NBFC Industry in India

March 2024

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Global Macroeconomic Scenario

The global economy, estimated at 3.1% in 2023, is expected to show resilience at 3.1% in 2024 before rising modestly to 3.2% in 2025. Between 2021 – 2022, global banks were carrying a historically high debt burden after COVID-19. Central banks took tight monetary measures to control inflation and spike in commodity prices. Russia's war with Ukraine further affected the global supply chains and inflated the prices of energy and other food items. These factors coupled with war-related economic sanctions impacted the economic activities in Europe. Any further escalation in the war may further affect the rebound of the economy in Europe.

While China was facing a crisis in the real estate sector and prices of properties were declining between 2020 - 2023, with the reopening of the economy, consumer demand is picking up again. The Chinese authorities have taken a variety of measures, including additional monetary easing, tax relief for corporates, and new vaccination targets for the elderly. The government has also taken steps to help the real estate sector including cracking down on debt-ridden developers, announcing stimulus for the sector and measures to encourage the completion and delivery of unfinished real estate projects. The sector is now witnessing investments from developers and demand from buyers.

Global headline inflation is set to fall from an estimated 6.8% in CY 2023 to 5.8% in CY 2024 and to 4.4% in CY 2025. This fall is swifter than anticipated across various areas, amid the resolution of supply-related problems and tight monetary policies. Reduced inflation mirrors the diminishing impact of price shocks, particularly in energy, and their subsequent influence on core inflation. This decrease also stems from a relaxation in labour market pressure, characterized by fewer job openings, a slight uptick in unemployment, and increased labour availability, occasionally due to a significant influx of immigrants.

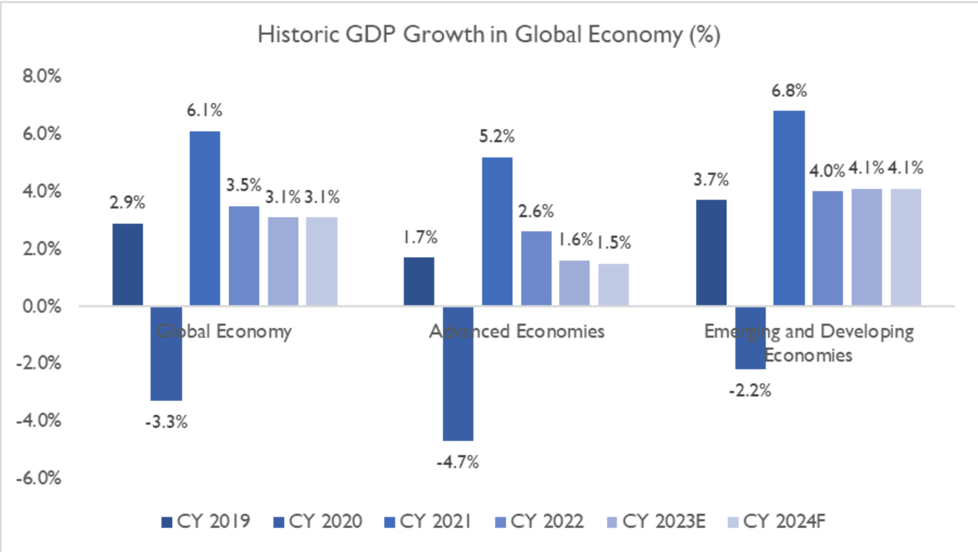
Global GDP Growth Scenario

The global economy started to rise from its lowest levels after countries started to lift the lockdown in 2020 and 2021. The pandemic lockdown was a key factor as it affected economic activities resulting in a recession in the year CY 2020, as the GDP growth touched -3.3%.

In CY 2021 disruption in the supply chain affected most of the advanced economies as well as low-income developing economies. The rapid spread of Delta and the threat of new variants in mid of CY 2021 further increased uncertainty in the global economic environment.

Global economic activities experienced a sharper-than-expected slowdown in CY 2022. One of the highest inflations in decades, seen in 2022, forced most of the central banks to tighten their fiscal policies. Russia's invasion of Ukraine affected the global food supply resulting in a further increment in the cost of living.

Further, despite initial resilience earlier in 2023, marked by a rebound in reopening and progress in curbing inflation from the previous year's highs, the situation remained precarious. Economic activity lagged behind its pre-pandemic trajectory, particularly in emerging markets and developing economies, leading to widening disparities among regions. Numerous factors are impeding the recovery, including the lasting impacts of the pandemic and geopolitical tensions, as well as cyclically-driven factors such as tightening monetary policies to combat inflation, the reduction of fiscal support amidst high debt levels, and the occurrence of extreme weather events. As a result, global growth declined from 3.5% in CY 2022 to 3.1% in CY 2023.

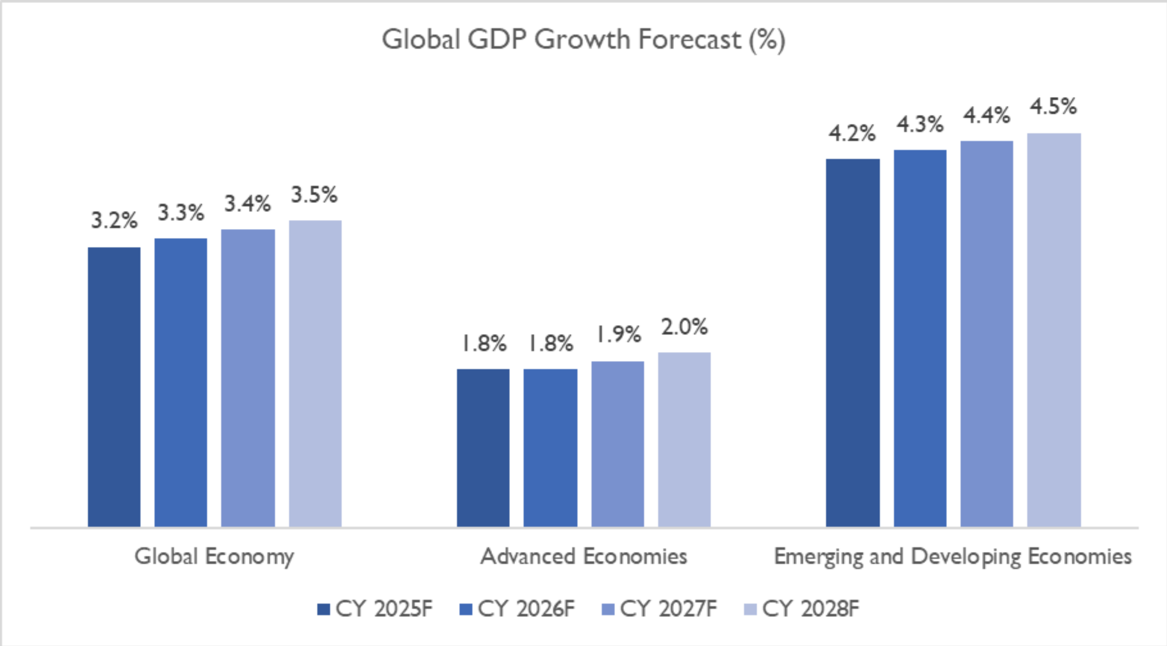


Source – IMF Global GDP Forecast Release 2024

Note: Advanced Economies and Emerging & Developing Economies are as per the classification of the World Economic Outlook (WEO). This classification is not based on strict criteria, economic or otherwise, and it has evolved over time. It comprises of 40 countries under the Advanced Economies including the G7 (the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada) and selected countries from the Euro Zone (Germany, Italy, France etc.). The group of emerging market and developing economies (156) includes all those that are not classified as Advanced Economies (India, China, Brazil, Malaysia etc.)

In the current scenario, global GDP growth is estimated to have recorded a moderate growth of 3.1% in CY 2023 as compared to 3.5% growth in CY 2022. While high inflation and rising borrowing costs are affecting private consumption, on the other hand, fiscal consolidation is affecting government consumption.

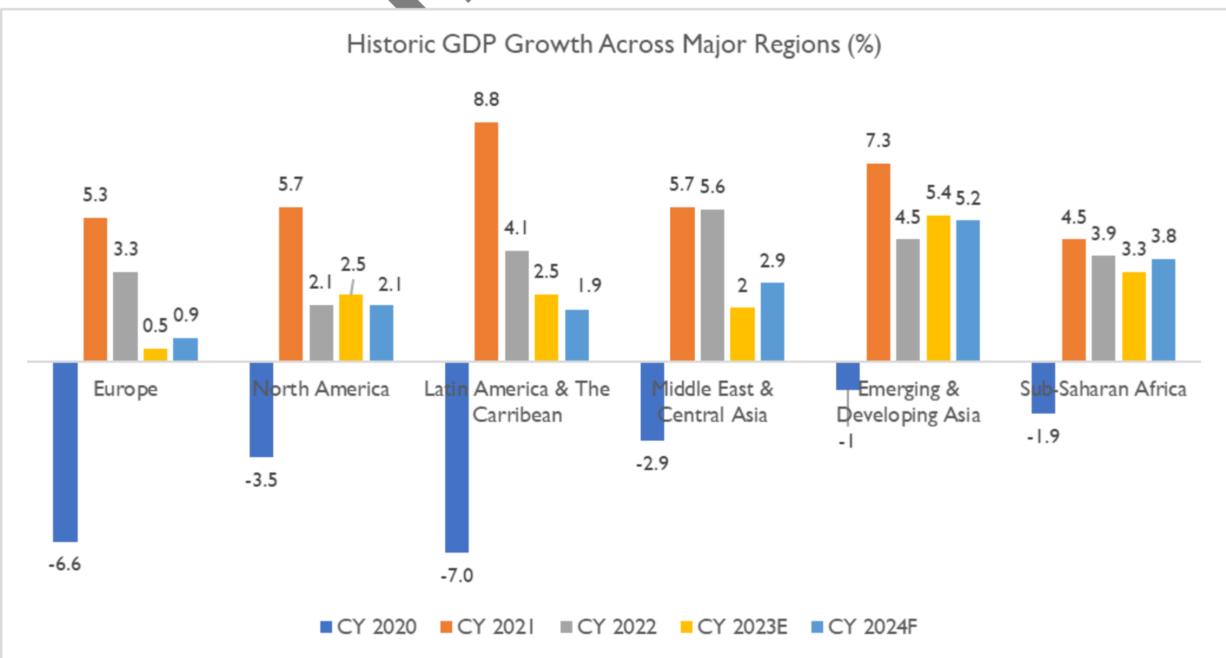
Slowed growth in developed economies will affect the GDP growth in CY 2024 and global GDP is expected to record a flat growth of 3.1% in CY 2024. The crisis in the housing sector, bank lending, and industrial sectors are affecting the growth of global GDP. Inflation forced central banks to adopt tight monetary policies. After touching the peak in 2022, inflationary pressures slowly eased out in 2023. This environment weighs in for interest rate cuts by many monetary authorities.



Source – IMF Global GDP Forecast Release 2024, D&B Estimates

GDP Growth Across Major Regions

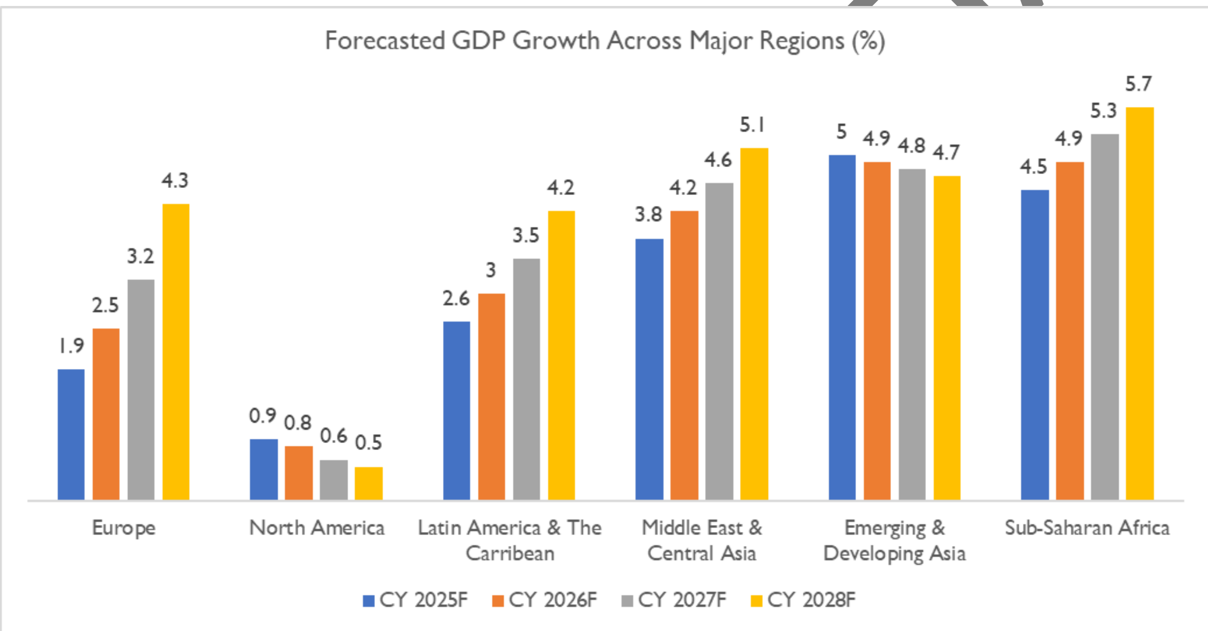
GDP growth of major regions including Europe, Latin America & The Caribbean, Middle East & Central Asia, and Sub-Saharan Africa, were showing signs of slow growth and recession between 2020 – 2023, but leaving Latin America & The Caribbean, 2024 is expected to show resilience and growth. Meanwhile, GDP growth in Emerging and Developing Asia (India, China, Indonesia, Malaysia etc.) is expected to decrease from 5.4% in CY 2023 to 5.2% in CY 2024, while in the United States, it is expected to decrease from 2.5% in CY 2023 to 2.1% in CY 2024.



Source-IMF World Economic Outlook January 2024 update

Except for Emerging and Developing Asia, Latin America & The Caribbean and the United States, all other regions are expected to record an increase in GDP growth rate in CY 2024 as compared to CY 2023. GDP growth in Latin America & The Caribbean is expected to decline due to negative growth in Argentina. Further, growth in the United States is expected to come down at 2.1% in CY 2024 due to lagged effects of monetary policy tightening, gradual fiscal tightening, and a softening in labour markets slowing aggregate demand.

Although Europe experienced a less robust performance in 2023, the recovery in 2024 is expected to be driven by increased household consumption as the impact of energy price shocks diminishes and inflation decreases, thereby bolstering real income growth. Meanwhile, India and China saw greater-than-anticipated growth in 2023 due to heightened government spending and robust domestic demand, respectively. Sub-Saharan Africa's expected growth in 2024 is attributed to the diminishing negative impacts of previous weather shocks and gradual improvements in supply issues.



Source-IMF, OECD, and World Bank, D&B Estimates

India Macroeconomic Analysis

GDP Growth Scenario

India's economy is showing signs of resilience with GDP growing to estimated 7.3% in FY 2024. Although this translates into only a slight uptick in demand (compared to FY 2023- 7.2%), the GDP growth in FY 2023 represents a return to pre pandemic era growth path. Despite this moderation in growth, India continues to remain one of the fastest growing economies in the world.

Country	Real GDP Growth (2023)
India	**6.3%**
United Kingdom	0.5%

Italy	0.7%
Canada	1.3%
China	5.0%
Brazil	3.1%
France	1.3%
United States	2.1%
South Africa	0.9%
Germany	-0.5%
Japan	2.0%
Russia	2.2%

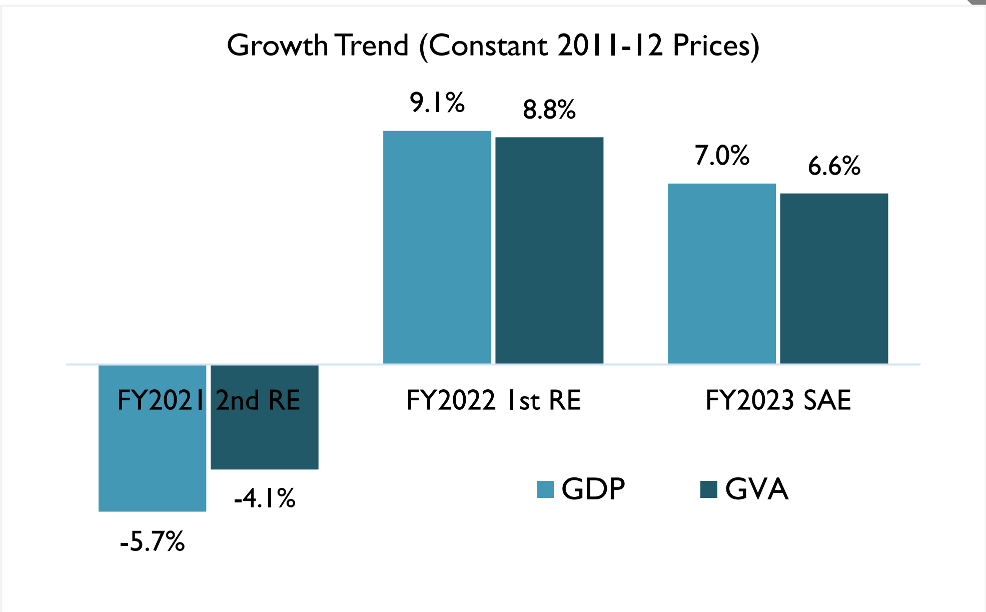
Source: IMF
Countries considered include - Largest Developed Economies and BRICS (Brazil, Russia, India, China, and South)
Countries have been arranged in descending order of GDP growth

There are quite a few factors aiding India's economic recovery – notably its resilience to external shocks (ongoing Russia – Ukraine conflict) and rebound in private consumption. This rebound in private consumption is bringing back the focus on improvements in domestic demand, which together with revival in export demand is a precursor to higher industrial activity. Already the capacity utilization rates in Indian manufacturing sector are recovering as industries have stepped up their production volumes. As this momentum sustains, the country may enter a new capex cycle. The universal vaccination program by the Government has played a big part in reinstating confidence among the population, in turn helping to revive private consumption.

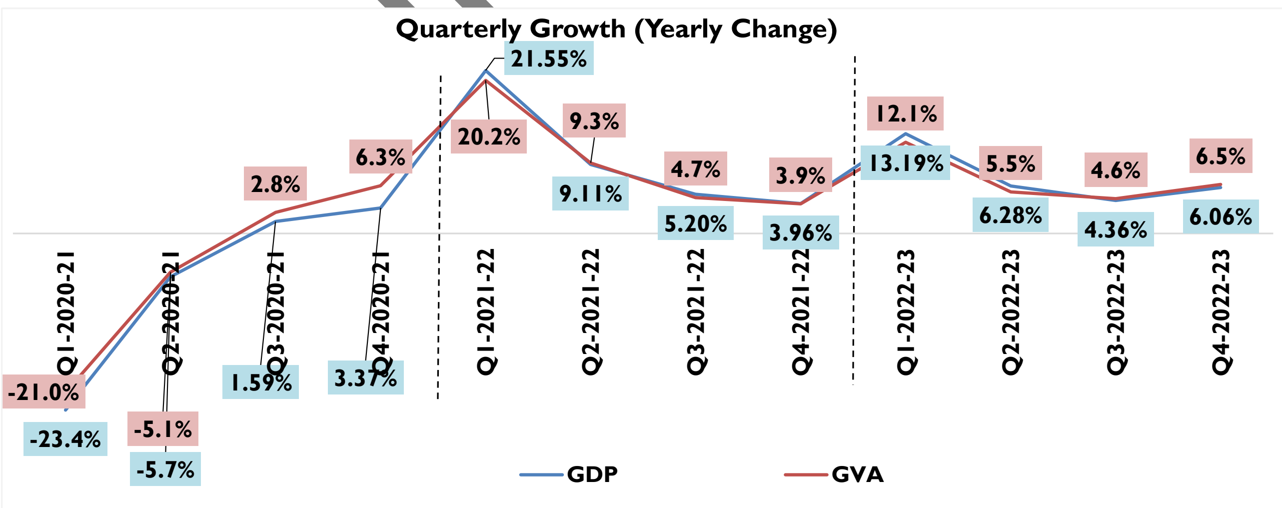
Realizing the need to impart external stimuli, the Government stepped up its spending on infrastructure projects which in turn had a positive impact on economic growth. The capital expenditure of central government increased by nearly 24.5% during FY 2023 as compared to the previous fiscal. The improvement was accentuated further as the Union Budget 2023-2024 announced 37.4% increase in capital expenditure (budget estimates), to the tune of Rs 10 trillion. The announcement also included 30% increase in financial assistance to states at Rs 1.3 trillion for capex. This has provided the much-needed confidence to private sector, and in turn attracted private investment.

On the lending side, the financial health of major banks has witnessed an improvement which has helped in improving the credit supply. With capacity utilization improving, there would be demand for credit from corporate sector to fund the next round of expansion plans. Banking industry is well poised to address that demand. Underlining the improving credit scenario is the credit growth to micro, small and medium enterprise (MSME) sector as the credit outstanding to the MSME sector by scheduled commercial banks in the financial year FY 2023 grew by 12.3% to Rs 22.6 trillion compared to FY 2022. The extended Emergency Credit Linked Guarantee Scheme (ECLGS) by the Union Government has played a major role in improving this credit supply.

India's GDP in FY 2023 grew by 7.2% compared to 9.1% in the previous fiscal on the back of slowing domestic as well as external demand owing to series of interest rate hikes globally to tackle high inflation. The year-on-year moderation in growth rate is also partly due to a fading impact of pandemic-induced base effects which had contributed towards higher growth in FY 2022. On quarterly basis, the country growth moderated in Q2 and Q3 of FY 2023 which highlights impact of slowing economy on the back of monetary tightening. During Q3 FY 2023, the country's GDP grew by 4.36% against 6.28% y-o-y increase in the corresponding quarter last fiscal. However, the fourth quarter of FY 2023 saw a rebound in growth rate, indicating an optimistic scenario.



Source: Ministry of Statistics & Programme Implementation (MOSPI)
RE stands for Revised Estimates, SAE stands for Second Advance Estimates



Source: Ministry of Statistics & Programme Implementation (MOSPI)

Sectoral Growth Trend: Annual

Sectoral analysis of GVA reveals growth tapered sharply in industrial sector which is estimated to have grown by just 3.6% in FY 2023 against 11.6% in FY 2022. In the industrial sector, growth across major economic activity such as mining, manufacturing, construction sector slowed registering a growth of 3.4%, 0.6% and 9.1% in FY 2023 against a growth rate of 7.1%, 11.05% and 14.8% recorded in FY 2022, respectively. Utilities sector too observed a marginal moderation in y-o-y growth to 9.2% against a decline of 3.6% in the previous years.

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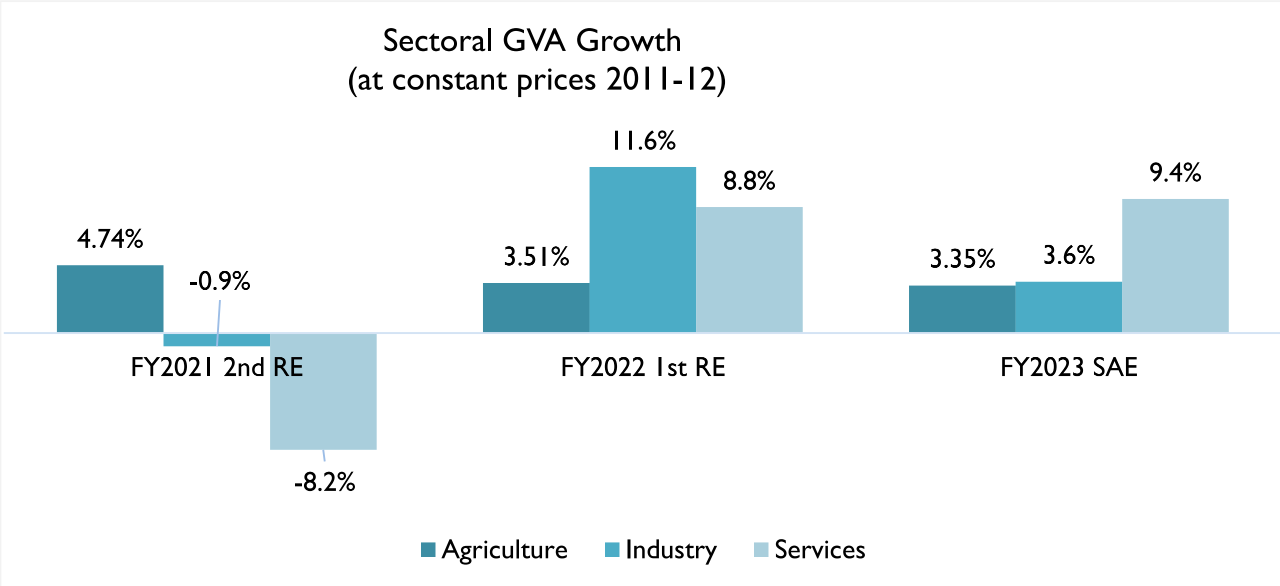
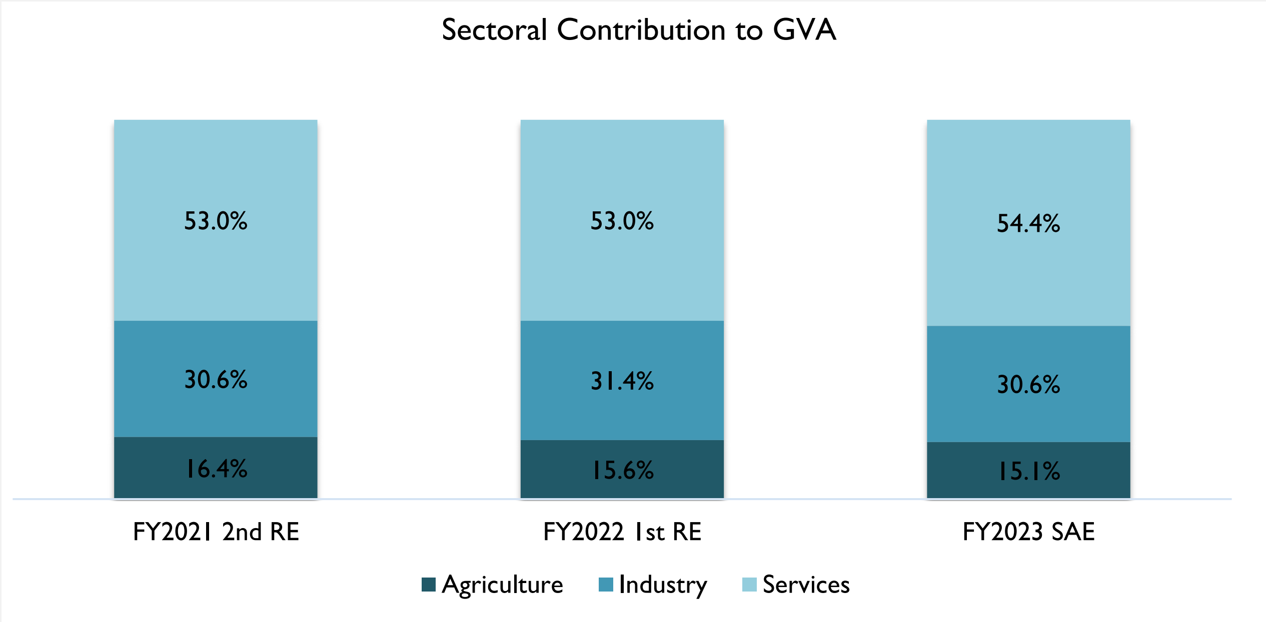


Source: Ministry of Statistics & Programme Implementation (MOSPI)

Talking about the services sectors performance, with major relaxation in covid restriction, progress on covid vaccination and living with virus attitude, business in service sector gradually returned to normalcy in FY 2022. Economic recovery was supported by the service sector as individual mobility returned to pre-pandemic level. The trade, hotel, transport, communication, and broadcasting segment continued to strengthen and grow by 14.18% in FY 2023 against 13.75% in the previous year and financial services, real estate and professional services sector recorded 6.85% y-o-y growth against 4.73%. However, overall service sector growth was curbed by moderation in public administration and defence services sector which recorded 7.12% yearly increase against 9.7% increase in the previous year.



