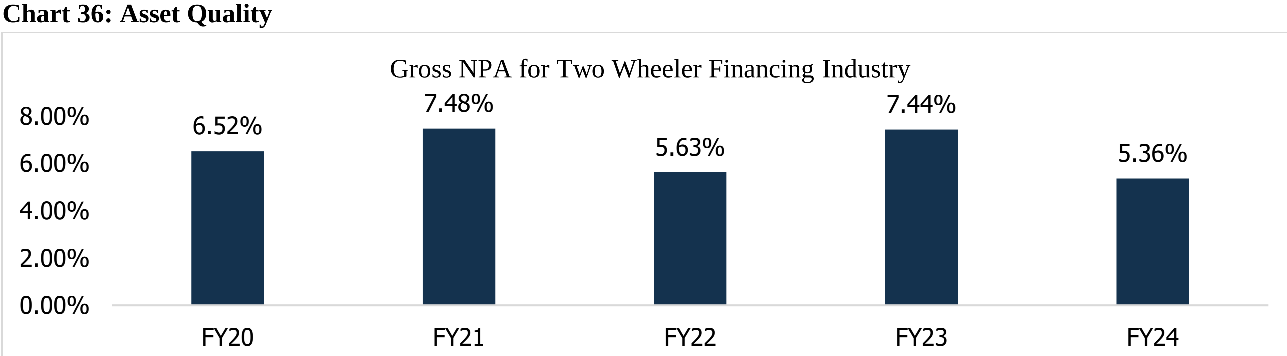
In general, increased competition in the 2W finance industry reflects NBFCs' growing participation. Competitive intensity will increase in the coming years as companies seek to capitalize on opportunities in the high-growth potential 2W industry.

Promisingly, technology is making financial products more accessible to a wider public. The introduction of blockchain, machine learning, and artificial intelligence into financial software has simplified operations, increased consumer accessibility, and reduced operating costs for banks. The trend of integrating various technologies is gaining traction and is expected to continue over the next 4-5 years.

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 36: Asset Quality



Source – Company Reports

Note: Company financials of Top 6 companies are taken – Bajaj Finance Ltd., TVS Credit, Mahindra Finance, Muthoot capital, Shriram Transport Finance, Hero Fin Corp.

In recent years, the Gross NPA for the Two Wheeler Financing industry has varied. After reaching 7.44% in FY23, the Gross NPA dropped to 5.36% in FY24, showing an improvement in managing bad loans. This decrease indicates that the industry has made progress in reducing defaults and improving collections. However, the NPA levels were higher in FY22 and FY21, at 5.63% and 7.48%, respectively. The drop in FY24 is a positive sign, suggesting the industry is recovering from the Covid-19 effect and becoming more stable.

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 non-banking financial companies (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.

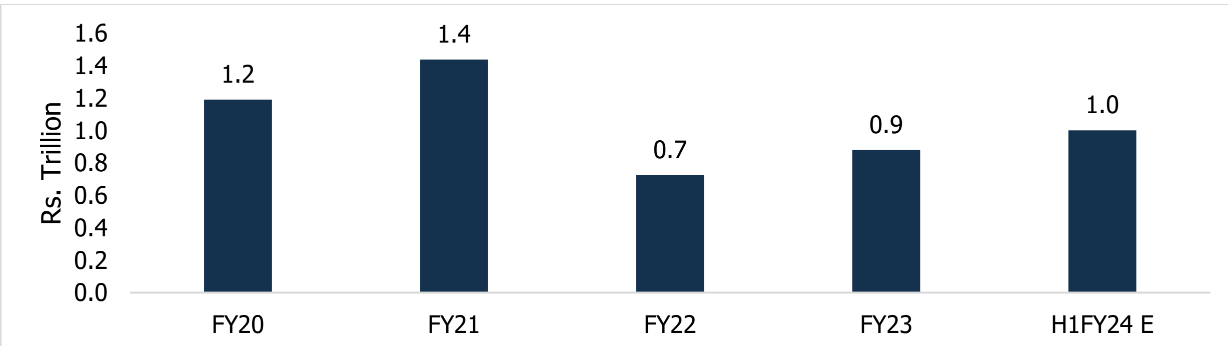
Further, increasing penetration of NBFCs are likely to fuel the growth of lending business in coming years. The assets under management (AUM) for two-wheeler financing of non-banking financial companies (NBFCs) are expected to rise at a CAGR of 12-15% from FY24 to FY27, reaching an approximate AUM between Rs. 460.54 and Rs. 498.55 billion.

7 Overview on Construction Finance Portfolio of NBFCs

Construction finance is funding provided for various stages of planning, designing, and executing construction projects. These funds are used by borrowers to cover costs of land acquisition, permits obtaining expense, purchasing raw materials, hiring labor, and managing other project-related costs. Construction finance plays a pivotal role in the development of India's infrastructure and real-estate projects. India is an emerging economy and demand for robust infrastructure is increasing, leading to significant surge in construction activities.