Source: Ministry of Statistics & Programme Implementation (MOSPI)

Sectoral Growth Trend: Quarterly

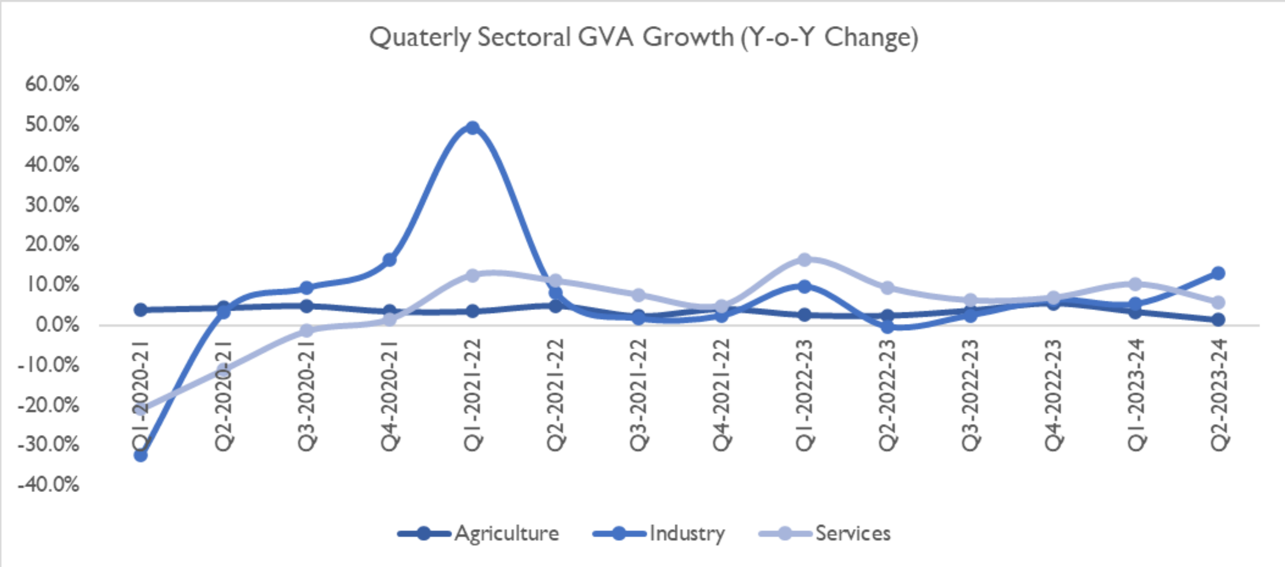
Quarterly GVA number indicated sustained weakness in economic activity during Q2 and Q3 FY 2023 with manufacturing activity being the worst hit segment amongst the industrial sectors. India's manufacturing sector shrank by 1.1% on-year in Q3 FY 2023, a second straight contraction highlighting the continuing weakness in consumer demand and exports. However, Q4 FY 2023, manufacturing sector output was rose by 4.5% compared to the corresponding quarter last year (0.62%).

Agriculture sector GVA strengthen in Q3 FY 2023 to register 3.68% yearly growth, and further to 5.47% in Q4 FY 2023 compared to the corresponding quarter last year (4.06%). Any growth between 3.5-4% in farm sector is considered above the long-term trend line. Construction sector witnessed 8.39% y-o-y growth in Q3 of FY 2023, and a further growth of 10.39% against 4.93% y-o-y growth in the previous quarter (Q4 FY 2023). Mining and quarrying sector, and Electricity, gas, water supply & other utility services sector registered 4.3% and 6.85% y-o-y growth in Q4 FY 2023 against 2.33% and 6.73%, respectively in Q4 FY 2022.

Within service sector, quarterly growth moderated across all segments in Q3 and Q4 FY 2023 against the previous quarter. Trade, hotel, transport, communication, and broadcasting segment observed 9.06% y-o-y growth in Q4 FY 2023 as compared to 15.64% growth in Q2 FY 2023. Other services sector broadly classified under Public Admin, Defence & Other Services and Financial, Real Estate & Professional Services too observed 3.12% and 7.11% growth in Q4 FY 2023 against 5.57% and 7.13% y-o-y change in Q2 FY 2023.

In Q1 FY 2024, agriculture sector recorded a y-o-y growth of 3.35% over the same period last year, whereas recorded a decline from the previous quarter standing at 5.47%. It further recorded an even slowed growth at 1.31% in Q2 FY 2024, as corresponding to 2.40% annual growth observed in Q2 FY 2023. The service sector in Q1 FY 2024 recorded an annual growth at 10.27%, and showed an increase from the previous quarter (6.88%). However, Q2 FY 2024 in services saw a moderation, and recorded an annual growth of 5.76%.

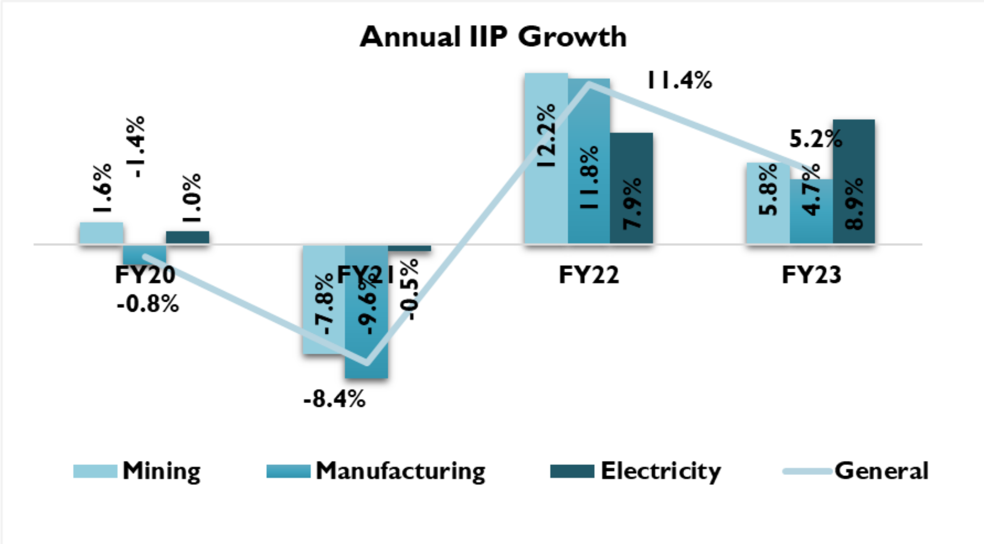
The manufacturing sector output saw a phenomenal y-o-y growth in Q2 FY 2024, recorded at 13.60%, as compared to the negative growth of -3.57% observed in Q2 FY 2023. The overall industry trend recorded a growth of 12.97% in Q2 FY 2024, as compared to -0.36% recorded in the same period previous year, as well as 5.26% recorded in the previous quarter.



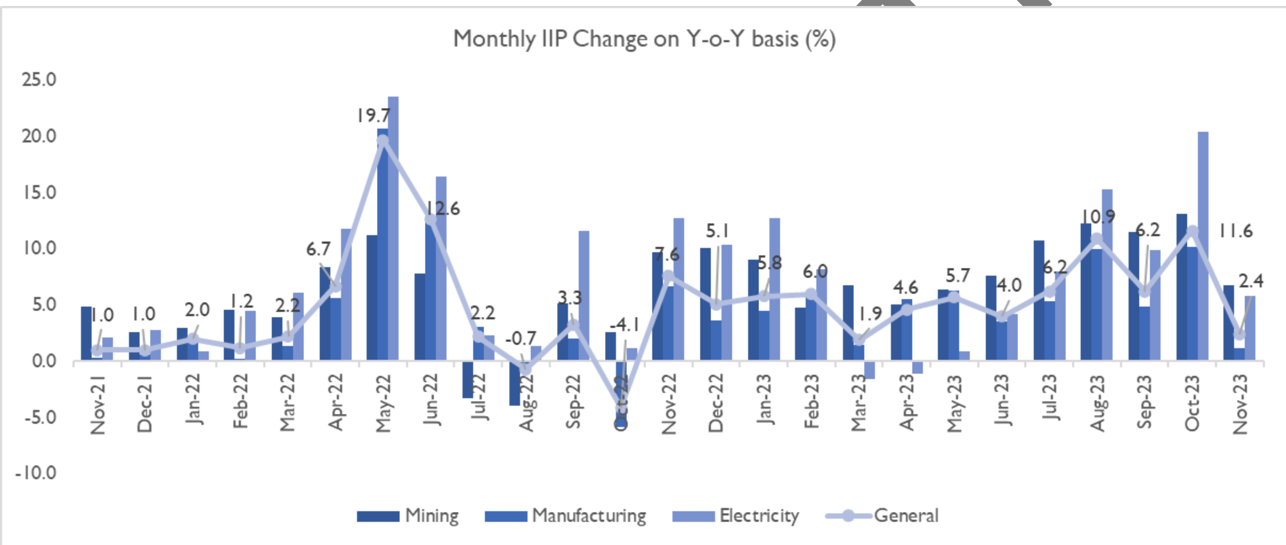
Source: Ministry of Statistics & Programme Implementation (MOSPI)

Index of Industrial Production

After experiencing three years of deteriorating industry growth, the country's Index of Industrial Production (IIP) index registered 11.4% y-o-y growth in FY 2022 where growth was evenly spread across all sub-segments. After the stark rise experienced in economy after the Covid-19 pandemic, growth in FY 2023 moderated to 5.2%. Electricity index registered 8.9% y-o-y growth in FY 2032 followed by the mining sector index. Classified based on usage i.e., infrastructure/construction goods, capital good, intermediate good and consumer durable outperformed over the other sector and registered healthy double-digit growth.



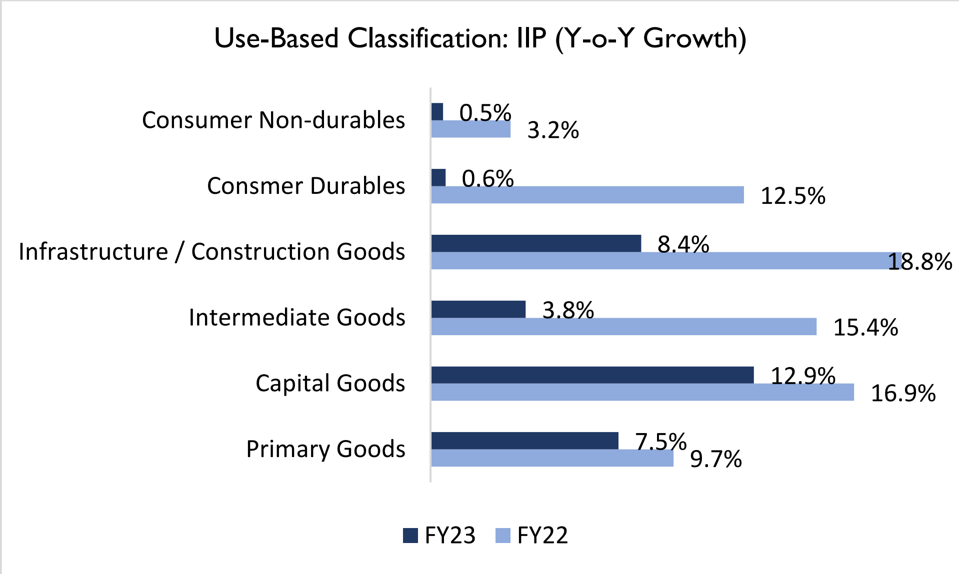
Source: Ministry of Statistics & Programme Implementation (MOSPI)



Source: Ministry of Statistics & Programme Implementation (MOSPI)

Between November 2021 – November 2022, the IIP index improved steadily between Nov'21 to May'22 but moderated sharply in the subsequent four months and it measured lowest in October 2022 while it showed temporary improvement by growing at 7.3% in subsequent. However, IIP again moderated to register 5.1 % y-o-y growth in December 2022. Manufacturing activity which has 77.6% weightage in the overall index, grew by 2.6% in December 2022 while mining activity and electricity index grew by 9.8% and 10.4%, respectively.

On y-o-y basis, monthly IIP growth in December 2022 was relatively higher compared to December 2021 due to low base effect where overall IIP was adversely affected by onset of third wave of pandemic. Between November 2022 – November 2023, IIP growth declined from levels of 7.6% in Nov'22 to 1.9% in Mar'23. However, the subsequent months in 2023 saw a trend of growth, with Aug'23 and Oct'23 recording a high of 10.9% and 11.6% respectively on back of growing demand and record festive sales.

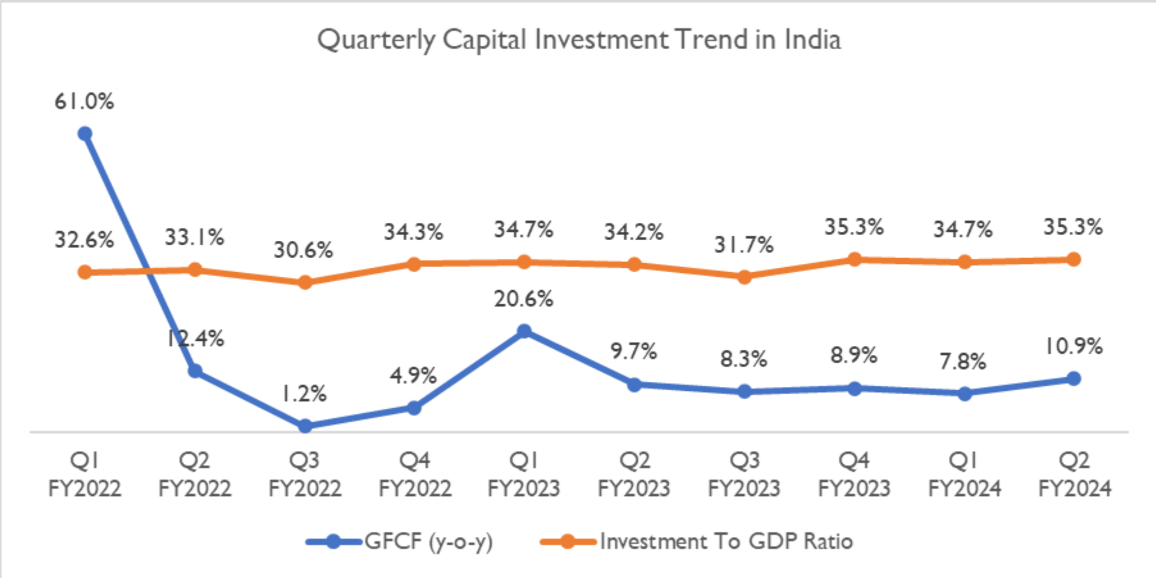


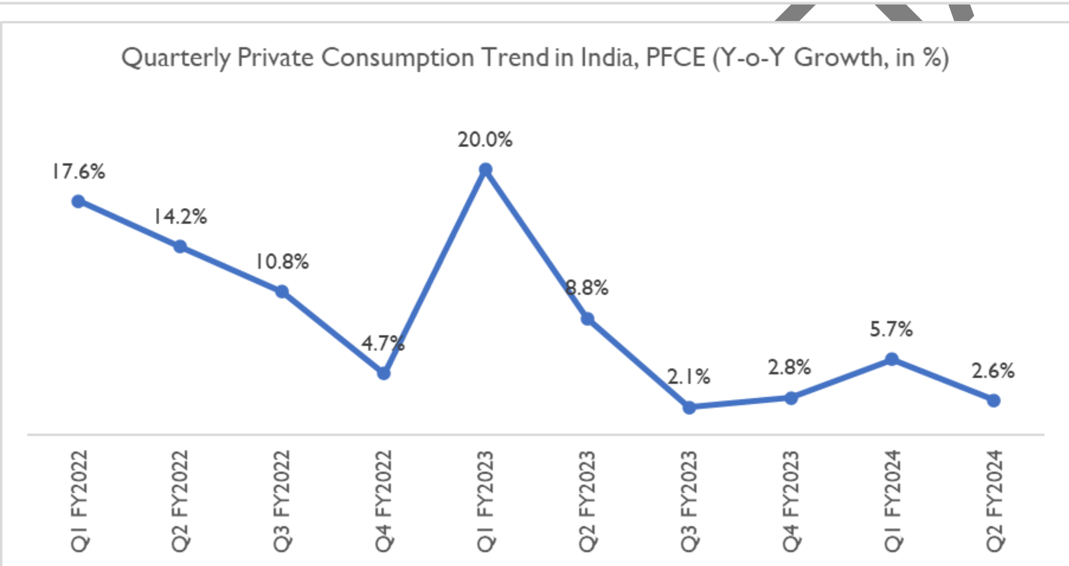
Sources: MOSPI

As per the use-based classification, growth in all segments deteriorated for FY 2023 as compared to FY 2022. Consumer good and intermediate goods were worst hit segments followed by infrastructure / construction Goods. The contracting IIP data points towards adverse operating business climate as global headwinds, high inflation, and monetary tightening started having adverse impact on manufacturing activity in FY 2023.

Investment & Consumption Scenario

Other major indicators such as Gross fixed capital formation (GFCF), a measure of investments, moderated between Q2 FY 2023 – Q1 FY 2024, after a rise of 20.6% observed in Q1 FY 2023. However, Q2 FY 2024 saw some quarter-on-quarter improvement in performance at 10.9%, as well as annual growth against 9.7% recorded in Q2 2023.Despite the festive season demand and largely a covid-free economy, Private Final Consumption Expenditure (PFCE) a realistic proxy to gauge household spending, observed a continued moderation in Q3 FY 2023 where yearly growth softened to 2.1% which was nearly 8.8% lower compared to Q2 FY 2023. Q1 FY 2024 saw growth, observing a PFCE of 5.7%, followed by steep moderation to 2.6% in Q2 FY 2024.

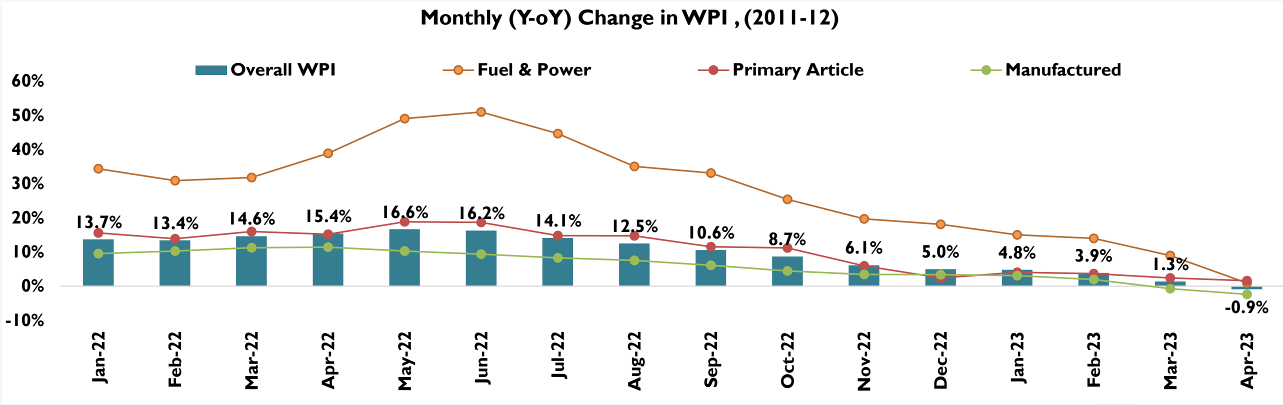




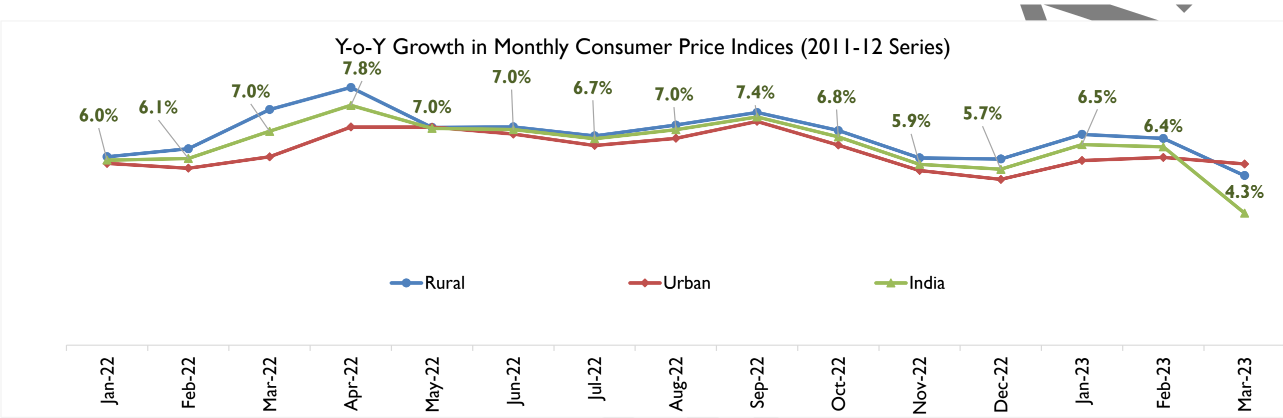
Sources: MOSPI

Inflation Scenario

Wholesale Price Index (WPI) is moderating on the back of softening of prices. Compared to April 22, WPI in April 2023 dropped by -0.9%. This is primary on the back of softening of fuel & power prices. Monthly y-o-y change (April 2023 v/s April 2022) for manufactured products was -2.9%, and this too contributed to the moderation in WPI. Softening prices of mineral oils, chemicals & chemical products, textiles, crude petroleum & natural gas, textiles, and food products. contributed towards moderation in WPI inflation.



Source: MOSPI, Office of Economic Advisor



Source: CMIE Economic Outlook

Retail inflation rate (as measured by Consumer Price Index) again jumped above 6% tolerance limit of the central bank in January 2023 after observing mild moderation in the previous two month. The overall CPI grew by 6.5% in January 2023 due to spike in food inflation and CPI food index grew by 5.9% during FY 2023 against 4.2% y-o-y growth in the previous year. Within food index, Cereals and product-led food inflation reached 16.1 per cent in January 2023 from 13.8 per cent in December 2022. As a part of anti-inflationary measure, the RBI has hiked the repo rate by 225 bps since May 2022 to current 6.5% (May 2023), with latest fourth round hike announced on 8 Feb 2023. The Reserve Bank of India has estimated an average inflation rate of 6.5% for FY 2023. Since then, retail inflation appears to be softening, as it grew by 6.4% and 4.3% respectively in February and March of 2023.

Growth Outlook

Amidst the difficult and uncertain external economic environment, the Indian government has delivered a balanced Union Budget which focuses on achieving an inclusive and sustainable growth while adhering to the fiscal glide path. Notwithstanding the external risk, there is a sustained momentum in economic activity supported by domestic drivers. The consumer confidence survey by the Reserve bank of India points towards rising confidence of households both for the current situation as well as the future expectations (for a one-year period).

Rural demand is likely to be boosted by good prospects for agricultural output and discretionary spending is expected to support urban consumption supporting. Resilient domestic financial markets, sturdy growth in credit and the government's thrust on capital expenditure is expected to drive momentum in investment activity. Capacity utilization in the manufacturing sector has surpassed its long period average. Thus, the stance taken by the government to not only emphasize on the top-down approach to growth i.e focusing on substantial capital outlay, but also to place focus on the bottom of the pyramid by trying to unleash the potential of the primary sector in the Union Budget should support India's growth momentum in 2023.

Some of the key factors that would propel India's economic growth in the coming years

Government focus on infrastructure development

Infrastructure development has remained recurring theme in India's economic development. The launch of flagship policies like National Infrastructure Pipeline (NIP), and PM Gati Shakti plan have provided the coordination & collaboration that was lacking earlier. Both NIP and PM Gati Shakti are ambitious billion-dollar plans that aim to transform India's infrastructure, elevating it to the next level. These projects are expected to improve freight movement, debottleneck the logistics sector, and improve the industrial production landscape, which would provide the incremental growth in GDP. In its Union Budget FY 2023, the Government has increased the capital expenditure by 35% to nearly INR 7.5 lakh crore – which indicates the strong Government focus on improving the overall infrastructure landscape in India.

Development of Domestic Manufacturing Capability

The Government launched Production Linked Incentive (PLI) scheme in early 2020, initially aimed at improving domestic manufacturing capability in large scale electronic manufacturing and gradually extended to other sectors. At present it covers 14 sectors, ranging from medical devices to solar PV modules. The PLI scheme provides incentives to companies on incremental sales of products manufactured in India. This incentive structure is aimed to attracting private investment into setting up manufacturing units and thereby beef up the domestic production capabilities. The overall incentives earmarked for PLI scheme is estimated to be INR 2 lakh crore. If fully realizing the PLI scheme would have the ability to add nearly 4% to annual GDP growth, by way of incremental revenue generated from the newly formed manufacturing units.

Strong Domestic Demand

Domestic demand has traditionally been one of the strong drivers of Indian economy. After a brief lull caused by Covid-19 pandemic, the domestic demand is recovering. Consumer confidence surveys by Reserve Bank / other institutions are points to an improvement in consumer confidence index, which is a precursor of improving demand. India has a strong middle-class segment which has been the major driver of domestic demand. Factors like fast paced urbanization and improving income scenario in rural markets are expected to accelerate domestic demand further. This revival is perfectly captured by the private final consumption expenditure (PFCE) metric. PFCE as a percentage of GDP increased to nearly 59.2% during the first half of

FY 2023[1], which is the highest level it has achieved during the past few years. Although pent-up demand has played a part in this surge, this is an indication of normalization of demand.

There are two factors that are driving this domestic demand: One the large pool of consumers and second the improvement in purchasing power.

- The share of middle class increased from nearly 14% in 2005 to nearly 30% in 2021 and is expected to cross 60% by 2047 (Placeholder1)[2]. This expanding middle class household segment is fuelling India's growth story and would continue to play a key role in propelling India's economic growth.
- As per National Statistics Office (NSO) India's per capita income (in current prices) stood at INR 1.72 lakhs in FY 2023 which is nearly double of what it was in FY 2015. This increase in per capita income has impacted the purchasing pattern as well as disposable spending pattern in the country. Consumer driven domestic demand is majorly fuelled by this growth in per capita income.

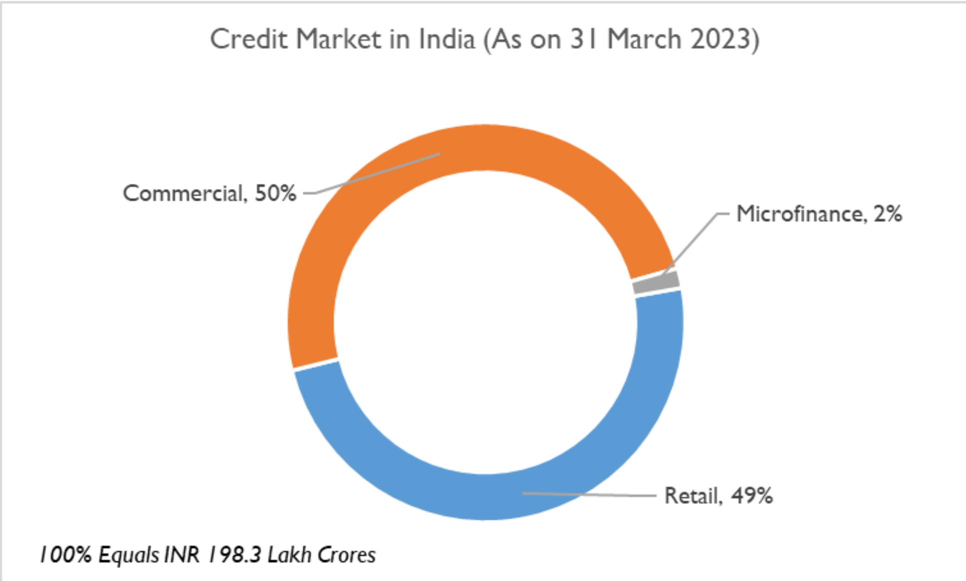
Digitization Reforms

Ongoing digitization reforms and the resultant efficiency gains accrued would be a key economic growth driver in India in the medium to long term. Development of digital platforms has helped in the seamless roll out of initiatives like UPI, Aadhaar based benefit transfer programs, and streamlining of GST collections. All of these have contributed to improving the economic output in the country. Some of the key factors that have supported the digitization reforms include – the growth in internet penetration in India together with drop in data tariffs, growth in smartphone penetration, favourable demographic pattern (with higher percentage of tech savy youth population) and India's strong IT sector which was leveraged to put in place the digital ecosystem. All these factors are expected to remain supportive and continue to propel the digitization reforms in India.

[1] India Economic Survey FY 2023, Full year data is yet to be released
[2] As per the survey conducted by People Research on India's Consumer Economy. Households with annual income in the range of INR 5 – 30 lakh is considered as middle class households

Credit Market in India

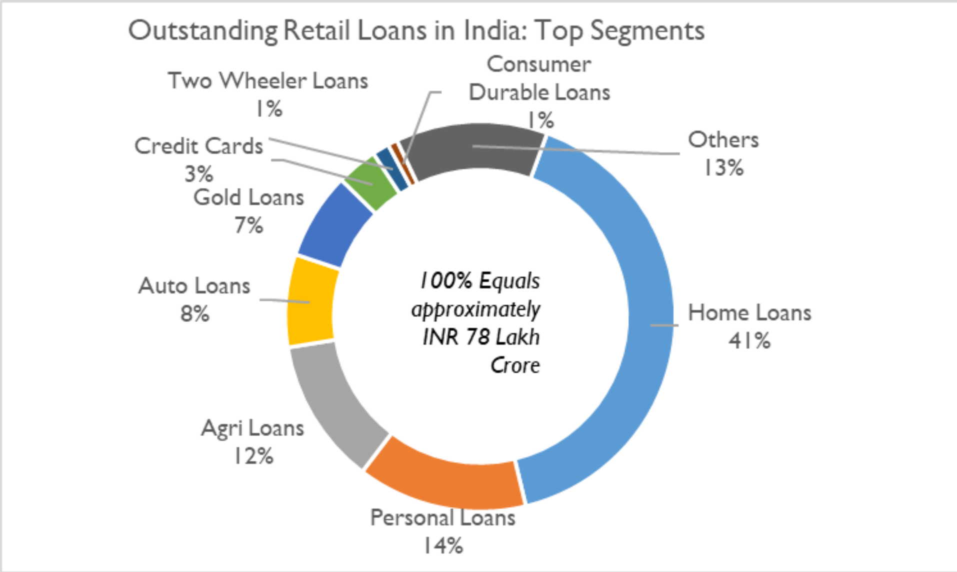
Total outstanding credit in India market is approximately INR 198 lakh crore, as on 31st March 2023, growing by 14% over previous year. Total outstanding credit has nearly doubled in the last five to six years, indicating the higher appetite for credit in the market. India's lending market is dominated by scheduled commercial banks (SCBs) while other players include Housing Finance Companies (HFCs), Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs). Among them, these lending agencies (which form a part of institutional credit source in India) offer a wide range of credit products from commercial loans to personal loans to microfinance loans.



Source: CRIF High Market Report

Retail Loans

Home loans is the largest segment within the retail loan segment in India, accounting for approximately 40% of total outstanding retail credit as on 31 March 2023. Personal loan & Agriculture loan, the next largest segments accounts for 14% & 12% of the total respectively. Nearly 60% of total retail credit outstanding on 31st March 2023 was accounted by nine credit products. Retail loan segment probably has the highest level of competition, with active presence from all type of financial services companies – including banks, home finance companies, NBFCs, MFI, insurance firms, and specialized boutique lending firms (including digital lending). On the other hand, commercial loan segment is clearly dominated by banks. In retail loan segment, NBFCs has an active presence in almost all segments except home loans which is dominated by banks and housing finance companies.



Source: CRIF High Market Report

Although NBFCs has made rapid inroads into all major retail loan segments (except home loans), their penetration is particularly high in consumer durable loans, followed by two-wheeler loans.

Penetration of NBFC in Indian Retail Lending Market (percentage of total outstanding loans)			
Type of Retail Loan	Banks	**NBFC**	Others
Personal Loans	76.1%	**20.0%**	3.2%
Two-Wheeler Loans	31.7%	**66.9%**	1.4%
Auto Loans	72.6%	**24.5%**	2.9%
Consumer Durable Loans	26.3%	**73.7%**	0.0%

Source: CRIF High Market Report

Microfinance Loans

As on 31st March 2023, the total outstanding credit extended by microfinance segment is close to INR 360,000 Crore. The segment is dominated by banks and NBFC-MFIs.

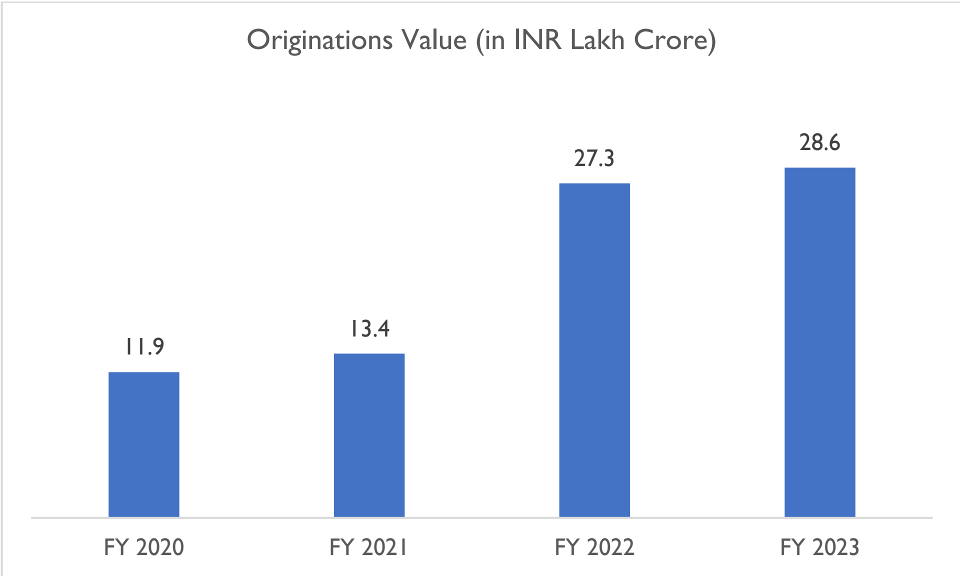
MSME Loans

Lending to Micro, Small, and Medium Enterprises (MSMEs) in India has been a critical driver of economic growth and employment generation. Given the sector's significant contribution to the country's GDP and employment, access to finance is crucial for MSMEs to thrive and expand.

The total amount sanctioned to MSMEs[3] in India has increased at a CAGR of 33.95% between FY 2020 – FY 2023, from INR 11.9 lakh crore in FY 2020 to INR 28.6 Lakh crore in FY 2023. Recognizing the importance

[3] This takes into account only Entity MSMEs, and not individual MSMEs in India.

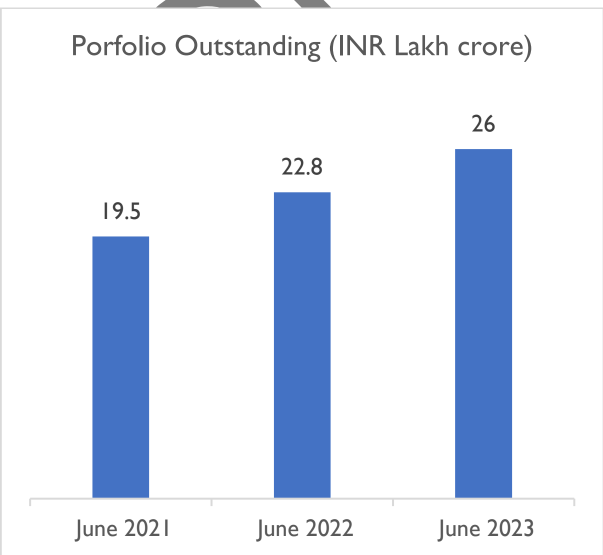
of supporting MSMEs, the Indian government and financial institutions have implemented various initiatives, including credit guarantee schemes, dedicated lending programs, and digital lending platforms, to enhance access to finance for MSMEs.

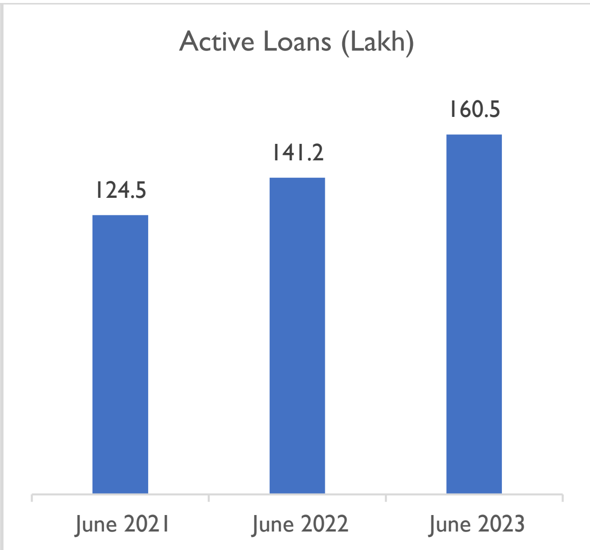


Source: D&B Research, CRIF High Mark

FY 2022 observed a phenomenal year-on-year increase of approximately 104%, with loan sanctions reaching to INR 27.3 lakh crore, over the previous year's INR 13.4 Lakh crore. This can be attributed to the low-base effect in the preceding years due to Covid-19 pandemic. FY 2023 showed moderation with a slowed growth of 5% in the total sanctions.

The outstanding balance on the loan amount is also seen to be increasing. Valued at INR 19.5 Lakh crore in June 2021, this amount reached to INR 26 Lakh crore in June 2023, growing by 15% between the given period. This increase in portfolio outstanding indicates a growing demand for credit among MSMEs and reflects lender confidence in their creditworthiness, thus signalling positive economic activity.



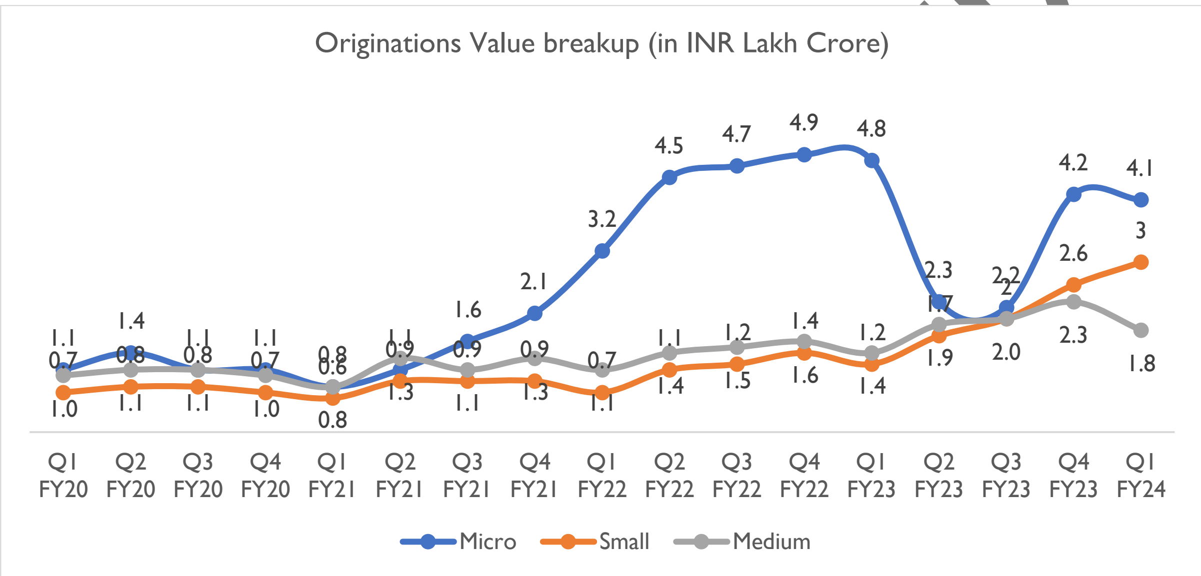


Source: D&B Research, CRIF High Mark

Similarly, active loans have also been seen to increase. Between June 2021 and June 2023, number of active loans have increased by 14%, to reach 160.5 lakhs in June 2023. This rising number of active loans suggests broadening access to credit for MSMEs and signifies their efforts towards expansion and investment, contributing to overall economic growth.

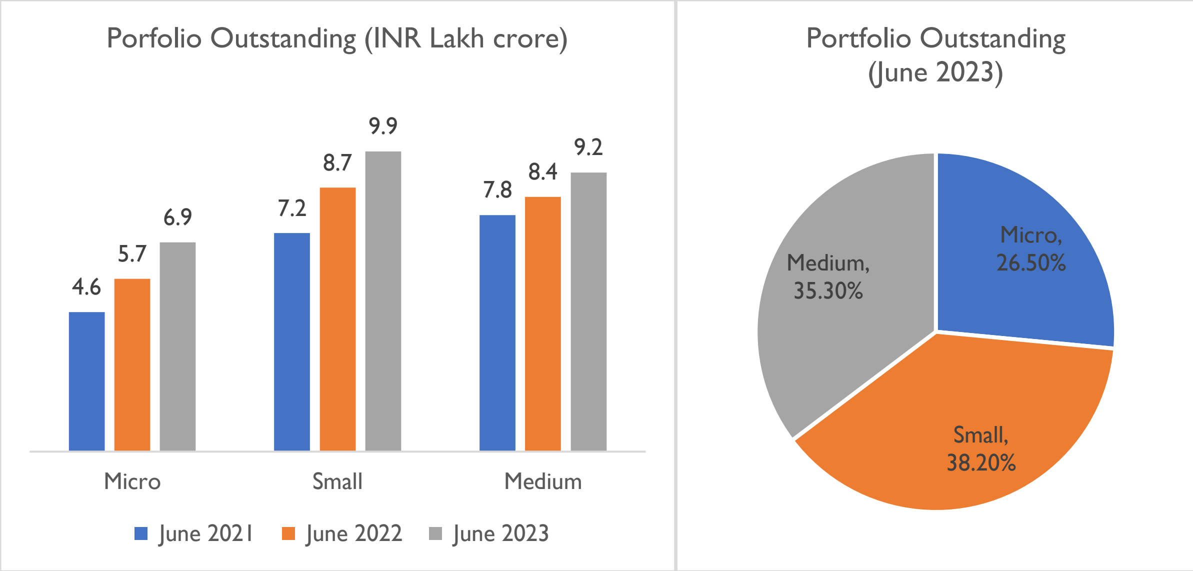
Breakup of Credit to MSMEs

The total loan sanctioned to the Micro industry segment has increased drastically from INR 1.1 lakh crore in Q1 FY 2020, to INR 4.8 Lakh crore in Q1 FY 2023 on the back of improved market sentiments after Covid-19 pandemic. Q1 FY 2022 recorded a substantial 200% increase in loans sanctioned over the same period last year. However, the loan sanctioned to the micro industry segment was seen to decline by 15% annually in Q1 FY 2024 to reach INR 4.1 Lakh crore.



Source: D&B Research, CRIF High Mark

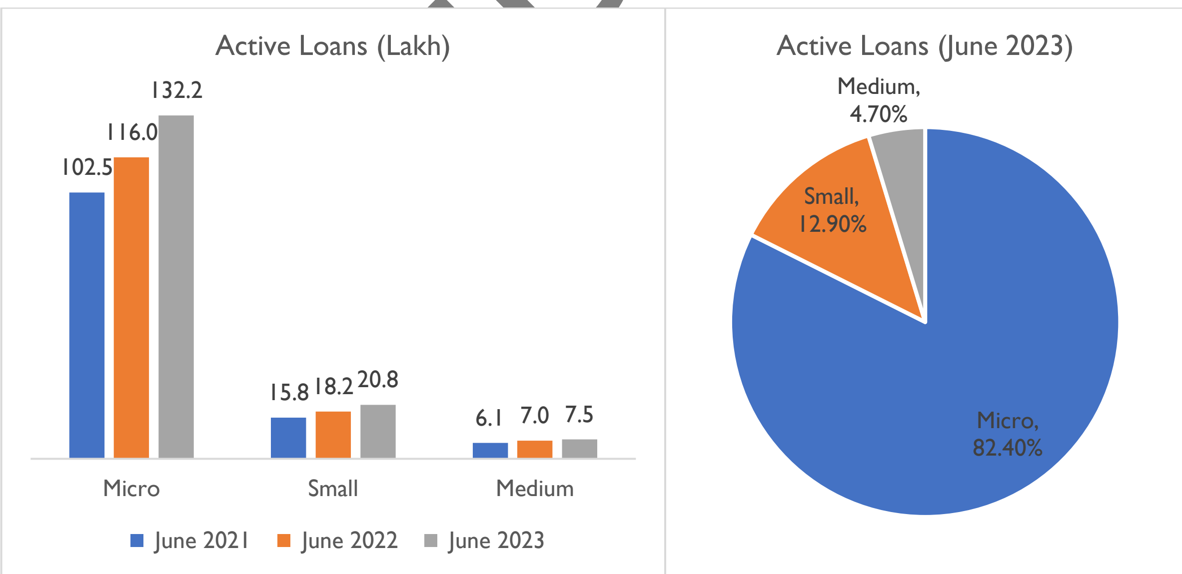
Across all categories, the MSME segment has seen a rise in the current outstanding balance of the loan account. The Micro industry segment recorded the highest growth rate in portfolio outstanding, observing an average growth of 22% annually between June 2021 – June 2023, to reach INR 6.9 lakh crore in June 2023. Similarly, the Small industry segment recorded an average growth of 17% annually between June 2021 – June 2023, to reach INR 9.9 lakh crore in June 2023.



Source: D&B Research, CRIF High Mark

Medium industry segment recorded the lowest growth rate in portfolio outstanding, growing at an average rate of 9% annually between June 2021 – June 2023. In June 2023, the portfolio outstanding of the Medium segment stood at INR 9.2 lakh crore, up from INR 7.8 lakh crore in June 2021.

As on June 2023, Small industry segment had the largest share of portfolio outstanding in the overall portfolio outstanding of the MSME segment, with a share of 38.20%, followed by Medium sized firms with 35.30%, and lastly Micro firms with a share of 26.5%.



Source: D&B Research, CRIF High Mark

The number of Active loans in the Micro industry segment is the largest, recorded at 132.2 lakh active loans in June 2023, which account for 82.4% of the total active loans in the said period. On an average, the number of active micro loans have increased by an average of 14% annually between June 2021 – June 2023.

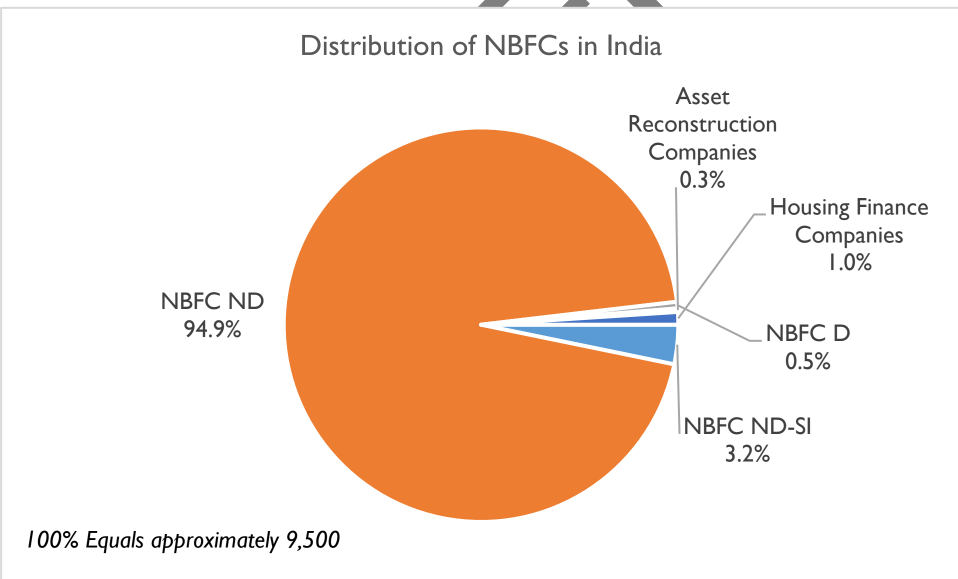
The small industry segment recorded 20.8 lakh active loans in June 2023, accounting for 12.90% of the total active loans in the given period. The average annual growth in this segment was recorded at 15% between June 2021 – June 2023. Finally, the Medium industry segment had the lowest number of active loans between June 2021 – June 2023. Standing at 7.5 lakh active loans in June 2023, this segment had a share of 4.7% in the total number of active loans.

Non-Banking Financial Companies

Non-Banking Financial Companies or NBFCs forms an integral part of Indian financial services industry, often complementing the banking segment. NBFCs has played an integral role in deepening credit outreach, as well as has become an integral tool in extending credit to unorganized segments / rural households / other segments which are considered inherently risky by the formal banking sector. In that sense, NBFCs has played a key role in expanding financial inclusion in the country.

Close to 9,500[4] NBFCs operate in Indian financial service industry, spread across the country and catering to the financial needs of consumers in urban, semi-urban, and rural markets. These include both investment as well as lending companies, who together offers a wide range of products ranging from loans & advances, leasing, hire-purchase, to chit funds.

Based on their nature of operations, NBFCs in India are segmented into four, namely Deposit taking NBFC (NBFC D), Non-deposit taking NBFC (NBFC ND), Asset Reconstruction Companies, and Housing Finance Companies. NBFC ND is further sub-divided into two: systematically important NBFC ND[5], and other NBFC ND[6] (not systematically important). Among these NBFC NDs (which are not systematically important) is the dominant segment, accounting for 95% of total NBFCs operating in India.



Source: Reserve Bank of India

[4] Reserve Bank of India (RBI)
[5] As per RBI NBFCs whose asset size is of ₹ 500 crore or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy
[6] NBFCs with asset size less than INR 500 Crore

Regulatory Landscape in Indian Financial Services Industry

The Indian financial system is regulated by independent regulatory bodies in different fields namely banking, capital market, insurance, commodity market, and pension funds. The Government of India (GoI) also plays an important role in influencing the regulatory framework of these institutions.

Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), and Pension Funds Regulatory and Development Authority (PFRDA) are few of the major regulatory agencies operating in Indian financial services space. In addition, there are also few specialized agencies like SIDBI, NHA designed to focus on certain aspects of the industry (like credit to MSMEs, regulating home financing sector etc).

Regulatory Body	Role & Responsibilities
Reserve Bank of India (RBI)	Established under the RBI Act, 1934, RBI is the central bank of India; and is vested with various responsibilities under the Banking Regulation Act, 1949. Its primary functions include issuance of banknotes, banker to Government, custodian of cash reserves of commercial banks, custodian of foreign exchange reserves, controller of credit, and lender of the last resort.
Securities & Exchange Board of India (SEBI)	Established on April 12, 1992, under the SEBI Act 1992, the Securities and Exchange Board of India (SEBI) is a statutory body owned by the government of India. Its primary function is to safeguard the interests of investors in securities exchange and regulate the securities market.
Insurance Regulatory & Development Authority of India (IRDA)	Established under the Insurance Regulatory and Development Authority Act, 1999, IRDAI is an autonomous statutory body responsible for regulating and promoting the insurance and re-insurance industries in India. Headquartered in Hyderabad, it is a 10-member body consisting of Chairman, five full-time members, and four part-time members appointed by the government of India.
Pension Fund Regulatory & Development Authority (PFRDA)	Established by the government of India on August 23, 2003, by executive order, Pension Fund Regulatory and Development Authority (PFRDA) is mandated to act as a regulator and supervisor of pension in India. It is under the jurisdiction of Ministry of Finance.