A variety of entities ranging from banks, NBFCs to other financial institutions that provide construction finance by offering financial products tailored to the specific requirements of the construction projects, this includes term-loans, working capital loans and project finance.

Chart 37: Aggregate Construction Finance Portfolio of HFCs and NBFCs



Source: CareEdge Estimates

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 H1FY24, NBFCs and HFCs are estimated to have contributed Rs. 1 Trillion credit towards construction finance, indicating 13.8% growth as of Sep'23 over Mar'23.

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 Summary of loan outstanding for NBFCs (Segments)

Product Category	Market Size (FY24) (in Rs. Trillion)	Projected Market Size (FY27) (in Rs. Trillion)	Segment	Market Size (FY24) (in Rs. Trillion)
Systemic Credit	217.47	~ 300	NBFC	40.30
			SCB	148.61
			EC, CP & CD	28.56
MSME	11.37	~20	NBFC	1.06
			SCB	10.30
Auto Financing	3.63	~5	Commercial Vehicle	2.10
			Passenger Vehicle	1.16
			Two-Wheeler	0.37

Source: RBI, Company financials, CareEdge Estimates

9 About the Company

Laxmi India Finance Limited (LIFL), earlier know as Laxmi India Finance Private Limited, headquartered in Jaipur, Rajasthan, is a non-deposit taking non-banking financial company (NBFC) providing financial solutions, particularly to underserved customers. Established in 1996, the Company now has presence in Rajasthan, Gujarat, Madhya Pradesh and Chhattisgarh. With a total of 139 branches as on September 30, 2024, 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 loans, Vehicle loans, Construction loans and other loans (personal and business).

As of June 30, 2024, the Company's assets under management (AUM) reached ₹10,355.35 million, with the MSME and vehicle loan sectors contributing 75.49% and 17.46%, respectively, highlighting the dominance of MSME financing within their portfolio. Moreover, the Company has shown substantial customer growth, with a total of 26,065 customers as of June 30, 2024. This includes 15,732 active MSME customers and 6,146 active vehicle loan customers, reflecting a 78.92% increase from 14,568 customers in March 2022.

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 March 31, 2022, to 119 branches by March 31, 2023, and further increased to 135 branches by June 30, 2024.

10 Peer Profiling

<table>
<tr><th>Company Name</th><th>Description</th><th>Product & Service</th><th>Presence in States</th></tr>
<tr><td>MAS Financial Service Limited</td><td>MAS Financial Services Ltd. has come a long way since starting its operations in the year 1995 and receiving its NBFC license from RBI in the year 1998. They have been steadily establishing their identity throughout their journey, expanding on their horizons in terms of their office locations as well as offerings.</td><td>• Micro Enterprise Loans (MEL)
• Salaried Personal Loans (SPL)
• 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</td><td>• Gujarat
• Maharashtra
• Rajasthan
• Madhya Pradesh
• Tamil Nadu
• Karnataka
• Chhattisgarh
• New Delhi</td></tr>
</table>

Five Star Business Finance Limited	Five-Star Business Finance Limited (FSBFL) is a Chennai-headquartered NBFC. Over the last two decades, Five Star have been working as a specialized financial services company in addressing the needs of this segment. They are a registered Non-Banking Finance Company with the Reserve Bank of India (RBI).	• Business Loans • Mortgage Loans	• Tamil Nadu • Andhra Pradesh • Telangana • Karnataka • Madhya Pradesh • Maharashtra • Chhattisgarh • Uttar Pradesh • Rajasthan
Small Business FinCredit Finance Limited (SBFC)	SBFC Finance Limited is registered with the Reserve Bank of India (RBI) as a systematically important non-deposit taking nonbanking financial company. 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	• Wholesale Loans • Retail Loans	• Delhi (NCR) • Gujarat • Haryana

	Limited) was incorporated on 28th December 1992. They are a Non-Banking Finance Company registered with the Reserve Bank of India and listed on both the Stock Exchanges.	• Emergency Credit Line Guarantee Scheme (ECLGS)	• Punjab • Rajasthan • Uttar Pradesh • Uttarakhand
AKME Fintrade (India)	Akme Fintrade (India) Limited is an Udaipur based diversified Non-Banking Finance Company (NBFC) registered with the Reserve Bank of India (RBI). Incorporated in 1996, the 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.	• Micro Enterprise Loans • SME Loans • Two-Wheeler Loans • Used Car Loans • Commercial Vehicle Loans	• Rajasthan • Maharashtra • Madhya Pradesh • Gujarat
Moneybox Finance Limited	MFL is a non-deposit taking, base layer non-banking financial company (NBFC-BL) registered with the Reserve Bank of India (RBI) and listed on the Bombay Stock Exchange. 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 FY24:-