National Bank for Agriculture & Rural Development (NABARD)	Established on 12 July 1982 by an Act of the Parliament, NABARD is an apex regulatory body for overall regulation of regional rural banks and apex cooperative banks in India. It falls under the jurisdiction of Ministry of Finance, Government of India. It is mandated for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts, and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas, and for matters connected therewith or incidental thereto.
Small Industries Development Bank of India (SIDBI)	SIDBI was established under an Act of the Parliament in 1990. It is the principal financial institution engaged in promotion, financing & development of the Micro, Small and Medium Enterprises (MSMEs) sector and coordination of the functions of the various institutions engaged in similar activities.
National Housing Bank (NHB)	National Housing Bank was set up on 9 July 1988 under the National Housing Bank Act, 1987. It is the apex regulatory body for overall regulation and licensing of housing finance companies in India. It is under the jurisdiction of Ministry of Finance.
Insolvency and Bankruptcy Board of India (IBBI)	The Insolvency and Bankruptcy Board of India was established on 1st October 2016 under the Insolvency and Bankruptcy Code, 2016 (Code). It is the regulating authority for insolvency and bankruptcy proceedings in the country. It also oversees the activities of bodies such as the Insolvency Professional Agencies (IPA), Insolvency Professionals (IP) and Information Utilities (IU), Registered Valuers, and Registered Valuer Organisations.

Government Policies Encouraging Lending in MSME Segment

Prime Minister’s Employment Generation Programme (PMEGP)

The Prime Minister's Employment Generation Program (PMEGP) is designed to foster job creation in both rural and urban areas of India by facilitating the establishment of new self-employment ventures, projects, and micro-enterprises. It aims to provide sustainable employment opportunities to traditional artisans and unemployed youth, thereby stemming the migration of rural youth to urban areas. Moreover, the program aims to enhance the earning potential of artisans while contributing to the overall growth of rural and urban employment.

Administered nationally by the Khadi and Village Industries Commission (KVIC), the scheme is implemented at the state level through various agencies including State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs), and banks. Projects in the manufacturing sector can receive support of up to Rs. 50 lakh, while those in the business/service sector are eligible for up to Rs. 20 lakh in funding.

Under the Prime Minister's Employment Generation Program (PMEGP), only new projects are eligible for approval, and individuals aged 18 and above can apply for assistance. Since its inception in 2008-09 until December 31, 2022, approximately 8.37 lakh micro-enterprises have received support, with a total margin money subsidy of Rs 20,775 crore, generating employment for an estimated 68 lakh individuals.

Around 80% of the assisted units are located in rural areas, with the remaining 20% in urban areas. Additionally, more than 50% of the units are owned by women, Scheduled Castes (SC), and Scheduled Tribes (ST), and approximately 15% are established in Aspirational Districts. The maximum project cost allowable for new projects has been increased to Rs. 50 lakhs in the manufacturing sector and Rs. 20 lakhs in the service sector. Units in Aspirational Districts and transgender individuals are now included in the Special Category, making them eligible for higher subsidies.

Year	Margin Money Disbursed (Rs. Crore)	Micro Units Assisted (Number)	Estimated Employment Generated (Number)
2019-20	1950.82	66,653	5,33,224
2020-21	2188.8	74,415	5,95,320
2021-22	2977.41	1,03,219	8,25,752
2022-23	2216.69*	85,167	6,81,336
2023-24**	NA	65,324	5,22,592

* 2022 – 23 (as on 28.02.2023)

** till 30.01.2024

Credit Guarantee Trust Fund for MSEs (CGTMSE)

The Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) is a government initiative aimed at facilitating collateral-free lending to Micro and Small Enterprises through banks and financial institutions, including Non-Banking Financial Companies. Under the scheme, eligible lending institutions extend collateral-free credit facilities, including term loans and working capital, to both new and existing micro and small enterprises, with coverage up to Rs. 200 lakh per borrowing unit. The guarantee cover provided by CGTMSE ranges from 75% to 85% of the loan amount, depending on the quantum of the loan and the type of beneficiary. Additionally, a nominal Annual Guarantee Fee is charged on the outstanding loan amount to cover the guarantee provided.

In the Union Budget 2023-24, the Government of India announced a revamp of the Credit Guarantee Scheme for Micro & Small Enterprises, effective from April 1, 2023. This revamp includes an infusion of Rs. 9,000 crore into the corpus of the CGTMSE. This infusion aims to enable additional collateral-free guaranteed credit of Rs. 2 lakh crore, thereby expanding the scope of financial support available to MSEs. Furthermore, as part of the revamp, the cost of credit is expected to be reduced by about 1%, making borrowing more affordable for MSEs.

As a result of these developments, several significant measures have been implemented:

- A substantial infusion of Rs. 8,000 crore into the corpus of the Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) was made on March 30, 2023.
- CGTMSE has introduced guidelines aimed at reducing the annual guarantee fee for loans up to Rs. 1 crore, decreasing it from a maximum rate of 2% per annum to as low as 0.37% per annum. This reduction is expected to significantly lower the overall cost of credit for Micro & Small Enterprises.
- The maximum limit for guarantees has been raised from Rs. 2 crore to Rs. 5 crore, providing greater financial security for MSEs.
- In a move to streamline the claims settlement process, legal proceedings will no longer be required for claims on guarantees for outstanding loans up to Rs. 10 lakh.

During the current fiscal year 2023-24, the Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) has achieved a significant milestone by surpassing Rs. 1.50 lakh crore in guaranteed amounts, compared to Rs. 1.04 lakh crore in the previous year, representing a notable increase of 50%. This achievement is attributed to various strategic initiatives undertaken by SIDBI, the Ministry of MSME, and CGTMSE to facilitate collateral-free lending to Micro & Small Enterprises (MSEs).

Pradhan Mantri MUDRA Yojana (PMMY)

The Pradhan Mantri MUDRA Yojana (PMMY) is a government scheme launched on April 8, 2015, with the objective of providing financial support to non-corporate, non-farm small and micro-enterprises by offering loans up to Rs. 10 lakh. These loans fall under the category of MUDRA loans and are extended by various financial institutions including Commercial Banks, Regional Rural Banks (RRBs), Small Finance Banks, Microfinance Institutions (MFIs), and Non-Banking Financial Companies (NBFCs).

Year	No. Of PMMY Loans Sanctioned	Amount Sanctioned (INR Crore)	Amount Disbursed (INR Crore)
2019-20	6,22,47,606	3,37,495.53	3,29,715.03
2020-21	5,07,35,046	3,21,759.25	3,11,754.47
2021-22	5,37,95,526	3,39,110.35	3,31,402.20
2022-23	6,23,10,598	4,56,537.98	4,50,423.66
2023-24P	5,32,09,337	4,35,100.77	4,26,908.55

FY 2024 data Provisional as of 09/02/2024

As of November 24, 2023, a total of 44.46 crore loans have been sanctioned under the Pradhan Mantri Mudra Yojana (PMMY), out of which 30.64 crore loans (69%) have been sanctioned to women entrepreneurs. This emphasis on micro-credit through PMMY has played a pivotal role in encouraging female entrepreneurship, boosting earnings, enhancing employability, and empowering women financially, socially, and psychologically.

Furthermore, by setting targets to provide at least one loan to women and one loan to Scheduled Caste (SC)/Scheduled Tribe (ST) entrepreneurs, the scheme has incentivized lenders to finance green-field projects initiated by women entrepreneurs. This approach significantly contributes to the promotion of entrepreneurship among women and enterprises led by women, fostering inclusive economic growth and empowerment.

Udyam Assist Platform

The Udyam Assist Platform was launched on January 11, 2023, with the aim of bringing informal micro-enterprises (IMEs) into the formal sector to enable them to access benefits under Priority Sector Lending (PSL). Developed by the Small Industries Development Bank of India (SIDBI), this platform serves as a crucial tool in facilitating the registration of IMEs and providing them with the necessary documentation to avail themselves of various financial incentives.

One of the key benefits of the Udyam Assist Platform is its ability to assist IMEs that are not registered under the Goods and Services Tax (GST) regime in obtaining a registration certificate. Designated agencies such as banks, Non-Banking Financial Companies (NBFCs), and Microfinance Institutions (MFIs) utilize the platform to provide IMEs with the necessary support to obtain this certification. The certificate issued through the Udyam Assist Platform (UAP) holds the same significance as the Udyam Registration Certificate, enabling IMEs to access the benefits of Priority Sector Lending.

Year-wise MSME registration on Udyam Registration Portal since 01.07.2020 04.12.2023 on Udyam registration Portal (including informal micro enterprises registered on Udyam Assist Platform)

FY 2021	28,47,544
FY 2022	51,47,993
FY 2023	85,82,179
FY 2024*	1,50,27,865

*Until 04.12.2023

As of December 4, 2023, according to the Udyam Registration Portal, the total number of MSMEs registered in the country since July 1, 2020, to December 4, 2023, stands at 3,16,05,581. This figure includes informal micro-enterprises registered on the Udyam Assist Platform. Additionally, the portal indicates that the total number of MSMEs owned by women registered during the same period is 1,17,36,406, again including informal micro-enterprises registered through the Udyam Assist Platform. These statistics highlight the significant impact of the Udyam Assist Platform in formalizing IMEs and promoting women entrepreneurship, ultimately contributing to the growth and development of the MSME sector in India.

Other initiatives

Several initiatives have been implemented to promote lending to Micro, Small, and Medium Enterprises (MSMEs) in India, aimed at enhancing access to finance and facilitating growth within the sector:

- **Inclusion of Retail and Wholesale traders as MSMEs**: Effective from July 2, 2021, Retail and Wholesale traders have been included as MSMEs for the purpose of availing benefits under Priority Sector Lending. This inclusion expands the scope of financial support available to traders and enables them to access credit facilities more easily.
- **Non-tax benefits for upward change in MSME status:** MSMEs experiencing an upward change in status, such as transitioning from a small enterprise to a medium enterprise, are eligible for non-tax benefits extended for a period of three years. This initiative provides incentives for MSMEs to grow and scale up their operations.
- **Trade Receivable Discounting System (TReDS):** TReDS is a platform designed to facilitate the financing of trade receivables of MSMEs from corporate buyers, government departments, and public-sector undertakings (PSUs) through multiple financiers electronically. This initiative streamlines the process of financing trade receivables, providing MSMEs with timely access to working capital.
- **Rs. 50,000 crore equity infusion through Self Reliant India (SRI) Fund:** The government has announced a significant equity infusion of Rs. 50,000 crore through the Self Reliant India (SRI) Fund. This fund aims to bolster the financial strength of MSMEs, enabling them to withstand economic challenges and seize growth opportunities.

Regulatory Framework in NBFC Sector

NBFC sector has over the years, evolved considerably in terms of size, operations, technological sophistication, and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly. There is an increasingly complex web of inter-linkages of the sector with banks, capital market and other financial sector entities, on both sides of the balance sheet. Over the last decade, NBFCs have witnessed phenomenal growth. From being around 12% of the balance sheet size of banks (2010), they are now more than a quarter of the size of banks. While the development of a robust non-bank intermediation channel provides a good 'spare tyre' to the economy, uncontrolled growth fuelled by lighter regulatory framework can also lead to potential systemic risks.

The Department of Non-Banking Supervision (DNBS) is delegated with the responsibility of regulation and supervision of Non-Banking Financial Companies (NBFCs) under the regulatory and supervisory framework of the Reserve bank which provides for, among other things, registration of NBFCs, prudential regulation of various categories of NBFC, issue of directions on acceptance of deposits by NBFCs and surveillance of the sector through off-site and on-site supervision. Deposit taking NBFCs and Systemically Important Non-Deposit Accepting Companies are subjected to a greater degree of regulation and supervision. The focus of regulation and supervision is threefold as mentioned below: depositor protection, consumer protection and financial stability.

Recent Changes in NBFC Regulations

Tightening of NBFC Lending

In October 2021, RBI had introduced a scale based regulatory framework for NBFCs. The structure consists of four layers based on size, activity and perceived riskiness – base layer, middle layer, upper layer, and top layer. In April 2022, RBI has brought amendments to the October 2021 circulars by issuing four separate circulars, especially for Upper Layer NBFCs:

- Large Exposures Framework – for addressing credit risk concentration in NBFCs and is set out to identify large exposures, refine the criteria for grouping of connected counterparties and put in place reporting norms for large exposures.
- Disclosures in Financial Statements – the new circular makes it mandatory for NBFCs to make disclosures in financial statements in accordance with the new prudential guidelines, applicable accounting standards, laws, and regulations. These additional disclosure requirements are in accordance with the scale based regulatory framework and are an addition to the disclosure requirements specified under other laws, regulations, or accounting and financial reporting standards. The new disclosure requirements shall be effective for annual financial statements for FY 2023.
- Scale-based Regulation for Capital Requirements – As per new circular, large NBFCs have to maintain an equity tier-1 capital of at least 9% of the risk-weighted assets, wherein the common equity tier-1 capital will comprise the paid-up equity share capital, share premium resulting from equity shares,

capital reserves representing surplus arising out of asset sales, statutory reserves, revaluation of reserves arising out of change in the carrying amount of property consequent to its revaluation in accordance with the applicable accounting standards.

- Regulatory Restrictions on Loans and Advances – On the regulatory restrictions on loans and advances of NBFCs based on the scale based regulation, which was first issued on October 22, 2021, it said the new guidelines will come into effect from October 1, 2022.

Large Exposure Framework for Upper Layer NBFCs

In the latest rules issued in April 2022, RBI stated that the exposure of a NBFC to a single entity must not cross 20% of its available capital base and, subject to board approval, an additional 5% exposure will be allowed. For a group of connected entities, the aggregate exposure will be limited to 25% of the non-bank's capital base. The rules, however, provide more headroom for infrastructure finance companies.

In October 2021, RBI had released a set of rules to classify NBFCs based on their size and perceived risks. RBI had said the upper layer of NBFCs could have group exposure of up to 40% of the capital base. While RBI has now reduced the exposure for group entities, the single borrower exposure limit has been retained.

With these rules, the RBI has now harmonized regulations for upper layer non-banks, commercial banks, and co-operative banks, leaving minimum room for arbitrage. The rules will help avoid concentration of risk and insulate lenders from shocks owing to failure of any large borrower account. The large exposure framework was first introduced for banks in the year 2016, and subsequently revised in 2019. In 2020, the guidelines were extended to urban cooperative banks, in the wake of collapse of the Punjab and Maharashtra Cooperative Bank in 2019.

This move by RBI will help to bring NBFCs on par with banks on large exposures. This has also led to speculation that the sector may enter a phase consolidation, especially after HDFC Bank's merger announcement with Housing Development Finance Corp. in April 2022.

End of Dual Regulation

Previously, there used to be tussles between the RBI and state governments over certain aspects of NBFC regulation. However, in May 2022, the Supreme Court ruled that state moneylending laws will no longer be applicable to NBFCs. Which means now only the RBI can oversee NBFCs and the order ends the dual regulation of such entities.

State governments could previously mandate the capping of interest rates and set additional norms for know-your-customer (KYC) processes. Such state regulations used to increase the cost of compliance for NBFCs. According to regulatory experts, small NBFCs often came under political pressure due to alleged interference by the states. This vulnerability will now be minimised with this recent rule. Now, with zero interference by state, NBFCs can decide the rate of interest based on their assessment of a borrower's risk profile.

New Regulations for NBFC Base Layer

NBFCs in the Base Layer (NBFC-BL) shall be subject to the regulations as are currently applicable to Non-Deposit taking NBFCs (NBFC-ND) except the following provisions:

Minimum Net Owned Fund Requirements:

- NBFC-Peer to Peer Lending Platform (NBFC-P2P), NBFC-Account Aggregator (NBFC-AA), and NBFCs with no public funds and no customer interface shall continue to adhere to the Net Owned Fund (NOF) requirements of INR 2 crores.
- Also, no change has been proposed in the existing regulatory minimum NOF requirements for Infrastructure Debt Fund – Non-Banking Financial Companies (IDF-NBFCs), Infrastructure Finance Companies (NBFC-IFCs), Mortgage Guarantee Companies (MGCs), Housing Finance Companies (HFCs), and Standalone Primary Dealers (SPDs).
- Regulatory minimum NOF requirements for NBFC – Investment and Credit Company (NBFC-ICC), NBFC – Micro Finance Institutions (NBFC-MFI), and NBFC-Factors shall be increased to INR 10 crores.
- The glide path to achieve the revised NOF requirements for the existing NBFCs is provided in the table below:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	INR 2 Crores	INR 5 Crores	INR 10 Crores
NBFC-MFI	INR 5 Crores (INR 2 Crores in NE Regions)	INR 7 Crores (INR 5 Crores in NE Regions)	INR 10 Crores
NBFC-Factors	INR 5 Crores	INR 7 Crores	INR 10 Crores

<u>Non-Performing Asset Classification</u>

Modifying the classification norm of the Non-Performing Asset (NPA) to the overdue period of more than 90 days for all categories of NBFCs. NBFC-BL shall follow the glide path so as to adhere to the NPA classification provided as under:

NPA Norms	Timeline
>150 Days overdue	By March 31, 2024
>120 Days overdue	By March 31, 2025
>90 Days overdue	By March 31, 2026

Provisioning Norms for Standard Assets by Upper Layer NBFCs

In June 2022, RBI released provisioning norms for standard assets by upper layer (large) NBFCs. According to the regulations, upper layer NBFCs will have to set aside a loan amount in the range of 0.25-2% for standard assets as provisions. The rate of provision depends on different asset categories like small and micro enterprises (SMEs), real estate, and housing loans. These new norms will come into effect from October 1, 2022.

This move is aimed at regulating NBFCs, given their increasing role in the financial system. Through provisioning in advance, NBFCs can account for potential defaults and expenses in order to ascertain their financial standing.

Reclassification

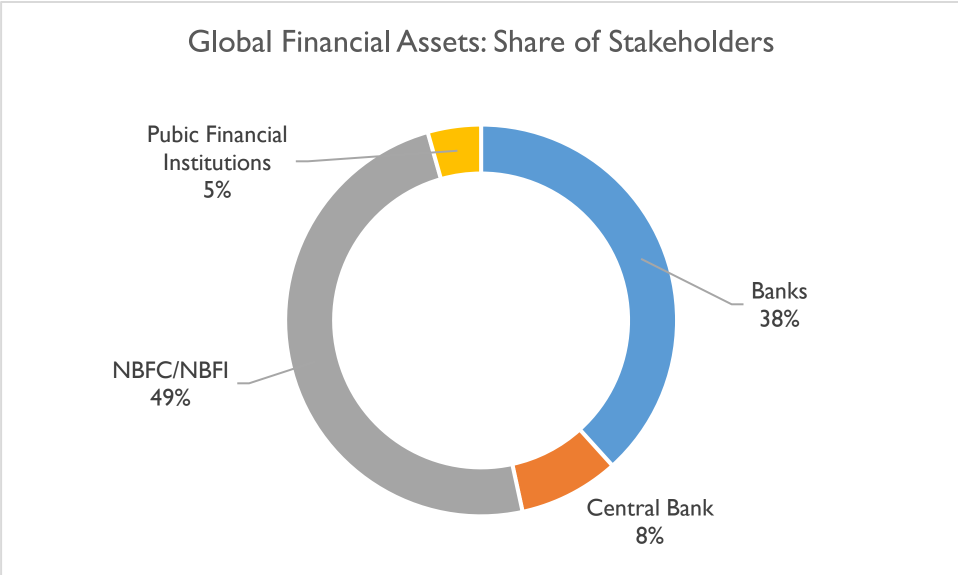
NBFC industry underwent a regulatory overhaul in October 2022, which introduced a four-tier segregation based on asset size, activity, and perceived level of risk. The four layers are named as Base Layer (NBFC BL), Middle Layer (NBFC ML), Upper Layer (NBFC UL), and Top Layer (NBFC TL).

Revised Categorization	
NBFC BL	All NBFC NDs with asset size below INR 1,000 Crore
NBFC ML	NBFC NDs with asset size above INR 1,000 Crore as well as NBFC D
NBFC UL	NBFCs that are monitored by RBI based on a set of parameters and scoring methodology. As per this framework, top ten eligible NBFCs in terms of asset size will always be categorized into this segment. RBI has identified and placed 16 NBFCs in NBFC UL category.
NBFC TL	At present this level is not populated. Any NBFCs in NBFC UL category which witnesses an increase in systematic risk will be placed in this category.

Source: RBI

Global NBFC Industry

Globally, NBFC[7] segment began to grow in strength in the aftermath of financial crisis of 2008 which impacted the credit disbursement capability of all major global banks. NBFCs stepped into this vacuum and provided an alternative to bank financing. On the back of this enhanced role, NBFC credit in global stage increased from USD 52 Trillion in 2002 to USD 226 Trillion in 2020. By then NBFCs accounted for nearly 50% of global financial assets.



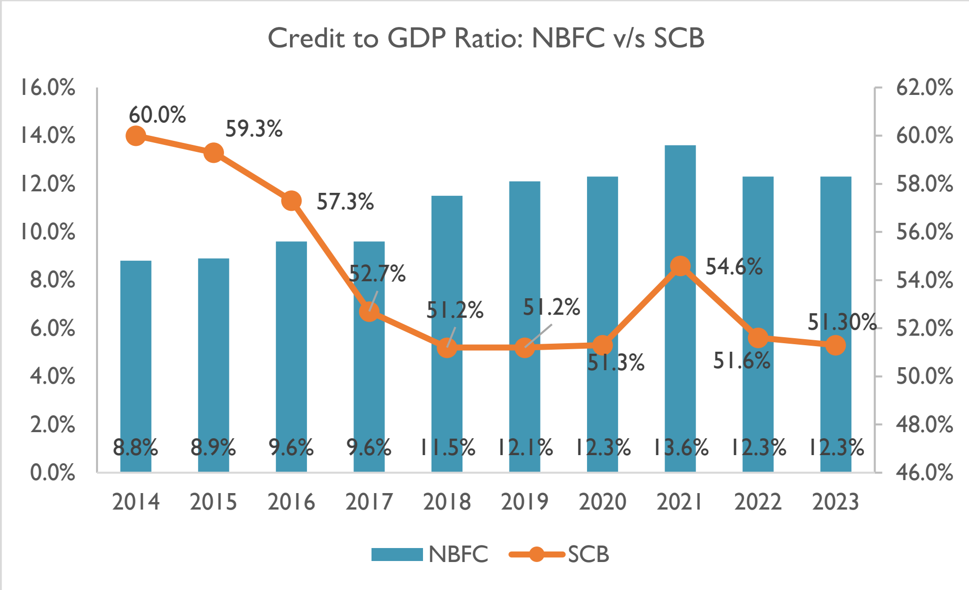
Source: RBI, Representation for 2020 pattern

Indian NBFC Industry

Indian NBFC industry is a minor player in global NBFC space, and accounts for less 1% of the total NBFC asset base globally. Between 2002 and 2020, share of India's NBFC industry in global NBFC asset base have increased by 50 to 60 basis points. This reflects the aggressive credit growth achieved by Indian NBFC sector, as it supplemented the mainstream bank financing segment. During the same period, the size of India's NBFC sector as a share of the country's GDP increased from 18% to nearly 60%, underlining the importance of NBFC to the growth of Indian economy.

The last eight to ten years has witnessed strong growth in NBFC credit, due to a mix of favourable regulations, innovative product offering, and high credit appetite by consumers. The credit growth in NBFC sector has come at the expense of bank, with whom they are competing in the small sized retail loan segment. The significance of NBFCs can be gauged by the increasing share of NBFC credit to GDP, as against a declining trend visible in SCBs.

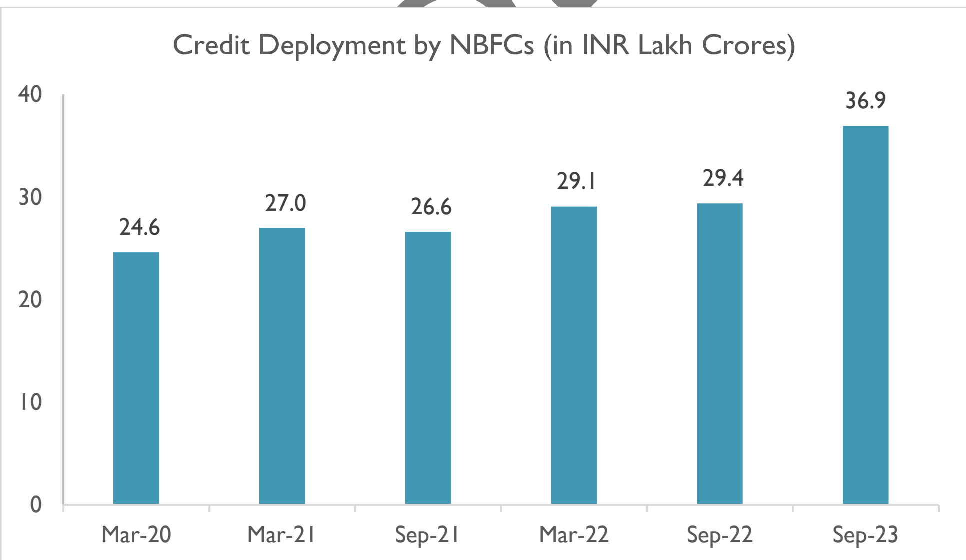
[7] Also referenced to as NBFI – Non-Banking Financial Intermediaries



Source: RBI

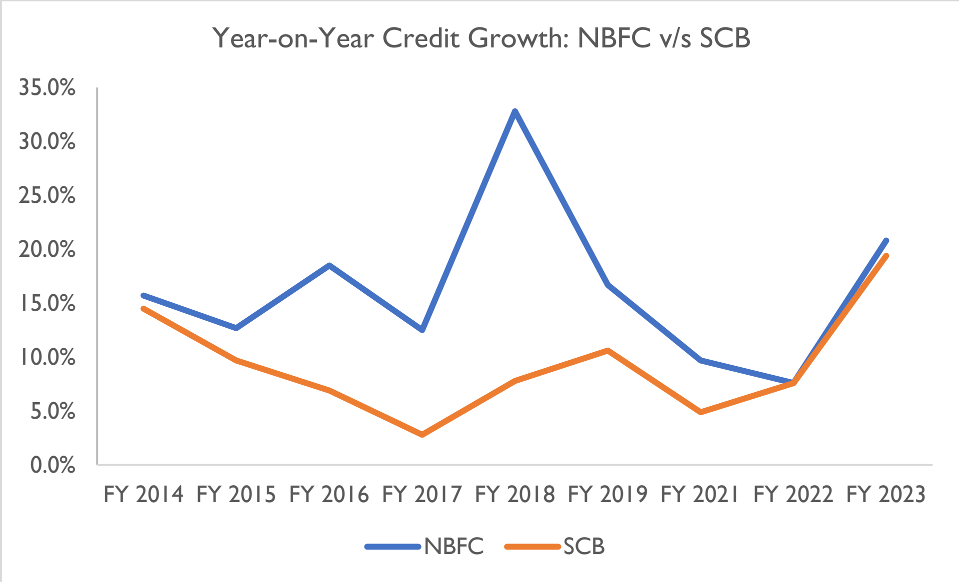
Growth in Loan Book

Gross loans & advances outstanding in the NBFC sector stood at INR 26.9 Lakh Crore as on 30th September 2023. There was a slight dip in credit growth in this sector during first couple of quarters of FY 2021, but since then the growth has remained strong.