Comparison of its 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	1144	3692	9327	3758	1678	421	125	1802
AUM	Million	9,613.69	101256.00	96410.00	68219.00	90470.00	10300.00	4037.20	7300.00
AUM Growth	%	39.98%	25.12%	39.42%	38.02%	48.77%	37.52%	13.99%	115.98%
Disbursements	Million	5254.28	NA	48810.00	NA	102170.00	10520.00	970.50	6650.00
Disbursement Growth	%	53.06%	NA	43.94%	NA	41.90%	38.60%	23.88%	95.01%
Average ticket size on Disbursement	Million	0.48	NA	0.34	0.97	1.30	1.20		0.30
AUM per branch	Million	71.21	535.75	185.40	372.78	603.13	355.17	336.43	73.00
AUM per employee	Million	8.40	27.43	10.34	18.15	53.92	24.47	32.30	4.05
Net worth	Million	2012.15	17690.00	51961.50	27782.55	14380.00	4729.00	2232.40	1688.50
CRAR	%	21.81	24.05	50.50	40.52	21.00	51.00	49.86	28.28
Average cost of Borrowing	Million	12.06	10.03	8.81	9.04	11.22	9.38	14.79	12.27
Total Income	Million	1750.18	12245.70	21950.00	10199.20	10816.81	1666.00	735.00	1280.00
Net interest income	Million	813.65	3811.20	16480.89	5676.22	2650.20	1107.61	413.75	648.00
PAT after OCI	Million	226.21	2635.00	8341.48	2350.12	1138.50	632.93	185.28	89.65
Yiel on average gross loan	%	20.87%	15.52%	25.64%	17.91%	15.33%	18.83%	18.92%	29.35%
Spread	%	8.81%	5.49%	14.60%	7.70%	4.10%	9.45%	4.13%	17.07%
Net Interest Margin	%	9.23%	4.54%	16.16%	8.86%	5.01%	12.56%	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%	15.15%	8.66%	7.31%
GNPA	%	0.73%	2.25%	1.38%	2.40%	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	Million	3.24	NA	7.82	NA	56.76	30.23	6.74	5.54
Disbursement per employee per month	Million	0.38	NA	0.44	NA	5.07	2.08	0.65	0.31
PAT per Employee	Million	0.20	0.71	0.89	0.63	0.68	1.50	1.48	0.05
PAT per Branch	Million	1.68	13.94	16.04	12.84	7.59	0.06	0.05	0.01
Net Assets Value (NAV)	Million	101.30	107.87	177.68	25.87	154.95	208.42	52.31	55.38
Number of Branches	Count	135	189	520	183	150	29	12	100

Financial Performance for FY23:-

Comparison of its 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	1154	7347	28219	1261	257	114	735
AUM	Million	6,867.67	80926.00	69150.00	49428.00	60810.00	7490.00	3541.61	3380.00
AUM Growth	%	29.19%	29.55%	36.47%	54.85%	104.75%	44.32%	0.81%	179.34%
Disbursements	Million	3432.91	NA	33910.00	NA	72000.00	7590.00	783.40	3410.00
Disbursement Growth	%	45.09%	NA	93.11%	NA	27.39%	54.58%	300.92%	203.60%
Average ticket size on Disbursement	Million	0.57	NA	0.30	0.99	1.80	1.10		0.30
AUM per branch	Million	57.71	543.13	185.39	325.18	620.51	288.08	393.51	55.41
AUM per employee	Million	7.58	70.13	9.41	1.75	48.22	29.14	31.07	4.60
Net worth	Million	1523.27	15057.00	43395.30	17272.68	9840.00	3624.00	2047.10	764.00
CRAR	%	23.09	25.25	67.17	31.90	20.00	50.00	51.19	30.96
Average cost of Borrowing	Million	12.24	9.85	7.74	8.24	11.64	8.81	13.74	12.67
Total Income	Million	1306.68	9398.50	15290.00	7403.61	6837.63	1175.00	697.50	504.40
Net interest income	Million	619.65	3225.10	12325.33	3777.00	1896.39	813.53	351.02	271.91
PAT after OCI	Million	160.28	1815.10	6012.86	1498.77	399.27	456.28	148.39	-66.93
Yiel 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%
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	Million	2.40	NA	7.58	NA	61.22	24.33	7.25	4.66
Disbursement per employee per month	Million	0.32	NA	0.38	NA	4.76	2.46	0.57	0.39
PAT per Employee	Million	0.18	1.57	0.82	0.05	0.32	1.78	1.30	-0.09
PAT per Branch	Million	1.35	12.18	16.12	9.86	4.07	0.06	0.04	-0.02
Net Assets Value (NAV)	Million	76.69	275.46	148.94	19.26	139.46	174.85	64.63	32.64
Number of Branches	Count	119	149	373	152	98	26	9	61