Source: RBI

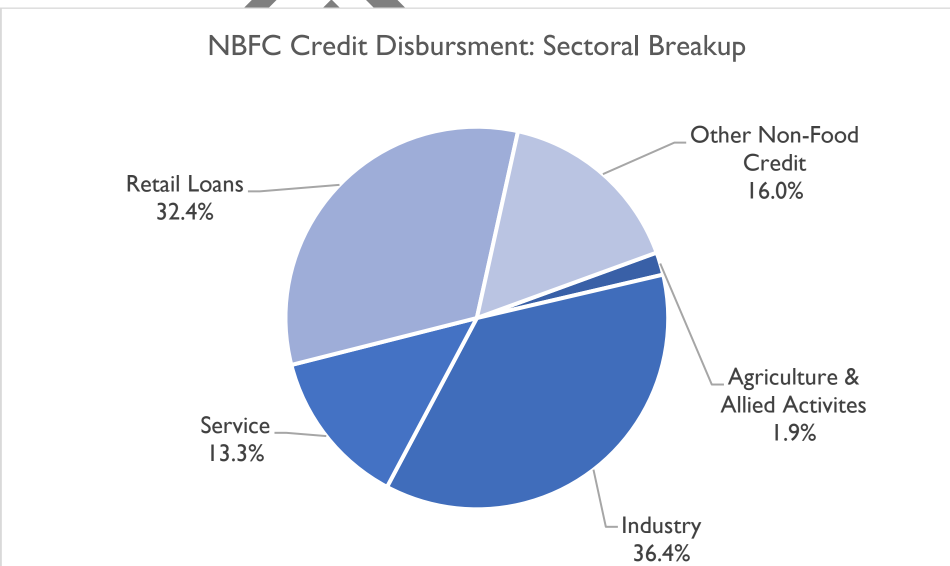
Credit disbursement in NBFC sector has grown at a faster pace than bank credit, a trend that has been continuation for the past eight to ten years. Although the overall slowdown in credit growth in last couple of years have impacted the pace of growth, NBFC sector has managed to maintain higher growth rate compared to bank credit.



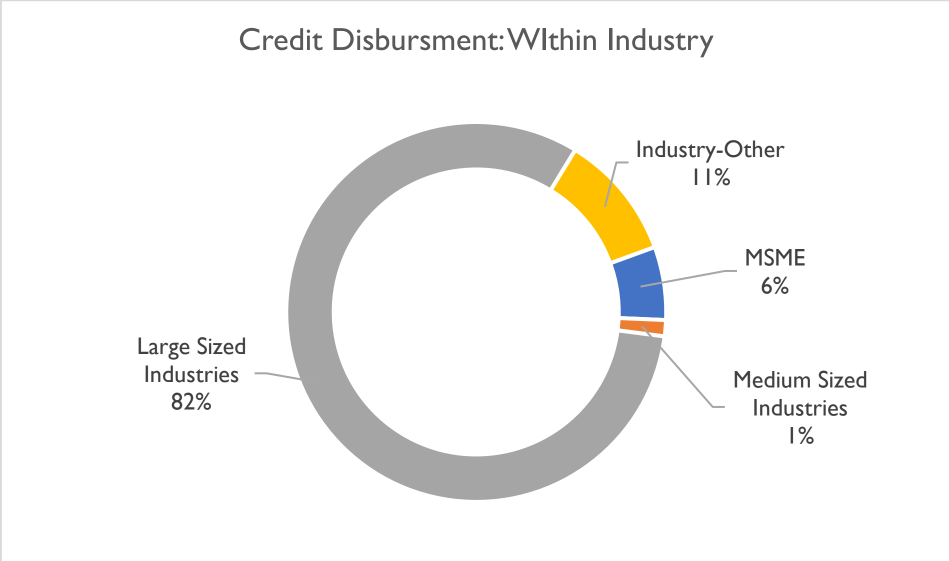
Source: RBI, Scenario as on end September 2023

Credit Disbursement Pattern

Approximately 37% of total credit outstanding by the NBFC sector is concentrated in the industrial sector, making it the largest recipient of NBFC credit. Within the industry sector, nearly 82% of the outstanding credit is concentrated in large industrial segment. The MSME sector, which faces credit rationing and finds it challenging to raise credit from banking sector, continues to be under penetrated by the NBFC sector. Retail loans and loans to other non food sector form the second and largest recipient of NBFC credit, as on September 2023.



Source: RBI, Scenario as on end September 2023

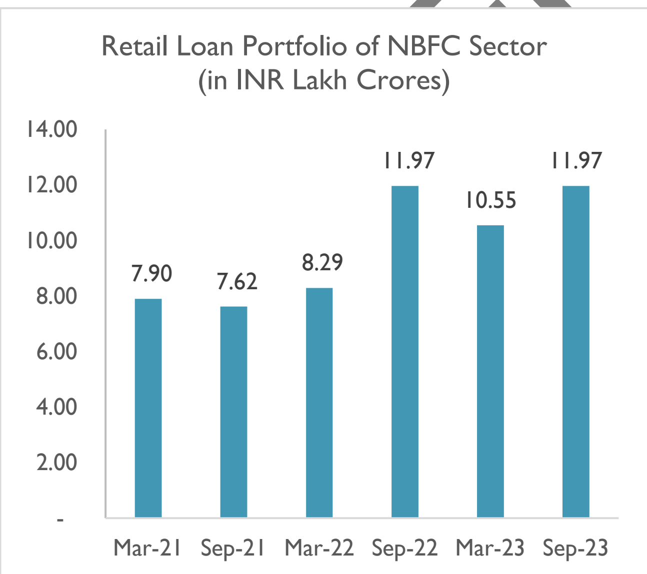


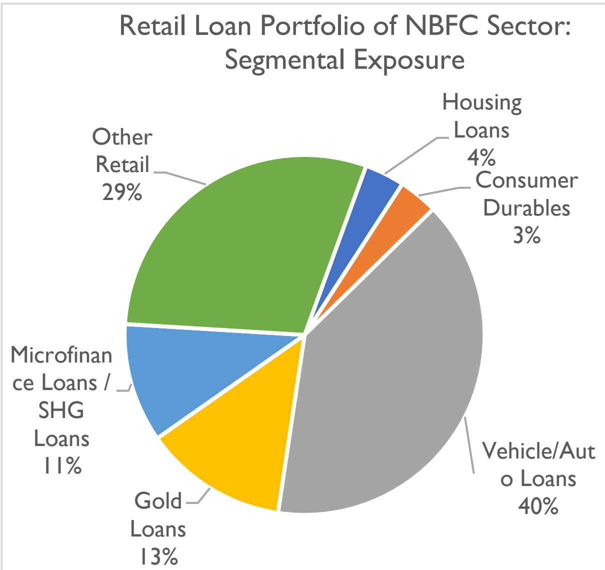
Source: RBI, Scenario as on end September 2023

Retail Loan Disbursement Pattern

FY 2023 witnessed aggressive growth of NBFC retail credit portfolio, as the segment became the largest disburser of retail loans. By end of September 2023, the total outstanding retail credit portfolio of the NBFC sector stood at INR 11.97 Lakh crore, accounting for nearly 30% of the total loan book of the NBFC sector.

Vehicle loans dominated the retail loan portfolio of NBFC industry, accounting for nearly 40% of the total loan book as of September 2023. This dominance could be attributed to the leadership of NBFC industry in the two-wheeler loan segment – where it has the majority market share.

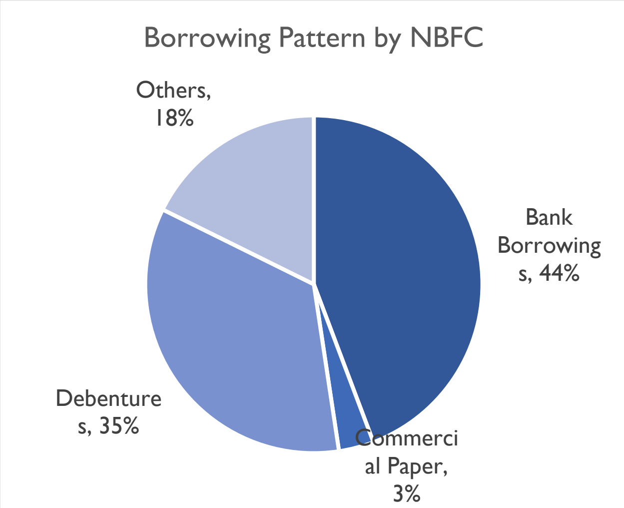


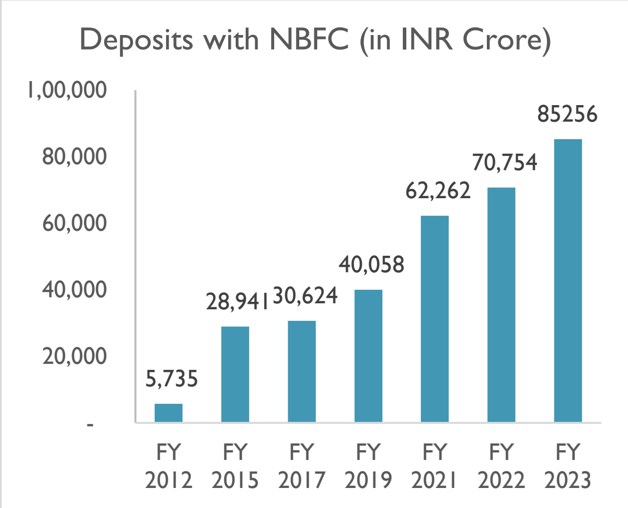


Source: RBI, Scenario as on end September 2023

Funding Mobilization Pattern

NBFCs use a mix of deposits and borrowings to mobilize funds, of which borrowings forms the lion's share. Bank borrowings followed by debentures form the bulk of borrowed funds, while deposits include a mix of retail and corporate deposits. Given the stringent RBI norms on accepting deposits, the number of deposits taking NBFCs have dipped drastically, falling from nearly 270 in FY 2012 to 41 in FY 2022. However, this drop has not impacted the deposit volumes, indicating an increasing risk appetite among corporate and retail depositors.





Source: Reserve Bank of India, 2023

Asset Quality

In 2020-21, NBFCs registered slight improvement in asset quality over 2019-20 due to asset classification standstill in view of the pandemic and with the help of resolution of a few accounts in the infrastructure category during the year. Gross NPA (GNPA) dropped from 6.5% in 2021 to 4.6% in 2023, while Net NPA (NNPA) witnessed an even sharper decline, from 3.4% to 1.5%

As of March 2023, GNPA and NNPA ratios of NBFCs increased to 4.6% and 1.5% respectively. NBFCs' overall asset quality may be impacted due to their high concentration towards the industrial sector.

Profitability and Capital Adequacy

In case of NBFCs-D, there was a deterioration in Return on Assets (RoA) and Return on Equity (RoE) in 2020-21 on account of the pandemic-induced slowdown. On the other hand, Net Interest Margins (NIM) improved during the same period, reflecting improvement in interest income along with lower expenses. The profitability of NBFCs-ND-SI in terms of RoA marginally increased in 2020-21 due to an improvement in the RoA of IFCs. The overall RoE of NBFCs-ND-SI declined. NIM was lower for all entities, reflecting subdued credit off-take.

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Contribution to Economic Development

- **Enhancing the Financial Market:** An NBFC caters to the urban and rural poor companies and plays a complementary role in financial inclusion. These NBFC companies bring much-needed diversity to the market by diversifying the risks, increasing liquidity in the markets thereby bringing efficiency and promoting financial stability of the financial sector. The financial market is dependent on the functions that are taken care of by these NBFC companies.
- **Infrastructure Lending:** NBFCs by lending to infrastructure projects, contribute largely to the growth of a developing country like India. The amount involved in infrastructure project is quite large, the projects being risky, with no surety of returns, and profits occurring after a longer time-frame. These factors deter banks from financing these projects. Since their inception, NBFCs have contributed more to infrastructure lending than banks.
- **Promoting Inclusive Growth:** All the top NBFC in India cater to a wide variety of customers – both in urban and rural areas. They finance projects of small-scale companies, which is important for the growth in rural areas. They also provide small-ticket loans for affordable housing projects. Microfinance provided by them plays an important role to attain stable financial inclusions. All these activities by the institution with an NBFC License help promote inclusive growth in the country.
- **Upliftment in the Employment Sector:** With the growth in operations of the small industries and businesses, the policies of NBFCs are uplifting the job situation. More opportunities for employment are arising with the influence of the NBFCs in the private as well as government sectors. The business activities in the private sector provide more employment opportunities and occupation practices.
- **Mobilization of Assets:** With more public preferring to deposit in NBFCs because of their higher rate of interest, NBFCs allow mobilization of resources; funds, and capitals. Due to their easier norms for investing, these companies create a balance between intra-regional income and asset distribution. Turning the savings into investments, these companies contribute to economic development as compared to traditional bank practices. Proper organization of capital helps in the development of the trade and industry, leading to economic progress.
- **Financing for Long-Term:** NBFC plays a key role in providing firms with funds through equity participation. As against traditional banks, NBFCs supply long-run credit to the trade and commerce

industry. They facilitate to fund large infrastructure projects and boost economic development. Long-term finance permits growth with stable and soft interest rates. The economy thrives when businesses of SSIs and MSMEs flourish.

- **Innovative Products:** NBFCs, by being flexible in terms of lending and investment opportunities than banks, are more proactive in innovating financial products. This facilitates their growth in an exceedingly prudent manner. They fine-tune their selling campaigns regarding their target customers. NBFC P2P is a relatively new segment in India that is already creating waves by providing considerably higher margins and facilitating loans at a lower cost.

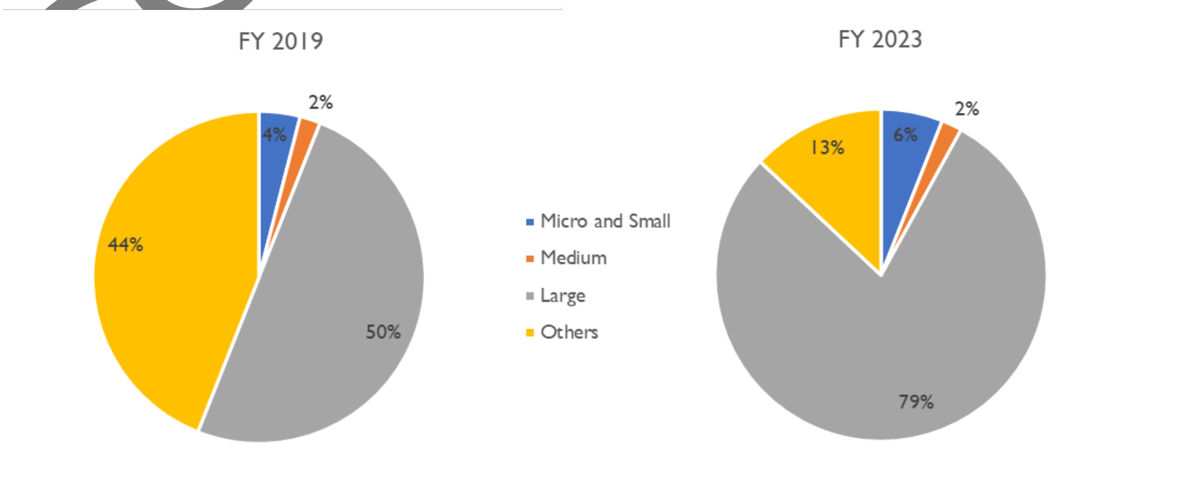
Lending to MSME sector

In India, Non-Banking Financial Companies (NBFCs) play a significant role in providing lending support to the MSME industry. More and more NBFCs are aiming to increase their access to the MSME sector due to heightened competition from banks in areas like vehicle, gold, and home loans. Due to their flexible lending criteria and quicker approval processes compared to traditional banks, NBFCs have become a popular choice for MSMEs seeking access to timely and hassle-free financing. As of March 2023, services-based MSMEs comprised 66.6% of NBFC credit to the MSME sector, while industrial MSMEs made up 33.4%.

In FY 2023, there has been a noticeable surge in the distribution of credit to micro and small firms compared to the pre-pandemic period, indicating a positive trend in lending to these segments by NBFCs in India. To provide context, in fiscal year 2019, the share of credit extended to Micro and Small enterprises within the total NBFC portfolio was recorded at 4%, while Medium-sized enterprises accounted for 2%.

Forward to FY 2023, and there is a substantial increase in the share of credit allocated to Micro and Small enterprises, rising to 6% of the total NBFC portfolio. This escalation underscores a growing recognition of the importance of supporting smaller enterprises, particularly in the wake of economic disruptions caused by the pandemic. Furthermore, the share of credit allocated to Medium-sized enterprises remained resilient at 2%, indicating consistent support for this segment.

Distribution of NBFC credit to MSMEs (% share)

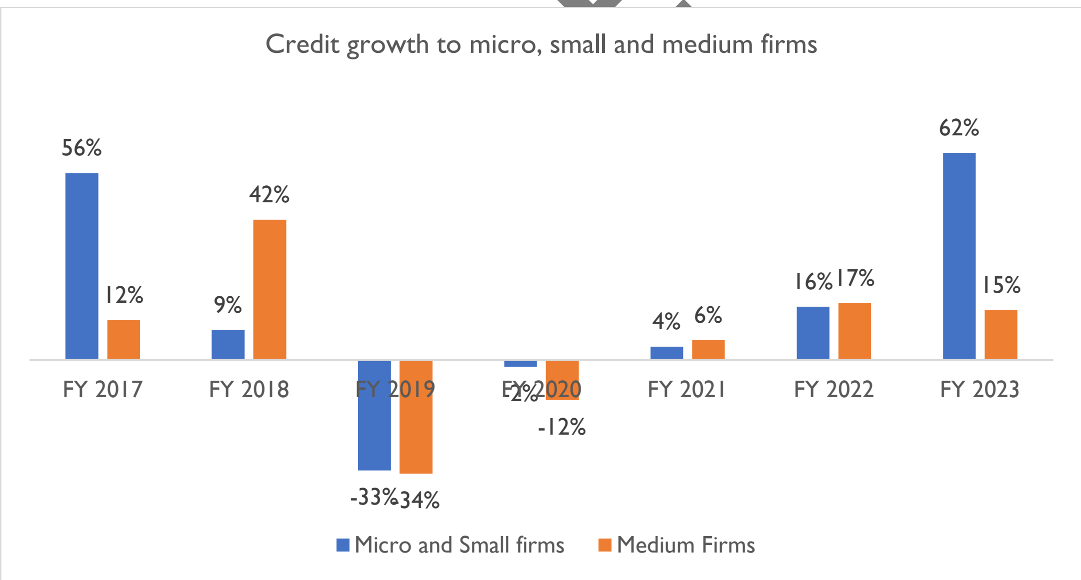


Source: RBI

In contrast, the percentage share of credit extended to Large enterprises experienced a significant upsurge, soaring to 79% in FY 2023 from 50% in FY 2019. This drastic increase in credit allocation to Large enterprises suggests a shift in lending patterns, possibly influenced by factors such as changing market conditions, and strategic priorities of NBFCs.

The trajectory of credit growth in the MSME sector in India has witnessed notable fluctuations over the years, reflecting the impact of external factors in lending trends. In FY 2017, credit growth in the MSME sector stood at 56% for Micro and Small firms and 12% for Medium-sized firms. However, in FY 2023, and there is an uptick in credit growth rates, with Micro and Small firms experiencing growth of 62% and Medium-sized firms recording growth of 15%.

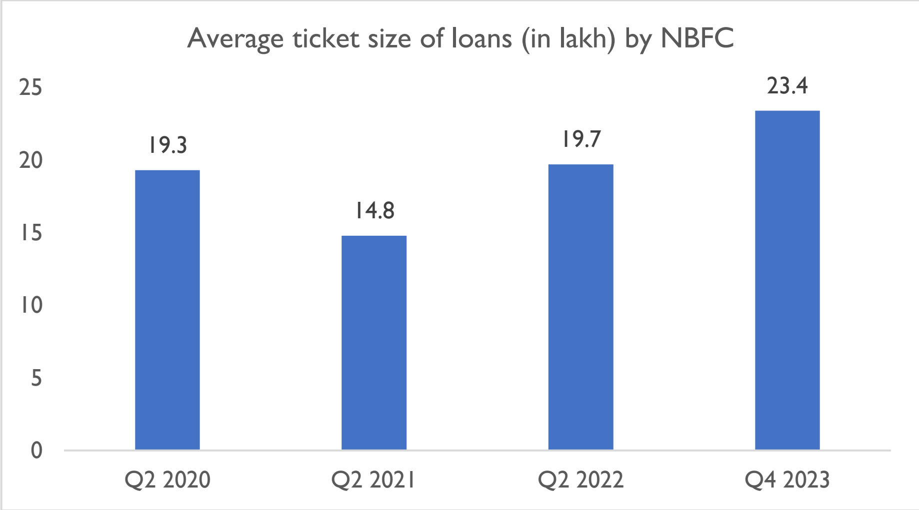
However, between FY2017 and FY 2020, credit growth in the MSME sector experienced a decline. The Reserve Bank of India (RBI) attributed this slowdown to various factors including risk aversion, impaired balance sheets (particularly of NBFCs), higher cost of funds, liquidity squeeze, and rating downgrades of NBFCs. The onset of the Covid-19 pandemic in 2020 further exacerbated the situation, leading to a delay in the revival of bank credit growth. However, by fiscal year 2022, the Indian economy had largely recovered from the shock, and credit growth began to bounce back.



Source: RBI, D&B Research

In the post-Covid era, credit growth to the MSME sector by NBFCs expanded at a healthy rate, reflecting a renewed confidence in the segment's potential for growth and resilience. Micro and Small firms observed impressive growth rates of 16% and 62% in fiscal years 2022 and 2023 respectively, indicating a strong recovery and increased demand for credit. Similarly, Medium-sized firms also witnessed growth, recording rates of 17% and 15% in fiscal years 2022 and 2023 respectively.

Throughout this period, NBFCs have demonstrated a consistently high credit growth trend in the MSME segment, maintaining robust momentum both before and after the onset of the pandemic.



Source: RBI, D&B Research

The average ticket size of loans extended by NBFCs to MSMEs in India has exhibited fluctuations over the past few years, brought on by the impact the Covid-19 pandemic.

In the second quarter of 2020, the average ticket size of loans stood at INR 19.3 lakhs. However, as the effects of pandemic unfolded in 2021, the MSME sector faced significant challenges, resulting in a 23% decline in the average ticket size of loans to INR 14.8 lakhs in the fourth quarter of 2021. This decline can be attributed to factors such as reduced business activity, liquidity constraints, and risk aversion among lenders amid economic uncertainty.

However, the MSME lending industry demonstrated resilience and agility, bouncing back swiftly from the pandemic-induced downturn. By the second quarter of 2022, the average ticket size of loans surged to INR 19.7 lakhs, marking an impressive 33% increase from the previous quarter.

Furthermore, by the fourth quarter of 2023, the average ticket size of loans further increased to INR 23.4 lakhs, indicating a sustained upward trend in lending to MSMEs by NBFCs. This growth trajectory highlights the resilience and potential of the MSME sector, as well as the crucial role played by NBFCs in providing timely and tailored financial solutions to meet the diverse needs of MSMEs.

Demand Drivers

NBFC has aggressively invested in expanding their coverage, modernized their technological infrastructure and introduced innovative products & solutions, all of which has helped the sector grow its credit deployment at a higher rate compared to scheduled commercial banks (SCBs). NBFC's have carved out niche business areas for themselves by understanding customers & building customized products, which the commercial banks fail to offer to its customers.

Key factors fuelling the aggressive growth of NBFCs in India

Strong Understanding of customer needs: NBFCs have developed deep understanding about consumer needs and demands with the help of competent market research teams that periodically take surveys. These surveys prove extremely useful in determining the financial needs of people of different age group, ethnicity, or job type. As a result, most of these NBFCs are also able to provide financial assistance to the segment of the society that finds it difficult to avail financial aid from traditional banks with rigid policies. NBFC's have strongly focused on unorganized & Under-served segments of the economy, which led the companies to create a niche for themselves through frequent interactions with their customer segments.

Leveraging Technology for Improved Efficiency and Enhanced Experience: Recently, several government banks have gone digital in all their transactions. However, NBFCs have been comparatively pro-active in incorporating technology with all their processes way before them. The use of technology has helped NBFCs in customize credit assessment models and optimize business processes, thereby reducing the time to market and helping improve customer experience. NBFCs are investing in data analytics and artificial intelligence to build robust relationships with their target customer segments.

Customized Product Offerings: All the banks provide standard interest rates and charges on their products that are subject to rules and regulations by the RBI. While there are certain RBI guidelines for NBFCs as well, but they are not as stringent as those for traditional banking institutes. This allows several NBFCs to opt for non-standard pricing models for product lines, in-line with the customer profile and inherent risk of lending. The facility to avail tailor-made financial products attracts a lot of people to choose these NBFCs over traditional money-lending institutions.

Co – lending arrangement: To widen the customer base, NBFC are scouting for opportunity to Co-lend and hence NBFCs are collaborating with various alternative lenders with digital platforms and even with commercial banks.

Wider and Effective reach: NBFCs are now reaching out to Tier-2, Tier-3 and Tier-4 markets, distributing loans across several customer touchpoints, building a connected channel experience, that provides an omnichannel seamless experience with 24/7 sales and service, as the consumers of today evolving and accessing digital media like never before, NBFCs have embarked on new and better ways to engage with the customer.

Efficient Risk Management: Since NBFCs also focus on lending to the sub-prime customer segment, and has regulatory disadvantage (SARFEASI, DRT, and capital adequacy requirements) in comparison to commercial bank lenders, NBFCs are ensuring enhanced governance through a proactive, robust, and agile risk management model. Therefore, most NBFCs appoint financial experts at each level of management to ensure the highest standard of security and discretion.

Post Pandemic Scenario

NBFC sector in India has witnessed significant market driven and regulatory events in the last decade. Some of the noteworthy developments include the issuance of new bank licenses for universal banks, introduction of a new category of banks like small finance banks and payments banks; insolvency processes and the resolution of a few large Non-Performing Assets (NPA) situations. Before the beginning of the COVID-19 pandemic, the sector was dealing with the contagion effects associated with the collapse of a few NBFCs and co-operative banks. However, innovation and adoption of technology continued within the sector even during these challenging times.

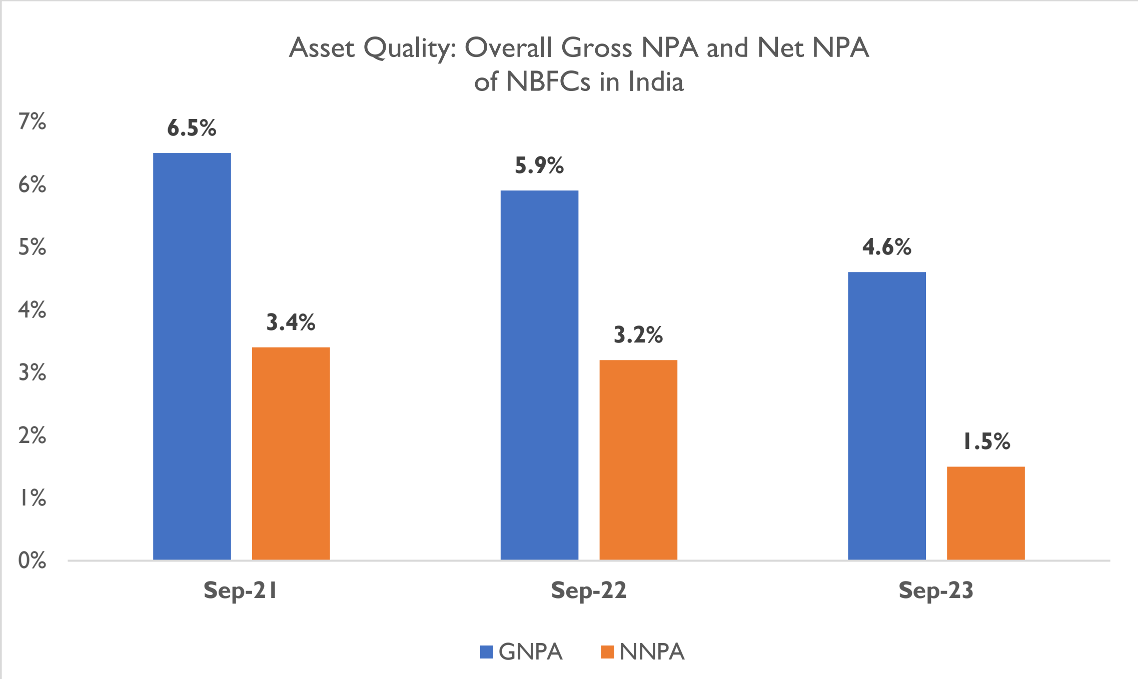
The pandemic has motivated the industry to reconsider its operation model and client acquisition strategy. Digitization and automation have taken Centre stage. Newer digital lending products introduced by fintech players have been accepted by customers, thereby creating disruption, especially around client acquisition and retail lending products. Introduction of digital lending products largely entails self-service applications supported by back-end processing of applications on risk rating processes.

Additionally, tools that help risk-based pricing and lending decisions are expected to be the next growth enablers for NBFCs. Financial institutions in India have realized the importance of data and are investing in technology infrastructure to leverage both structured and unstructured data and transform them into analytics and subsequently, actionable insights.

Cloud technology and the use of Artificial Intelligence and machine learning tools to perform forward-looking analytics should help in effective client acquisition, better credit decisions, improved efficiency, and optimized costs.

NBFC Non Performing Assets (NPA) Scenario

Past three year reveals a positive trend in the Non-Performing Asset (NPA) ratios of Indian NBFCs, marked by a downward trajectory indicating a significant improvement in overall sector's financial health. Gross NPA (GNPA) dropped from 6.5% in 2021 to 4.6% in 2023, while Net NPA (NNPA) witnessed an even sharper decline, from 3.4% to 1.5%. This positive trend indicates improved asset quality and risk management practices. The post-pandemic economic rebound likely improved borrower repayment capacity, leading to fewer defaults and lower NPAs. Stricter RBI norms on capital adequacy, income recognition, and provisioning likely encouraged better risk management by NBFCs.

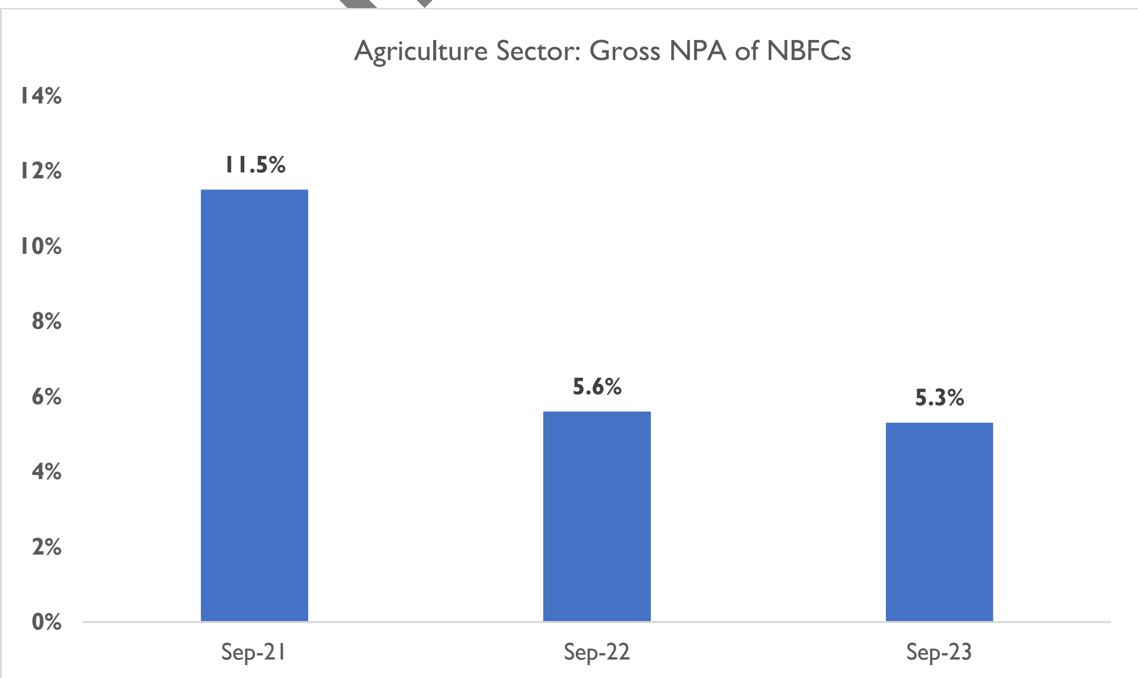


Source: Reserve Bank of India

Sectoral NPA Outlook

Agriculture

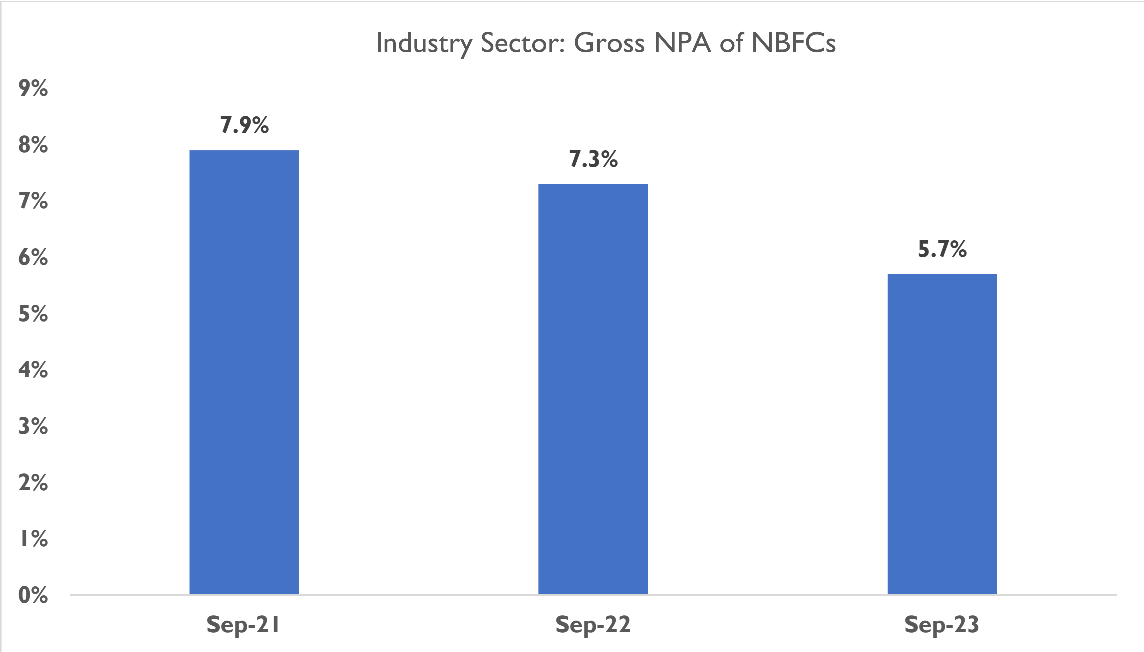
A significant improvement is witnessed in the NPA ratio of Non-Banking Financial Companies (NBFCs) catering to the agriculture sector in India over the past three years. Agriculture sectoral GNPA dropped from 11.5% in 2021 to 5.3% in 2023, representing a 6.2% improvement in three years. Schemes like PM Kisan Samman Nidhi and agri-infrastructure development efforts is prompting improved borrower repayment capacity, reducing risk, and diversifying income streams.



Source: Reserve Bank of India

Industry

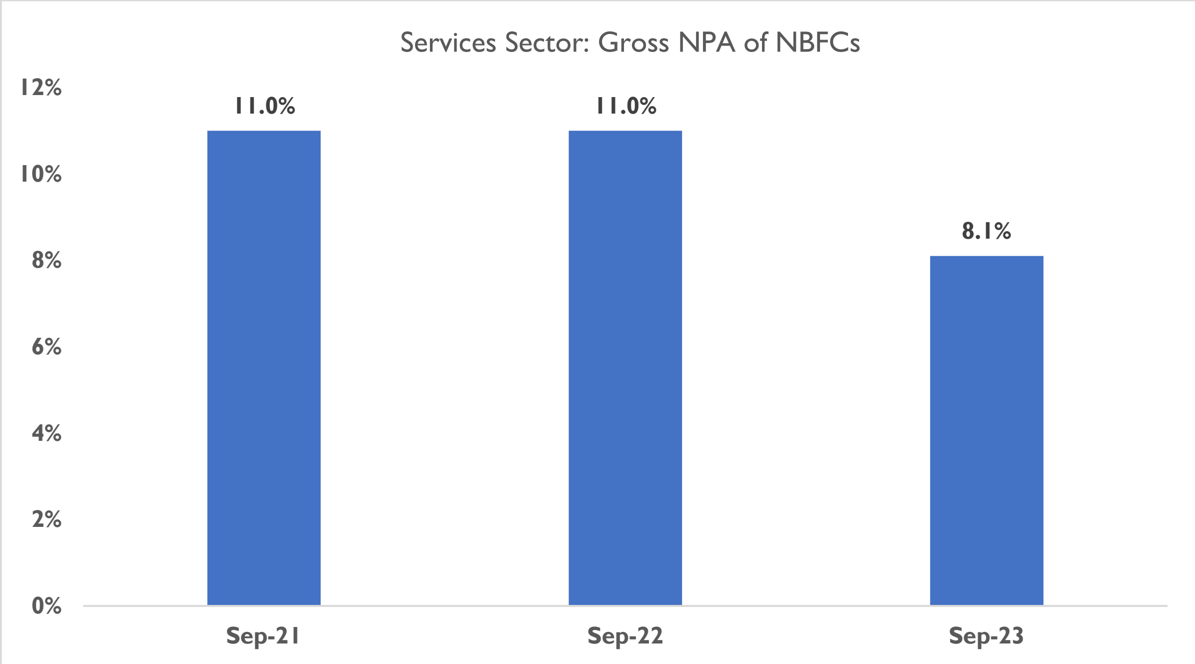
A moderate decline in the Gross NPA of NBFCs catering to the Indian industry sector can be observed over the past three years. GNPA decreased from 7.9% in 2021 to 5.7% in 2023, representing a 2.2% improvement over three years.



Source: Reserve Bank of India

Services

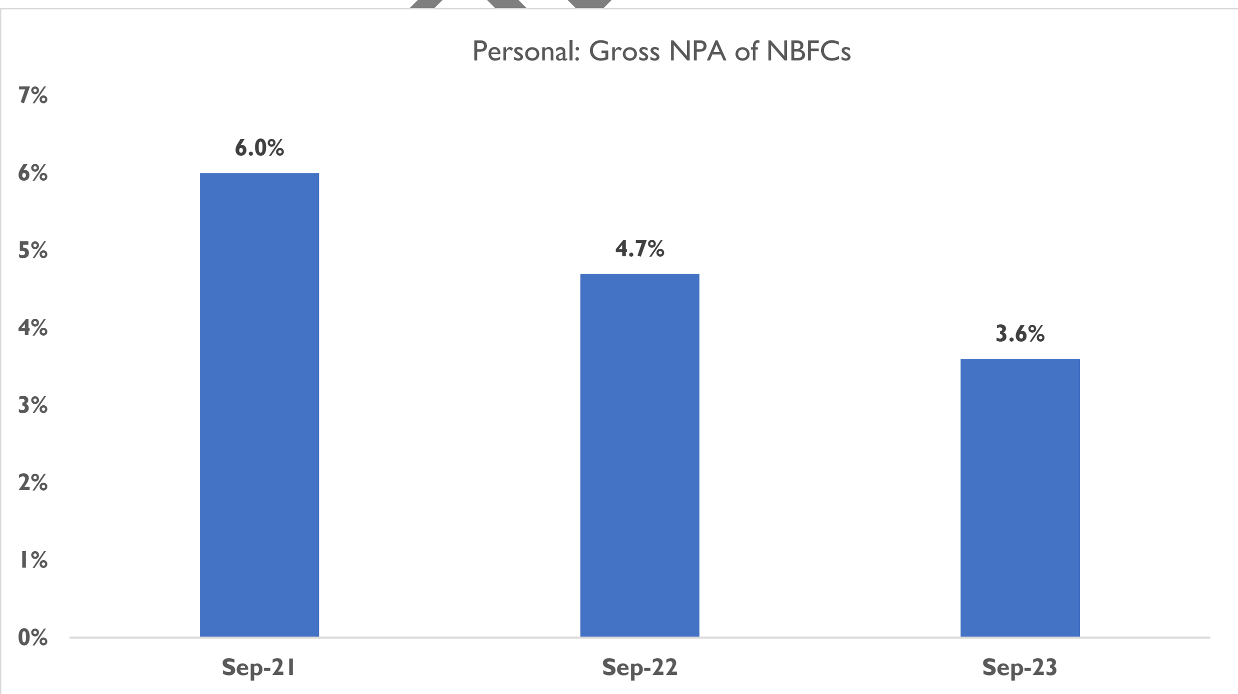
Past three year trend reveals a two-year stagnation in the Gross NPA of NBFCs catering to the Indian services sector, followed by a recent improvement in 2023. GNPA dropped from 11% in 2021 to 8.1% in 2023, representing a 2.9% improvement. Government or RBI initiatives aimed at specific service sub-sectors is contributing to NPA reduction.



Source: Reserve Bank of India

Personal

A significant decline in the Gross NPA of NBFCs catering to the personal loan segment in India is witnessed over the past three years. GNPA decreased from 6% in 2021 to 3.6% in 2023, representing a 2.4% improvement. The rate of decline appears to have accelerated, with a 0.3% drop from 2022 to 2023 compared to a 1.3% drop from 2021 to 2022.



Source: Reserve Bank of India

NPAs of Key NBFCs Players

Major NBFC players in India are playing a significant role in lowering the overall NPA (Non-Performing Asset) ratios of the NBFC sector through various strategies and initiatives. These NBFCs are adopting stricter credit assessment processes, leveraging data analytics and credit scoring models to identify borrowers with lower credit risks. This helps them select better borrowers and reduce defaults. NBFCs are increasingly focusing on secured lending, such as gold loans or loans against property, which offer greater collateral protection and lower risk of default. They are leveraging technology to automate loan origination, underwriting, and collection processes, improving efficiency and reducing manual errors that can lead to NPAs. Offering a wider range of loan products tailored to specific needs and risk profiles of different borrower segments can mitigate concentration risk and improve overall asset quality.

NBFC	GNPA,FY 2023	NNPA,FY 2023
Bajaj Finserv	0.9%	0.3%
L&T Finance Holdings Limited	4.4%	1.3%
Cholamandalam Investment and Finance Company Limited	6.8%	4.8%
Muthoot Fincorp	2.1%	0.6%
Reliance Capital Limited	2.0%	0.3%
Shriram Finance Limited	6.0%	3.0%
Poonawalla Fincorp	1.4%	0.8%
Edelweiss Financial Services	2.1%	1.3%

Growth Forecast

NBFCs' Assets Under Management is expected to grow in single digits (between 7-8%) in FY24 on the back of NBFCs continued focus on extending credit facilities to that segment of consumers where the penetration of bank is relatively low, the demand for credit from the retail segment will also continue to flow to NBFCs. Continuous investments in technology infrastructure and ease of access to internet will fuel the growth of

NBFC in upcoming years. There would be steady demand from retail segments specially from Housing loans and Vehicle loans segments which will continue growth momentum of NBFC sector.

In the recent past, many NBFCs have improved in terms of liquidity, capital and provisioning which along with improving economic activity would enable NBFCs to comfortably position itself to capitalize the growth opportunities in the years to come, however there will be competition from banks. On Asset Quality front the recent change in NPA recognition norms by RBI to a daily due-date basis instead of the month-end will have implications. However, the increase in GNPAs because of the revised income recognition, asset classification and provisioning norms will be largely an accounting impact because given the improving economy, the credit profiles of borrowers are not expected to deteriorate. Consequently, ultimate credit losses are not expected to change significantly.

Retail loans are expected to see reasonably broad-based growth in the current and next fiscals supported by pick-up in demand and consequently underlying sales. Gold, home and unsecured loans should clock the fastest growth rates. On the other hand, wholesale credit would continue to degrow as platforms such as alternate investment funds gain currency.

Going forward, the funding access which currently is disproportionately biased towards large and parent – backed NBFCs, is expected to normalize as NBFCs are now focusing on diversifying their funding avenues like Co-lending and securitization as well as retail borrowings. Deposit accepting NBFCs are focusing on increasing share of retail deposits in their liability mix.

Rural Lending Scenario

Till the nationalization of banks in late 1960s, credit demand in rural market in India was met by non-institutional actors, of which private moneylender was prominent. Poor infrastructure, and unfavourable business dynamics kept organized credit providers away from rural markets. Apart from these practical challenges, players in non-institutional credit segment were tightly integrated in rural economy which afforded them the capability to meet the random & specific credit requirements that emerged in the rural market.

However, this unorganized segment was not able to meet the burgeoning credit demand in rural market, leading to credit rationing / credit unavailability. This in turn stalled economic growth in rural markets and given the dominance of rural economy in the first couple of decades post-Independence, the overall economic growth in the country remained low.

The average debt per household in rural India is approximately INR 60,000. The average debt is highest among self-employed (traders / merchants / shop keepers / non farming), standing at approximately INR 88,000 while it was lowest among casual labourers (employed in non-farming sector).

Average debt level among different classes of household in Rural India	
Type of Household (By Occupation)	Average Debt (In INR)
Self-employed (Non-Farming: traders / merchants / shop keepers etc)	INR 88,500
Agriculture / Farming (Own land)	INR 80,000
Regular Wage / Salaried	INR 77,000
Daily Wage / Casual Labourer (Non-Farming Activity)	INR 30,000
Daily Wage / Casual Labourer (Farming Activity)	INR 28,000
Others	INR 27,000
Average across rural household	**INR 60,000**

Source: NSSO Survey, Average Debt are approximate figures – rounded to nearest upper limits (Study conducted in 2019 – 20 period)

Key Demand Drivers

Credit demand in rural markets has traditionally been driven by the agriculture sector, which being the dominant economic activity in rural regions. Although informal / non-institutional credit agencies continue to service the credit demand of the agriculture sector, initiatives by the Government have led to a decline in loans from those players. Apart from fiscal support & policies, the application of priority lending norms to agriculture has also helped in the flow of credit to agriculture sector. As a result, agriculture lending came to be synonymous with rural credit and banks became the leading credit supplying agencies.

However, there exists credit needs other than agriculture credit and the current rural lending structure fails to address those needs. Some of these non-agriculture credit demands emerging from both agriculture & non-agriculture households include:

- **Medical Needs**: Only 8 – 10% of population in rural Indian has life insurance coverage while less than 20% has any sort of insurance coverage. Such a low insurance penetration means out of pocket expenditure remains the main source of funding for medical needs. The average household income in rural India is in the range of INR 165,000 – INR 170,000 out of which bulk is spend on daily sustenance leaving little for emergency needs. As per 75th round of NSS survey, average hospitalization expense in rural India is nearly INR 17,000. Given non-existent health insurance penetration, the healthcare expense is met mainly through out-of-pocket expenditure and has become a major financing demand in rural markets.
- **Sizable Rural Population:** Despite the pace of urbanization & rural to urban migration that has happened in India for the past two decades, 70% of the total population and approximately 65% of the total households in India is still concentrated in the rural market. This underlines the importance of rural market. The shift in economic profile meant, the share of agriculture to total economic output has gone down. Hence the impact that agriculture has on overall economic growth is lower. However, the sheer size of rural population meant it accounts for a huge pool of consumer base – albeit which is untapped. The existing institutional credit agencies primary meet the agri credit needs of this population, while non agri credit demand is not met. This presents a huge untapped opportunity.
- **Shift in demographic profile:** The demographic profile is in a transition stage with the percentage of youth population on the rise – whose consumption & aspiration pattern is completely different from their earlier generation. Demand for consumer products ranging from FMCG products (personal care), consumables to big ticket items like vehicles has witnessed an increase in rural areas. Although income levels in rural areas have improved, the growth is not enough to keep up with the aspirational changes happening. The gap is especially felt in financing of big-ticket purchases – primarily vehicles. There is a requirement for a growth in credit offering from institutional side to meet these non-agriculture credit needs.
- **Business loans:** Probably one of the biggest usages of credit in rural market is small ticket loans that are used in employment generating activities. The end usage of this credit puts it into the larger category of business loan, but unlike traditional business loans the ticket size is very smaller. Demand for these loans emerge from cottage industries, and micro & small-scale industries in the rural region – for working capital needs / expanding the operation. The lack of credit history and higher risk levels has kept these segments out of the formal credit channels, forcing them to depend on informal credit channels (led by money lenders).

To summarize, institutional credit mechanism to meet the non-agriculture credit demand in rural India is poorly developed. The higher transaction cost, low ticket size, risk profile and lack of collaterals has made this segment unattractive for formal credit agencies. The situation underwent a change with the introduction of microfinance services through SHG-BLG program. Although microfinance has improved the credit flow to rural markets, it is still way below the progress made by banking & NBFC sectors in urban markets. Thus, there exists ample untapped opportunity in rural market for a structured credit product.

Current Scenario & Sources of Credit

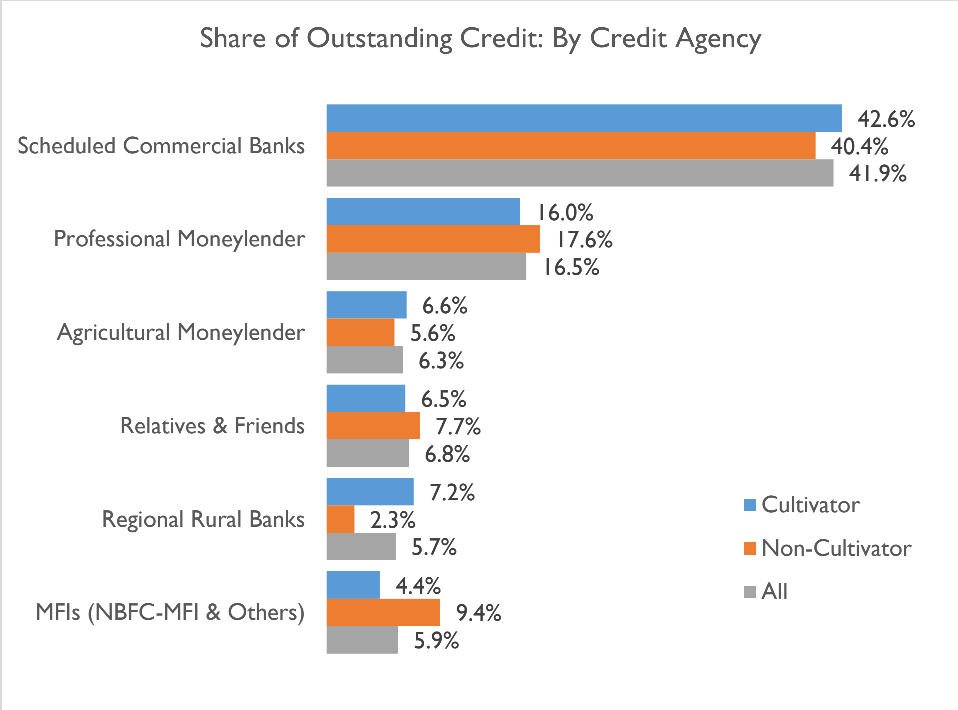
Considering the average household debt of INR 60,000, the total outstanding debt among rural households in India would be approximately INR 10 Lakh Crores. Given the dominance of agriculture in rural regions, the dominance of farming household in household debt is expected. However, the higher debt level among households that classified as self employed outside farming sector points to the increase in credit demand from small scale entrepreneurial activities. These include economic activities ranging from animal husbandry, shops & trading to small scale (cottage) industries.

Approximately 66% of outstanding cash debt in rural market is held by institutional agencies that include scheduled commercial banks, NBFC and MFIs. The remaining 34% is held by non-institutional credit agencies comprising private moneylenders and others. The proportion of non-institutional credit is slightly higher among non-cultivator households, compared to farming households.