Financial Performance for FY22 :-

Comparison of its 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	5675	2048	1111	200	160	313
AUM	Million	5,316.02	62468.00	50670.00	31920.00	29700.00	5190.00	3513.20	1210.00
AUM Growth	%	15.04%	16.28%	13.99%	41.24%	125.51%	NA	-16.55%	92.06%
Disbursements	Million	2366.00	NA	17560.00	NA	56520.00	4910.00	195.40	1123.20
Disbursement Growth	%	48.06%	NA	41.04%	NA	124.82%	14.19%	-63.67%	104.22%
Average ticket size on Disbursement	Million	0.51	NA	0.27	0.95	1.60	1.30		0.30
AUM per branch	Million	57.16	499.74	168.90	236.44	330.00	235.91	390.36	40.33
AUM per employee	Million	8.79	66.03	8.93	15.59	26.73	25.95	21.96	3.87
Net worth	Million	1261.87	13406.00	37103.50	12871.67	9660.00	3217.00	1378.48	345.14
CRAR	%	23.41	26.35	75.20	26.20	34.00	64.00	35.06	30.59
Average cost of Borrowing	Million	12.46	9.00	9.97	7.45	7.49	7.29	12.75	10.53
Total Income	Million	982.45	6570.80	12560.00	5307.02	3134.16	746.00	675.00	233.10
Net interest income	Million	452.49	4870.30	9031.66	2525.30	1347.64	569.50	299.43	117.36
PAT after OCI	Million	145.719	1499.80	4513.10	647.99	147.96	335.00	43.28	-36.56
Yiel 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	Million	2.12	NA	4.88	NA	52.33	18.60	1.81	3.12
Disbursement per employee per month	Million	0.33	NA	0.26	NA	4.24	2.05	0.10	0.30
PAT per Employee	Million	0.24	1.59	0.80	0.32	0.13	1.67	0.27	-0.12
PAT per Branch	Million	1.57	12.00	15.04	4.80	1.64	0.06	0.01	-0.03
Net Assets Value (NAV)	Million	79.41	239.37	127.35	15.42	136.99	155.07	63.19	15.98
Number of Branches	Count	93	125	300	135	90	22	9	30

- Laxmi Finance stands out among its peers with the lowest operating expense per branch, showcasing its exceptional cost efficiency. Laxmi Finance's operating expense per branch is also the best at Rs. 4.4 Million amongst its peers, reflecting its operational efficiency and effective cost control.

- Laxmi Finance performs best in key areas such as asset quality, credit cost, and operational efficiency compared to its peers in FY 2024. With a GNPA of 0.73%, NNPA of 0.33% and credit cost of 0.21%, it leads the peer group, 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 FY24.

Definitions for KPIs

(1) Number of branches represents aggregate number of branches as of the last day of relevant period/ year.
(2) Number of employees represents aggregate number of employees as of the last day of relevant period/ year.
(3) 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 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 is the aggregate of all loan amounts extended to customers in the relevant period/ year.
(6) Disbursement growth represents the percentage growth in disbursement for the relevant period/ year over disbursement for the previous peri od/ year.
(07) 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.
(08) 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.
(09"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.
(10) 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.
(11) 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.
(12) Total Income represents the Total Income for the relevant period/ year.
(13) 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.
(14) Profit for period/ year represents the profit after OCI for relevant period/ year.
(15) Yield on average gross loans is Interest income on financial assets measured at amortised cost divided by average gross loans.
(16) Spread is the difference between yield on average gross loans and average cost of borrowing.
(17) 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.
(18) 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.
(19) 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.
(20) 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.
(21) Gross non-performing assets 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.
(22) Net NPAs to net advances (Net NPA Ratio) represents our Net Non-performing assets 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.

(23) Provision Coverage Ratio on Gross non-performing assets (%) is calculated as provisions for NPAs (excluding provisions on standard assets) divided by Gross Non-Performing Assets as at 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 at the end of the relevant period/ year.

(24) 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 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 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 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 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 CARE Analytics and Advisory Private Ltd (CareEdge Research)

CareEdge (CARE Group) is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics capability and detailed research methods. CareEdge (CARE Ratings Limited) is one of the leading credit rating agencies in India. It has an impressive track record of rating companies for almost three decades and has played a pivotal role in developing the corporate debt market in India. CareEdge provides near real time research on all domestic and global economic developments. CARE Analytics & Advisory Private Ltd is a wholly owned subsidiary focused on providing advisory and consultancy services including the following:

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