Cash debt exposure pattern among rural households: Institutional v/s non-institutional credit agencies			
Type of Credit Agency	Cultivator Households	Non-Cultivator Households	All Households
Institutional	67.0%	63.9%	66.1%
Non-institutional	33.0%	36.1%	33.9%
Total	100.0%	100.0%	100.0%

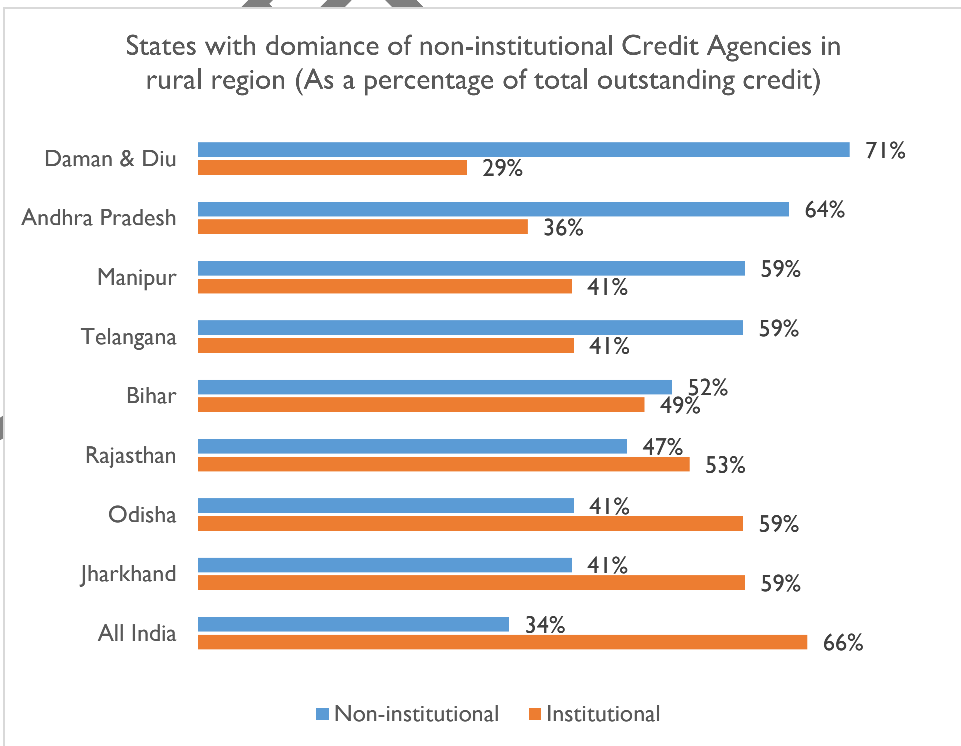
Source: NSSO Survey, All India Debt & Investment Survey 2019

Although institutional credit agencies, led by scheduled commercial banks, has increased their penetration in rural markets, the role played by non-institutional credit agencies has not diminished. Private moneylender who is the dominant segment within the non-institutional credit framework serving rural market continues to be major player – second only to banks in terms of share of total debt outstanding. Private moneylenders together with agriculture specific moneylenders accounted for nearly 23% of total outstanding debt in the rural market. Despite the aggressive growth made by microfinance entities, their share of the total outstanding credit in rural market remains in the range of 6%.



Source: NSSO Survey, All India Debt & Investment Survey 2019

From a pan India level, the share of non-institutional agencies in total outstanding rural debt has fallen below 34%. However, in certain states, this segment continues to be the dominant form of credit source to rural consumers / households. The share of non-institutional credit agencies is highest in Daman & Diu -with 71% of total outstanding debt – while it remains more than 50% in four states and between 40% and 50% in four more states.



Source: NSSO Survey, All India Debt & Investment Survey 2019

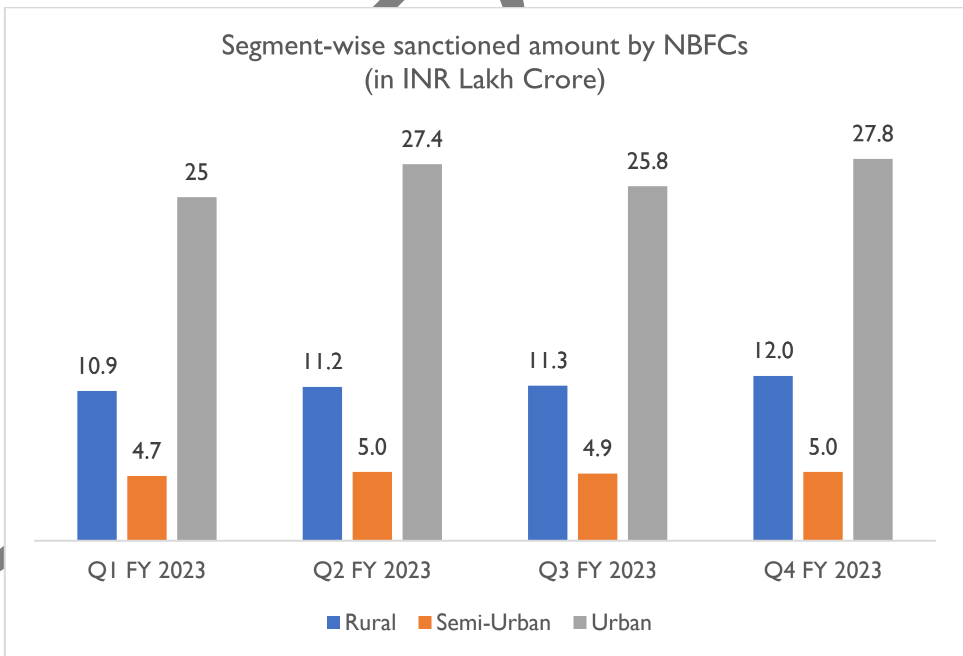
NBFC lending in Rural, Semi-Urban, and Urban areas

Non-Banking Financial Companies (NBFCs) play a crucial role in extending financial services to rural and semi-urban areas, contributing to the inclusive growth of India's economy. By leveraging their extensive networks and innovative financial products, NBFCs facilitate access to credit, savings, and insurance services in these underserved regions.

Lending activities by NBFCs experienced a slowdown in momentum during the fourth quarter of fiscal year 2023, with overall sanctions witnessing modest year-on-year growth rates of 2-3%. Notably, loans in rural areas played a pivotal role in sustaining NBFC lending, while both the semi-urban and urban sectors exhibited lower growth rates during the same period.

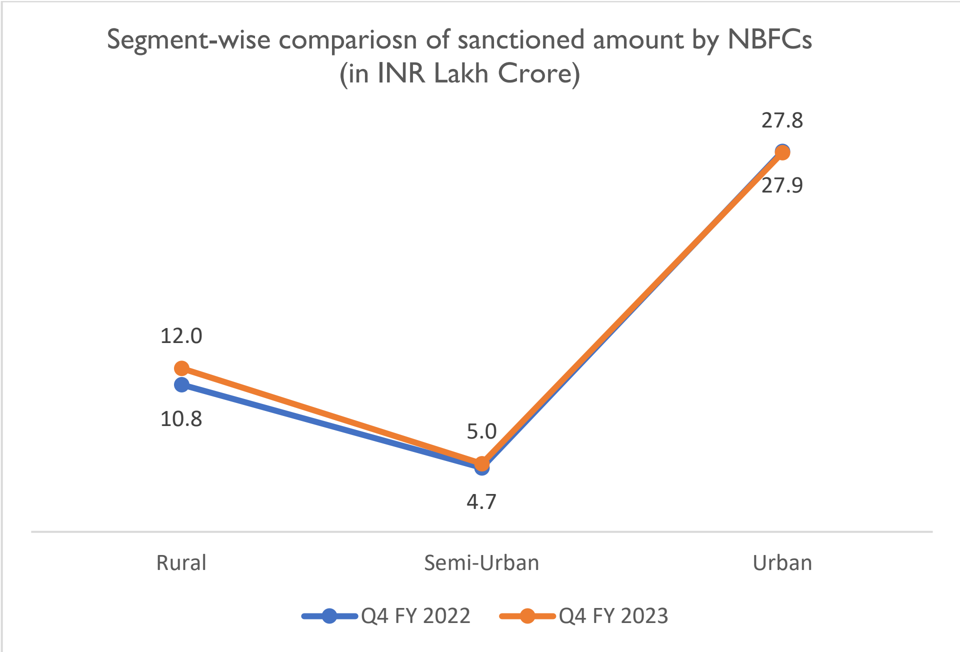
According to data released by the Finance Industry Development Council (FIDC) and credit bureau CRIF, NBFCs sanctioned loans worth Rs 44.6 lakh crore in the fourth quarter of FY 2023, compared to Rs 43.9 lakh crore in the corresponding quarter of FY 2022.

Within this landscape, lending activities in rural areas showcased a notable trend of quarterly growth throughout FY 2023, rising from INR 10.9 lakh crore in the first quarter to INR 12 lakh crore in the fourth quarter. This growth trajectory was driven by several factors, including an increase in positive and neutral sentiment towards government initiatives and policies, the availability of a skilled workforce, and the profitability of organizations operating in rural regions.



Source: D&B Research

In contrast to the rural segment, where consistent growth was observed, the semi-urban and urban sectors experienced fluctuations in loan sanction amounts. While the second quarter witnessed an increase in loan sanctions for both segments, the third quarter recorded a decrease. Specifically, loan sanctions in the urban segment declined from INR 27.4 lakh crores in Q2 FY 2023 to INR 25.8 lakh crores in Q3 FY 2023. However, the trend reversed again in the fourth quarter of FY 2023, with increases recorded to INR 5 lakh crores and INR 27.8 lakh crores in the semi-urban and urban segments respectively.



Source: FIDC – CRIF, D&B Research

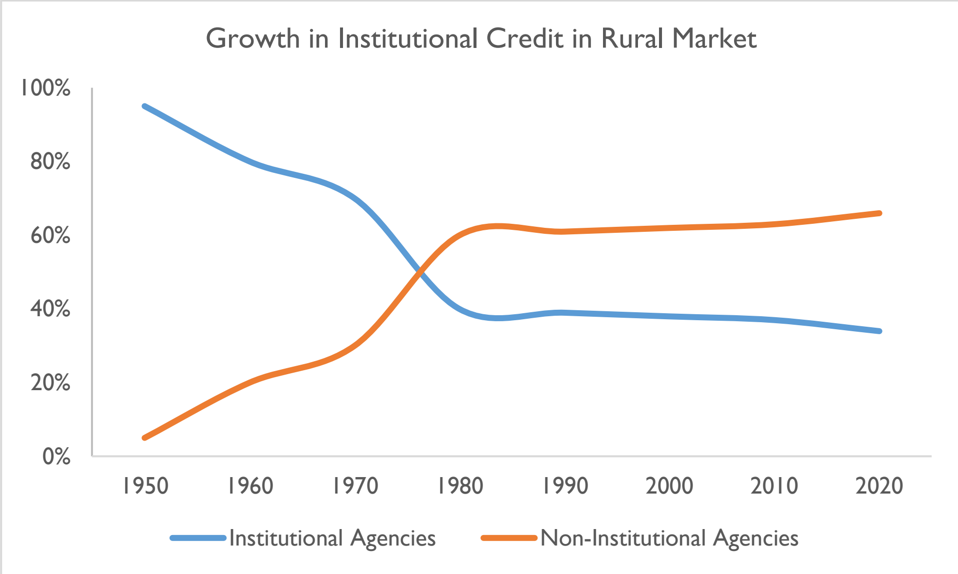
In a segmental comparison between the fourth quarter performance of FY 2022 and FY 2023, rural and semi-urban loan sanctions have shown year-on-year growth rates of 11% and 6% respectively in Q4 FY 2023. Conversely, urban loan sanctions witnessed a decrease of 0.4% during the same period. Thus, while the rural and semi-urban areas demonstrated resilience and growth, the urban areas experienced a marginal decline.

Strengthening of Institutional Credit Agencies

Bank nationalization was the first step by the Government to address the credit rationing that was prevalent in the rural markets. This move led to the expansion of branch network of nationalized banks into hinterland, and gradually began to displace non institutional players. Although the business cost incurred by institutional credit agencies (like banks) in extending credit in rural markets was high, they were able to successfully replace private moneylenders as the dominant credit agencies in rural markets.

Apart from bank nationalization, the Government and Reserve Bank of India (RBI) introduced several new players to strengthen institutional credit segment including rural cooperatives, regional rural banks, and finally NABARD (National Bank of Agriculture and Rural Development) in 1982. These measures strengthened the institutional credit supply.

Consequently, the share of non-institutional credit agencies in total credit outstanding in rural markets began to decrease. From a high of nearly 95% in 1950 it came down to the range of 30 – 40% by early 1990s. Since then, it has remained in that range. By 2020, the share of non-institutional sources of credit dropped to an all time low of approximately 34%.



NSSO Report, All India Debt and Investment Survey, Secondary Research

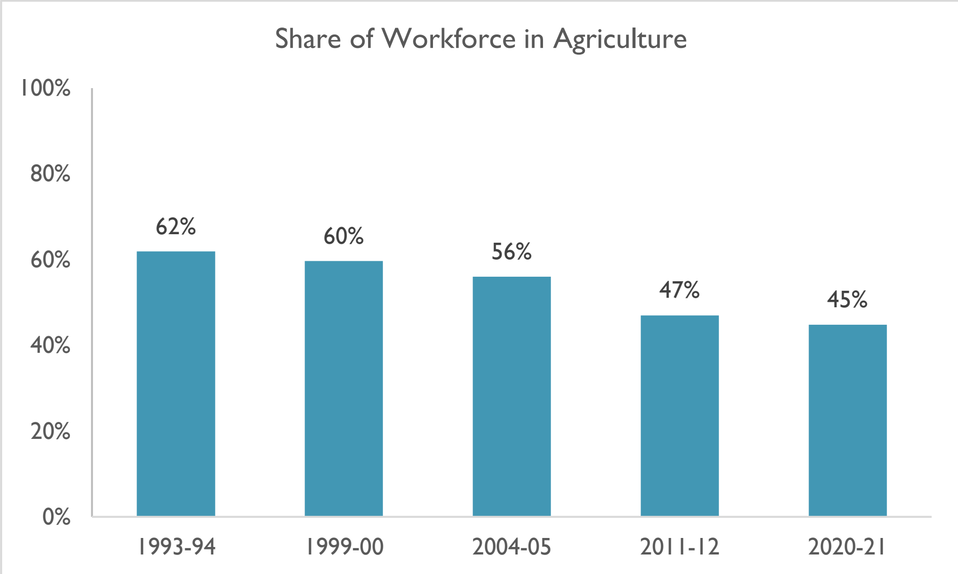
As seen in the above chart, the pace of penetration of institutional sources of credit in rural market plateaued in early 1990s, and since then the rate of growth has been marginal. This is often corelated with the economic liberalization that happened in 1991, and the autonomy that was accorded to nationalized banks to compete in the liberalized economy. As a result, the unbridled expansion into rural markets by nationalized banks came to a stop as focus was increasingly on improving profit margins. Rural markets, with its higher transaction cost, and lower ticket size were dragging down the margins and subsequently received lower priority. This is the primary reasons behind the stagnation of institutional credit sources in the 30 – 40%, for the past couple of decades.

Rural Credit Skewed Towards Agriculture Sector

Focused regulatory approach by the Government of India, and Reserve Bank of India (RBI) succeeded in improving the credit flow in rural market, by facilitating greater involvement of institutional credit agencies. Although several challenges, with respect to higher transaction cost and rigid lending norms, remained institutional agencies managed to increase their market share.

However, the focus was primarily on the agriculture & allied sector- which was the dominant economic activity when the Government intervention measures were introduced. The systems and structures that were put in place, including the formation of agencies like NABARD were all geared to ensure credit to agriculture sector. By 1970 – 1980's a strong institutional credit framework addressing rural credit demand was in place, and this comprised of NABARD, nationalized banks, Regional Rural Banks, and credit cooperatives. Although the pace of growth in credit extended by nationalized banks to rural sector began to slow down post 1991, the presence of alternative agencies meant the flow of credit was not disrupted.

Predictably rural credit became synonymous with agriculture & allied credit. This model worked well during 1950 to late 1980 / early 1990 model when agriculture was the predominant economic activity. The liberalization policies implemented in early 1990s changed the face of Indian economy with contribution from manufacturing and service segment picking up pace. Agriculture soon slipped below manufacturing and services in terms of economic output. The changes in economic climate as well as strides made in education and infrastructure development in rural markets led to a shift in the profile of working population. Urbanization started rural urban migration, while younger population staying back in rural markets were exploring vocations other than agriculture. As per Census data, the number of farmers (cultivators) has been declining. Between 2001 and 2011, the number of cultivators declined by 90 lakhs.



NSSO Report, Secondary Research

Findings from latest NSSO surveys clearly outlines the trend of declining workforce in agriculture. Although rural urban migration has contributed to this decline, that factor alone is not the trigger for this decline. Emergence of better opportunities in non-agriculture segment too have played a role in this decline. Thus, there exist a large pool of population in rural areas whose livelihood is not directly dependent on agriculture.

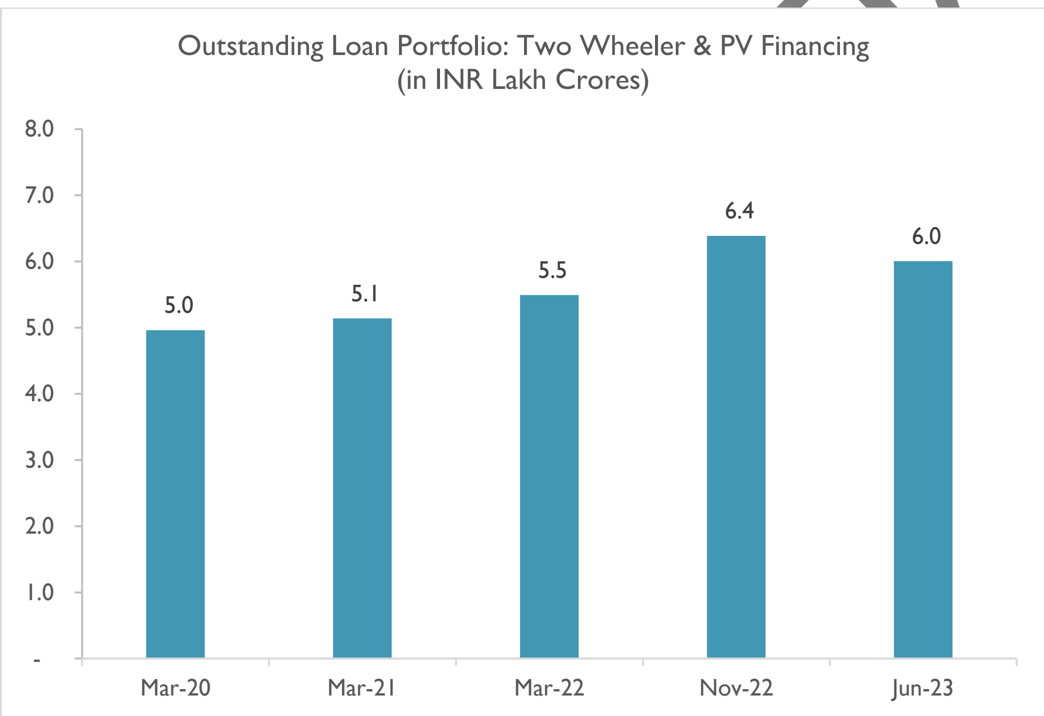
Despite this shifting trend in workforce participation in rural markets, the credit flow to rural markets from institutional sources continues to be concentrated in agriculture & allied sectors. Population / household outside of agriculture sector is thus facing credit rationing and is forced to depend on non-institutional credit sources.

Vehicle Lending in India

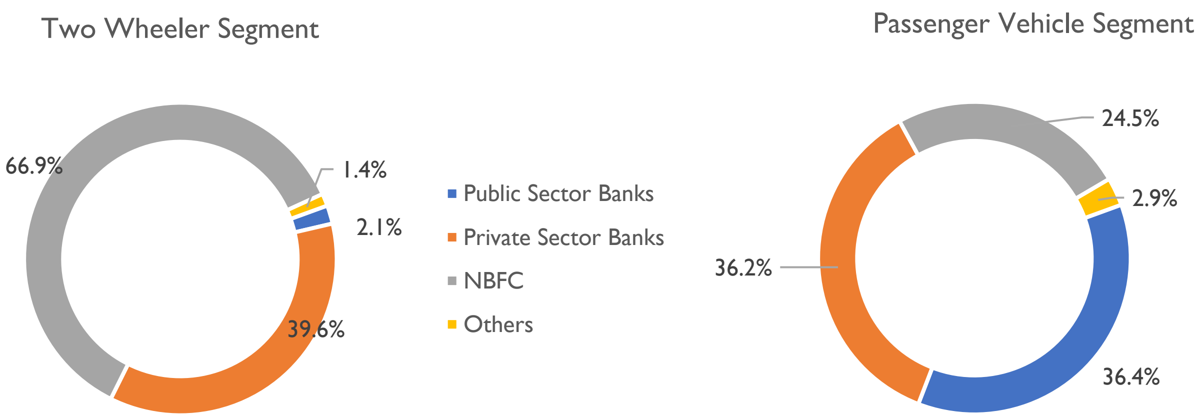
Vehicle finance account for nearly 100% of total commercial vehicle sales and 80% of personal vehicle sales in India. In two-wheeler segment this penetration rate is e less than 50%. Banks remain a major player in overall vehicle loan market in India, but their share varies with segment. For instance, in two-wheeler loan and commercial vehicle segment NBFC have the upper hand, when compared to passenger vehicle segment.

Two-Wheeler & Passenger Vehicle Financing

By June 2023, the outstanding automobile loans in India was approximately INR 6.0 Lakh Crore[8].Between March 2019 and June 2023, the outstanding loan portfolio increased by a compounded growth rate of nearly 6.9%. Banks dominate the passenger vehicle loan segment with nearly 73% share while two-wheeler loan segment is dominated by NBFCs with a market share of nearly 64.5%.



Source: CRIF High Mark



Source: CRIF High Mark

Indian Commercial Vehicle Market

Commercial vehicle sales in India rebounded in FY 2021, after two consecutive years of contraction, to post annual sales volume of nearly 9,62,468 units in FY 2023. The industry showcased a positive growth of 30% from previous year, indicating the return to normalcy.

The strong demand revival has also benefitted the used commercial vehicle industry, which forms an integral part of Indian commercial vehicle landscape. The trucking industry in India is fragmented and unorganized, with single / multi vehicle owners forming the dominant part. It is estimated that small fleet owners – with not more than 5 to 20 trucks – account for nearly 85% of the Indian trucking market. This segment is constrained by capital, and access to bank services – thereby limiting their ability to procure new trucks. Subsequently this large unorganized segment tends to rely on used trucks to expand / refurbish their fleet – because of lower cost as well as ease of procuring vehicle financing through NBFC channels.

Used Commercial Vehicle Demand: Key Factors

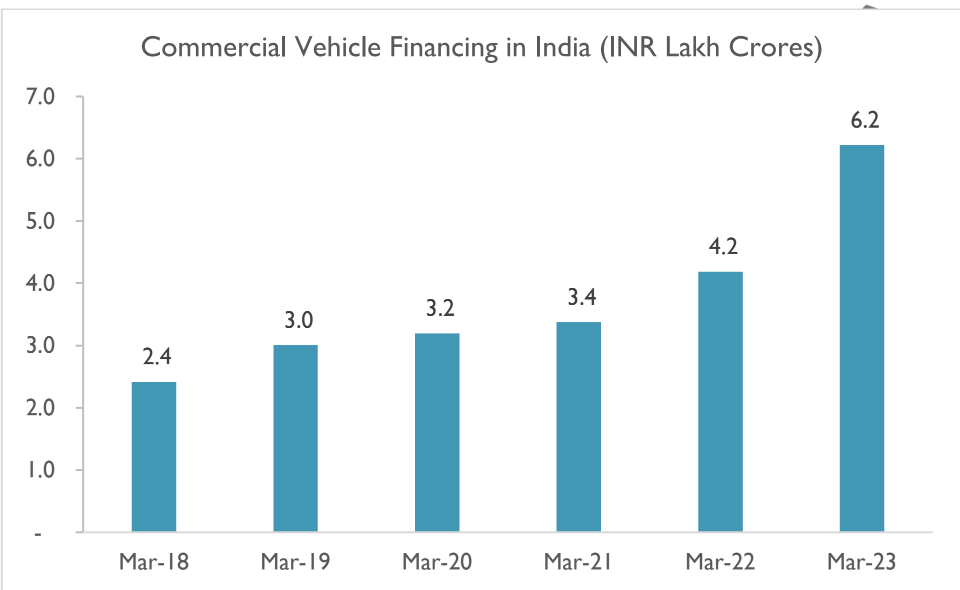
The demand for used vehicles is expected to strengthen on the back of improvement in fleet utilization, higher price of vehicle, as well as higher fuel cost.

- Fleet utilization level in Indian trucking industry, which plunged to record lows during the covid-19 pandemic, is improving. On the back of recovery in core sectors like cement, coal & steel, the fleet utilization level improved to 88% in FY 2022 and further to 91% in FY 2023. It is expected to reach 95% in FY 2024. This increase in fleet utilization level – on the back of resumption in cargo movement – would trigger demand for commercial vehicles. However, given the dynamics of trucking industry in India the fleet expansion operations would play out differently in organized and unorganized segment. In the organized segment – comprising of large fleet operators – the expansion would be by induction of new vehicles. However, in the unorganized segment – dominated by small fleet owners – the expansion would be a mix of both new and used vehicles, due to the capital constraints.
- The supply chain disruptions that have delayed the shipping of parts have impacted the production of commercial vehicles. This in turn have increased the cost of the commercial vehicle, putting it out of bounds of smaller fleet operators Subsequently, smaller fleet owners are gravitating more towards used commercial vehicles. Apart from lower upfront cost, the ease of procuring financing from NBFC for used commercial vehicles have also increased its attractiveness.
- The cost of vehicle is also impacted by the shift to BS VI regime. Shifting from BS IV to BS VI pushes the vehicle cost by 10 to 15%. Under this scenario, used BS III / B IV vehicles that are priced lower becomes an attractive option for smaller fleet operators.
- Despite the corrections in international crude oil prices, diesel prices in India have remained high. Since fuel cost accounts for bulk of operating cost borne by a fleet operator, higher diesel cost have

pushed up the operating cost. Under such a high working capital scenario, the appetite to invest in newer vehicles is low. Used commercial vehicles with lower cost forms an attractive option.

Commercial Vehicle Financing

Outstanding loan portfolio in India's commercial vehicle segment was approximately INR 6.2 Lakh crores, as of March 2023. Two thirds of the outstanding credit is accounted by new vehicles while used CV financing accounts for the rest. Banks and NBFCs (including captive NBFCs) are the major players in Indian commercial vehicle financing segment. Banks accounts for more than 50% of the new commercial vehicle financing segment while NBFCs account for more than 90% of used commercial vehicle financing business in India.



CARE Ratings, Dun & Bradstreet Estimates

With fleet utilization level expected to touch 95% by end of FY 2024, the trucking & logistics industry is expected to witness fleet expansion. However, higher cost of vehicle due to shift from BS IV to BS VI would create capital constraints for smaller fleet owner / operators. With fuel cost reigning high, smaller operators will find it difficult to raise funds for capital expansion. In such a scenario, the unorganized segment would opt for lower priced used vehicles, rather than the costly new BS VI models. Subsequently, the demand for used commercial vehicle financing would go up. In addition, the lower EMI of used commercial vehicles too would be an added advantage for smaller fleet operators.

Two-Wheeler Demand in Rural Market

Passenger vehicle sales in rural market is dominated by two-wheeler segment while the penetration of cars / passenger four-wheeler segment remains low. Higher ticket size of the later together with low-income level and challenges in accessing vehicle finance (for four wheelers) are the key hurdles that is preventing the sale of passenger four wheelers in rural market.

Total sale of two wheelers in rural India is in the range of 87-90 lakh units in FY 2023, accounting for slightly more than 55% of total two-wheeler sales in India. Bulk of the two wheelers sold in rural market are models with engine capacity in the range of 75 – 125 cc, which represents the lowest segment in terms of average ticket size.

Approximately 72.8 lakh two-wheeler loans were disbursed in FY 2023. Of the total two-wheeler loans disbursed in FY 2023, nearly 50% were disbursed in rural markets. The share of two-wheeler loans disbursed in rural market has been increasing steady. Between FY 2018 and FY 2023, the share of rural two-wheeler loans increased by nearly 10 percentage point[9].

Used two-wheeler demand in India

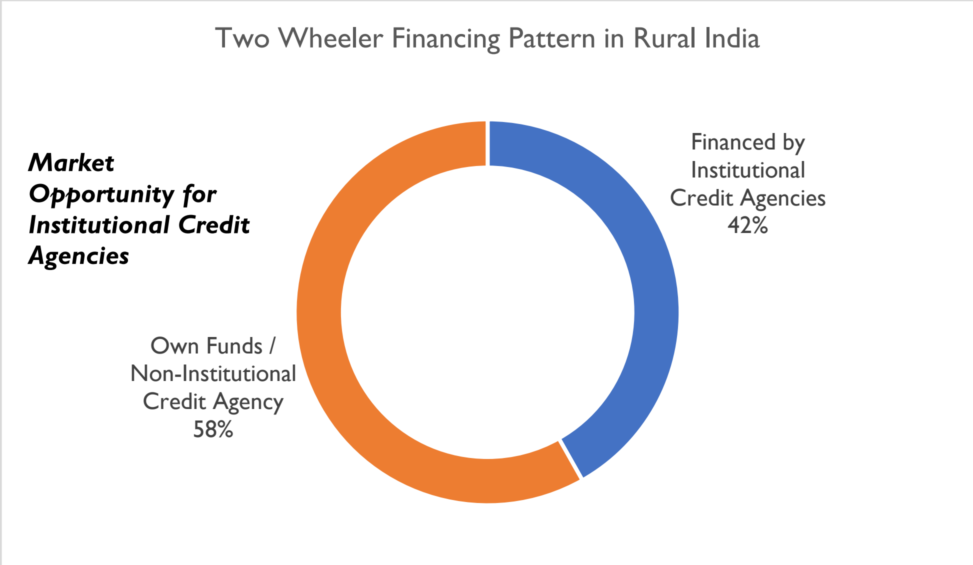
The onset of pandemic saw a shift in transportation pattern with commuters switching to private transport options. Given the budget constraints, the pickup in vehicle demand varied from region to region. In urban markets, this development benefited the sale of passenger cars while in rural markets the sale of two wheelers received a momentum.

Used two wheelers were also one of the beneficiaries of this development. Considering the lower purchasing power in rural markets, used two wheelers with a lower price tag emerged as a popular alternative to new vehicles. The pandemic has severally impacted the livelihood and earning potential in rural & semi-urban markets and this in turn has impacted the purchasing decisions – favouring lower priced used vehicle options. In addition, the price hike of newer vehicles have also helped increase the demand for used two wheelers.

Two-Wheeler Financing in Rural India

In FY 2023, the total number of two-wheeler loans disbursed in rural market was nearly 36 lakh, while the total number of two-wheelers sold in rural market is in the range of 87 to 90 lakh units. Thus, only half of the total two-wheeler sales in rural market is financed by institutional credit agencies while rest is financed either by own funds or through non-institutional credit agencies. Given the low-income levels in rural market, a large part of the two-wheeler purchases not covered by institutional lending would be financed by non-institutional / informal segment. In FY 2023, this accounted for nearly 54 lakh two wheelers sold in rural market, and this presents the untapped market potential for institutional credit agencies.

[9] CRIF High Mark



Dun & Bradstreet Estimates

NBFC Presence in Vehicle Financing

As on March 2023, the total outstanding vehicle loan portfolio of NBFC segment was approximately INR 7.4 Lakh Crore, with nearly 75% of them being commercial vehicle loans. NBFC share in total two-wheeler loan portfolio is nearly 65% while its share in passenger vehicle is close to 25%. In CV financing segment, the market share of NBFC is closer to 62% (including new and used CV financing).

NBFC Presence in Vehicle Financing		
Vehicle Segment	Gross Loan Portfolio	Market Share
Two-Wheeler	INR 0.50 Lakh Crores	~67%
Four-Wheeler / Passenger Vehicle	INR 1.16 Lakh Crores	~27%
Commercial Vehicles (New & Used)	INR 4.19 Lakh Crore	~62%
Total	INR 5.85 Lakh Crore	

Source: CRIF High Mark, CARE Rating, Dun & Bradstreet Estimates

Key Players

Notable Players in Indian NBFC Space: Vehicle Financing Segment	
Cholamandalam Investment & Finance Company Limited (Chola)	Chola, established in 1978, is the financial service arm of Murugappa Group. The Company's products include vehicle loans, home financing, SME loans, as well as rural specific loans. In vehicle finance, the company offers two-wheeler, four-wheeler, commercial vehicle, farm equipment and construction equipment loans. Their rural loan solution caters primarily to

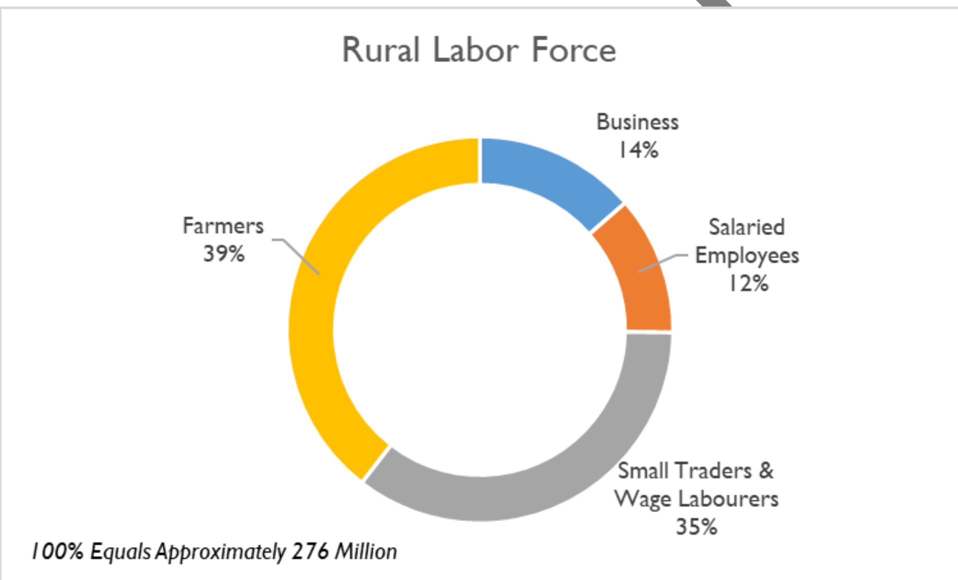
	agribusiness segment. As per the Company's FY 2022 annual report the asset under management in vehicle finance business stood at INR 52,000 Crores.
Sundaram Transport Finance Company Limited	One of the largest players in vehicle financing space in India, with financing products in commercial vehicle (light / medium / heavy), farm equipment, construction equipment and passenger vehicle space. As per the Company's FY 2022 annual report, the total asset under management stood at INR 1.27 lakh crores.
Bajaj Finance Limited (Bajaj Finserv)	Bajaj Finserv, founded in 2007, focuses on personal loans, consumer durable finance, home loans and gold loans. In vehicle finance, the company has presence in two-wheeler loans, and used car loans.
Mahindra & Mahindra Financial Services Limited	Established in 1991, Mahindra Finance has grown to become one of the largest agri equipment financing firms in India. Apart from farm equipment, the Company's vehicle finance portfolio also comprises of auto & utility vehicle financing, passenger vehicle financing, commercial vehicle financing, and used vehicle financing. Outside of vehicle finance, the Company also offers SME financing, and personal loans apart from investment & advisory services.

Market Opportunity in Rural Lending

Unmet Credit Needs in Rural Market: Non-agriculture Population Segment

Analysing the trend of institutional credit flow to rural markets, and the shift in workforce pattern there exists a sizable volume of labour pool who falls outside the purview of the present model of institutional credit. This segment comprises of non-agricultural daily wage laborers, small traders, small business (cottage industry / MSME) owners, and salaried employees. Because of their employment profiles none of these workforces qualify for the credit products offered by the prevalent institutional credit agencies that are servicing rural markets. The demand from these consumer segments are retail loans which are not actively sold by institutional credit sources in rural markets. Subsequently, these consumer segment has turned towards non institutional credit agencies (like money lenders) for their financial needs.

The total volume of rural labour force in India is approximately 27.6 crores in FY 2023, of which only 39% are engaged in farming. It is the remaining 61% of the workforce whose credit demand is not met properly by the existing institutional credit agencies that forms the potential market.



Source: CMIE Economic Outlook Database

Focus Segments

Rural lending scenario in India has undergone major transformation in the past couple of decades, culminating in the growth of institutional credit. From nearly 30% in total credit, the share of institutional credit in rural market has increased to nearly 66%. This is a result of focused Government policies, market friendly regulations, and innovations in NBFC segment the share of institutional credit in total outstanding credit in rural India has deepened.

Despite this advance, there remains few pockets where non-institutional credit (led by private moneylenders) continues to have a dominant market share. Andhra Pradesh, Bihar, Manipur, Telangana, and Rajasthan are the states where non-institutional credit plays a dominant role. It is these markets that would present attractive growth opportunity for institutional credit agencies like NBFCs and NBFC-MFIs.

From a consumer segment perspective, opportunity for deepening institutional credit in rural market would be higher among non-agriculture households which includes traders, casual labourers, and regular wage earners in rural market. Additionally, non-farm related credit demand from agri households too presents an opportunity for NBFC and NBFC-MFI segment.

Among all the credit products that has made inroads into rural markets, micro credit disbursed by MFIs and vehicle loans (primarily two-wheeler loans) by NBFCs are the most developed. As on March 2022, the total outstanding credit in microfinance sector was approximately INR 2.48 Lakh crore. Meanwhile nearly INR 23,000 Crore of two-wheeler loans were disbursed in rural markets during the same year.

Microcredit as a business model has been well accepted in rural markets, and it would continue to be a key tool in meeting the small ticket credit requirement in rural markets. On top of the organic growth, the industry would also benefit from the recent regulations that has expanded the potential customer pool as well as outlined steps to improve the transparency in the sector.

In vehicle financing segment, two-wheeler loans would continue to be the leaders – given the increasing demand as well as the well-developed network of vehicle finance players in the rural market. At present nearly 50% of the total two-wheeler sales happens in rural market. By FY 2027, two-wheeler sales in India is expected to reach nearly 2.4 crore units per annum. Assuming the share of rural market remains unchanged, the total volume of two wheelers sold in rural markets would be nearly 1.2 crore units per annum. These 1.2 crore would be the potential market opportunity for NBFCs planning to target the two-wheeler loan market in rural India.

Rural Lending Scenario: Emerging Opportunities	
Customer Segment	Credit needs of ~16 crore strong rural population (non-agri labour force)

	Non-farm related credit demand of nearly 12 crore strong agri labour force
Markets with High Growth Potential	States of Andhra Pradesh, Bihar, Telangana and Rajasthan, where the share of non-institutional credit agencies in total outstanding household debt is more than 40%
Credit products	Microcredit: personal loans, small business loans Vehicle loans: Two-wheeler loans (two-wheeler sales in rural market is expected to reach 1.2 crore units per annum by FY 2027 and this presents a strong growth opportunity for two-wheeler financing companies focusing in rural markets)

Key Performance Indicators (KPI) of Peers

Shriram Finance

Particulars	As of / For the year ended March 31, 2021	As of / For the year ended March 31, 2022	As of / For the year ended March 31, 2023	As at / For the nine months period ended December 31, 2023
Customers (in lakhs)	21.00	21.10	73.24	82.20
AUM (₹ in lakhs)	1,17,24,283.0	1,27,04,086.00	1,85,68,286.00	2,14,23,347.00
Net Worth (₹ in lakhs)	2154073.00	2590455.00	4320207.00	4694991.00
Tangible Net Worth (₹ in lakhs)	21,56,837.00	25,93,219.00	41,89,991.00	45,64,775.00
Leverage (AUM/ Net worth)	5.44	4.90	4.29	4.55
AUM/ Tangible Net Worth	5.44	4.90	4.43	4.69
Profit After Tax (₹ in lakhs)	2,48,726.00	2,70,793.00	5,97,934.00	5,24,462.00
RoA (%)	1.98%	1.88%	2.89%	3.11%
ROE (%)	12.57%	11.14%	14.84%	15.38%
Return on Tangible Equity (%)	12.57%	11.40%	17.63%	11.98%
Branches (Actuals)	1,817	1,854	2,922	3,037
Employees (Actuals)	24,452	25,456	64,052	73,485
AUM per branch (₹ in lakhs)	6,452.56	6,852.27	6,354.65	7,054.13
AUM per employee (₹ in lakhs)	479.48	499.06	289.89	291.53
Disbursement per branch per month (₹ in lakhs)	NA	NA	NA	NA
Disbursement per employee per month (₹ in lakhs)	NA	NA	NA	NA
Gross NPA ratio (%)	7.06%	7.07%	6.21%	5.66%
Net NPA ratio (%)	4.22%	3.67%	3.19%	2.72%
Operating Expenses to Average AUM (%)	1.68%	1.67%	2.95%	2.04%
Average cost of borrowing (%)	8.91%	8.71%	9.12%	NA

Cost to income ratio (%)	21.20%	19.89%	24.57%	26.00%
NPA Provision Coverage Ratio (%)	42.05%	49.97%	50.14%	53.37%
Average yield on Gross Loan Book (%)	NA	NA	NA	NA
Net Interest Margin (%)	6.70%	6.62%	8.37%	8.77%
Total Interest income (₹ in lakhs)	17,12,814.00	18,64,626.00	28,60,736.00	24,52,239.00
Finance Cost (₹ in lakhs)	9,05,426.00	9,73,431.00	12,54,576.00	10,81,629.00
Revenue from operation (₹ in lakhs)	17,42,045.00	19,25,517.00	29,77,216.00	25,48,075.00
EBITDA (₹ in lakhs)	12,46,963.00	13,41,893.00	21,25,483.00	18,27,117.00
EBITDA margin (%)	71.58%	69.69%	71.39%	71.71%
Debt equity Ratio (times)	4.92	4.42	3.65	3.77
Total debt (₹ in lakhs)	1,07,69,572.00	1,15,70,578.00	1,59,49,041.00	1,79,63,401.00
Debt EBITDA Ratio (times)	8.64	8.62	7.50	9.83
Capital Employed ratio (%)	10.93%	11.11%	12.45%	7.88%
PAT Margin (%)	14.28%	14.06%	20.08%	20.58%

CSL Finance

Particulars	As of / For the year ended March 31, 2021	As of / For the year ended March 31, 2022	As of / For the year ended March 31, 2023	As at / For the nine months period ended December 31, 2023
Customers	NA	NA	NA	NA
AUM (₹ in lakhs)	33,000.00	51,700.00	73,600.00	94,400.00
Net Worth (₹ in lakhs)	25,919.62	32,149.49	36,251.97	45,631.00
Tangible Net Worth (₹ in lakhs)	25,919.62	32,149.49	36,251.97	45,631.00
Leverage (AUM/ Net worth)	1.27	1.61	2.03	2.07
AUM/ Tangible Net Worth	1.27	1.61	2.03	2.07

PAT (₹ in lakhs)	2,752.79	3,344.94	4,562.84	4,478.00
ROA (%)	7.92%	8.45%	6.94%	6.85%
ROE (%)	11.20%	12.48%	12.56%	13.09%
Return on Tangible Equity (%)	11.20%	11.52%	13.34%	11.27%
Branches	18	22	26	29
Employees	128	200	257	NA
AUM per branch (₹ in lakhs)	1,833.33	2,350.00	2,830.77	3,255.17
AUM per employee (₹ in lakhs)	257.81	258.50	286.38	NA
Disbursement per branch per month (₹ in lakhs)	200.61	186.02	243.18	279.31
Disbursement per employee per month (₹ in lakhs)	28.21	2046	24.60	NA
Gross NPA ratio(%)	2.11%	1.73%	0.61%	0.40%
Net NPA ratio (%)	1.19%	0.96%	0.35%	0.23%
Operating Expenses to Average AUM (%)	6.54%	3.62%	3.97%	2.94%
Average cost of borrowing (%)	7.63%	3.46%	6.47%	NA
Cost to income ratio (%)	18.97%	23.96%	27.51%	26.45%
Provision Coverage Ratio (%)	113.07%	101.67%	205.79%	292.00%
Average yield on Gross Loan Book (%)	NA	NA	NA	NA
Net Interest Margin (%)	32.83%	13.44%	14.05%	10.81%
Total Interest income (₹ in lakhs)	5,918.04	6,766.48	10,854.00	10,466.40
Finance Cost (₹ in lakhs)	706.80	1,074.96	2,714.70	2,948.10
Gross NPA (₹ in lakhs)	694.00	895.00	447.00	489.00
Net NPA (₹ in lakhs)	393.00	495.00	255.00	281.00
Revenue from operation (₹ in lakhs)	6,167.31	7,462.54	11,723.70	11,900.30
EBITDA (₹ in lakhs)	4,703.98	5,615.95	8,971.11	9,270.40
EBITDA margin (%)	76.27%	75.26%	76.52%	77.90%
Debt equity Ratio (times)	0.32	0.63	1.13	1.09
Total debt (₹ in lakhs)	8,813.26	20,955.56	41,504.80	NA
Debt EBITDA Ratio	1.87	3.73	4.63	NA
Capital Employed ratio (%)	13.37%	10.45%	11.40%	NA
PAT Margin (%)	44.64%	44.82%	38.92%	37.63%

MAS Financials

Particulars	As of / For the year ended March 31, 2021	As of / For the year ended March 31, 2022	As of / For the year ended March 31, 2023	As at / For the nine months period ended December 31, 2023
Customers (in lakhs)	7.00	6.75	10.00	NA
AUM (₹ in lakhs)	5,37,244.00	6,24,680.00	8,09,256.00	9,67,203.00
Net Worth (₹ in lakhs)	1,20,500.00	1,34,059.00	1,50,573.00	1,70,287.00
Tangible Net Worth (₹ in lakhs)	1,20,500.00	1,34,059.00	1,50,573.00	1,70,287.00
Leverage (AUM/ Net worth)	4.46	4.66	5.37	5.68
AUM/ Tangible Net Worth	4.46	4.66	5.37	5.68
PAT (₹ in lakhs)	14,350.30	15,755.00	20,096.00	17,970.00
RoA (%)	2.94%	2.80%	2.93%	2.20%
ROE (%)	12.24%	11.75%	13.35%	10.55%
Return on Tangible Equity (%)	12.24%	11.75%	13.35%	10.55%
Branches	99	125	149	181
Employees	719	946	1154	NA
AUM per branch (₹ in lakhs)	5,426.71	4,997.44	5,431.25	5343.66
AUM per employee (₹ in lakhs)	747.21	660.34	701.26	NA
Disbursement per branch per month (₹ in lakhs)	NA	NA	NA	NA
Disbursement per employee per month (₹ in lakhs)	NA	NA	NA	NA
Gross NPA ratio (%)	1.94%	2.28%	2.15%	2.23%
Net NPA ratio (%)	1.52%	1.70%	1.52%	1.48%
Operating Expenses to Average AUM (%)	1.86%	1.19%	1.39%	1.99%
Average cost of borrowing (%)	9.10%	8.75%	9.02%	9.86%
Cost to income ratio (%)	16.81%	20.46%	20.94%	21.50%
Provision Coverage Ratio (%)	NA	NA	NA	NA

Average yield on Gross Loan Book (%)	NA	NA	NA	NA
Net Interest Margin (%)	5.21%	4.71%	5.34%	5.22%
Total Interest income (₹ in lakhs)	48,413.00	56,111.00	80,657.00	75,555.00
Finance Cost (₹ in lakhs)	26,449.00	31,954.00	47,482.00	45,264.00
Gross NPA	NA	NA	NA	NA
Net NPA	NA	NA	NA	NA
Revenue from operation (₹ in lakhs)	59,324.00	65,557.00	94,609.00	89,801.00
EBITDA (₹ in lakhs)	45,950.00	53,262.00	74,192.00	69,572.00
EBITDA margin (%)	77.46%	81.25%	78.42%	77.47%
Debt equity Ratio (times)	3.04	3.39	3.92	3.99
Total debt (₹ in lakhs)	3,94,569.00	4,70,749.00	6,15,851.00	NA
Debt EBITDA Ratio	8.59	8.84	8.30	NA
Capital Employed ratio (%)	8.97%	8.80%	9.69%	7.91%
PAT Margin (%)	24.19%	24.03%	21.24%	20.01%

Cholamandalam Investment and Finance Company Limited

Particulars	As of / For the year ended March 31,	As of / For the year ended March 31, 2022	As of / For the year ended March 31, 2023	As at / For the nine months period ended December 31, 2023
Customers (in lakhs)	16.00	18.70	25.00	33.10
AUM (₹ in lakhs)	6999600.00	7690700.00	10649800.00	1,33,79,400.00
Net Worth (₹ in lakhs)	9,56,031.00	11,70,768.00	14,29,605.00	18,59,800.00
Tangible Net Worth (₹ in lakhs)	9,56,031.00	11,70,768.00	14,29,605.00	18,59,800.00
Leverage (AUM/ Net worth)	8.00	7.08	7.89	7.19
AUM/ Tangible Net Worth	8.00	7.08	7.89	7.19
PAT (₹ in lakhs)	1,51,491.00	2,14,671.00	2,66,620.00	2,36,466.00
RoA (%)	2.19%	2.74%	2.72%	1.99%
ROE (%)	16.90%	20.40%	20.60%	19.80%
Return on Tangible Equity (%)	17.09%	20.19%	20.51%	15.04%
Branches	1137	1,145	1191	1309

Employees	26,363	33,077	44,922	52,408
AUM per branch (₹ in lakhs)	6,729.82	7,240.52	9,469.52	10,221.08
AUM per employee (₹ in lakhs)	290.25	250.64	251.06	255.29
Disbursement per branch per month (₹ in lakhs)	190.88	258.30	465.52	542.74
Disbursement per employee per month (₹ in lakhs)	747.72	1,179.98	2,208.35	2,782.86
Gross NPA ratio (%)	4.00%	6.80%	4.60%	3.92%
Net NPA ratio (%)	2.20%	4.80%	3.10%	2.56%
Operating Expenses to Average AUM (%)	4.14%	2.60%	2.84%	2.44%
Average cost of borrowing (%)	7.66%	8.67%	9.18%	6.78%
Cost to income ratio (%)	31.67%	35.42%	38.45%	39.54%
Provision Coverage Ratio (%)	46.00%	39.70%	33.77%	35.58%
Average yield on Gross Loan Book (%)	NA	NA	NA	NA
Net Interest Margin (%)	7.30%	7.90%	7.70%	7.40%
Total Interest income (₹ in lakhs)	9,22,416.00	9,56,681.00	12,08,218.00	12,67,959.00
Finance Cost (₹ in lakhs)	4,57,591.00	4,29,882.00	5,74,875.00	6,65,127.00
Gross NPA	NA	NA	NA	NA
Net NPA	NA	NA	NA	NA
Revenue from operation (₹ in lakhs)	9,51,601.00	10,04,829.00	12,75,704.00	13,42,498.00
EBITDA (₹ in lakhs)	6,71,265.00	7,28,711.00	9,46,732.00	9,91,767.00
EBITDA margin (%)	70.54%	72.52%	74.21%	73.87%
Debt equity Ratio (times)	6.78	6.02	6.93	NA
Total debt (₹ in lakhs)	64,83,276.00	70,47,929.00	99,03,246.00	NA
Debt EBITDA Ratio	9.66	9.67	10.46	NA
Capital Employed ratio (%)	8.97%	8.83%	8.34%	6.89%
PAT Margin (%)	15.92%	21.36%	20.90%	17.61%

Arman Financial Services Limited

Particulars	As of / For the year ended March 31, 2021	As of / For the year ended March 31, 2022	As of / For the year ended March 31, 2023	As at / For the nine months period ended December 31, 2023
Customers (in lakhs)	3.75	4.66	6.30	7.60
AUM (₹ in lakhs)	81,440.00	1,23,320.00	1,94,300.00	2,43,700.00
Net Worth (₹ in lakhs)	12,783.31	14,095.30	22,936.28	50,440.00
Tangible Net Worth (₹ in lakhs)	12,783.31	14,095.30	22,936.28	50,440.00
Leverage (AUM/ Net worth)	6.37	8.75	8.47	4.83
AUM/ Tangible Net Worth	6.37	8.75	8.47	4.83
PAT (₹ in lakhs)	799.74	1,623.44	2,836.15	2,628.60
RoA (%)	2.74%	5.28%	6.34%	4.32%
ROE (%)	5.90%	15.60%	32.40%	30.51%
Return on Tangible Equity (%)	6.43%	12.08%	15.32%	7.23%
Branches	239	291	336	394
Employees	1889	2,413	2,805	3604
AUM per branch (₹ in lakhs)	340.75	423.78	578.27	618.53
AUM per employee (₹ in lakhs)	43.11	51.11	69.27	67.62
Disbursement per branch per month (₹ in lakhs)	17.75	29.32	43.82	45.91
Disbursement per employee per month (₹ in lakhs)	98.39	166.97	212.58	267.51
Gross NPA ratio (%)	NA	NA	2.70%	2.83%
Net NPA ratio (%)	NA	NA	0.20%	0.33%
Operating Expenses to Average AUM (%)	3.78%	1.92%	1.62%	1.20%
Average cost of borrowing (%)	11.97%	6.98%	8.73%	10.87%
Cost to income ratio (%)	42.70%	43.10%	32.60%	25.70%
Provision Coverage Ratio (%)	NA	NA	NA	NA
Average yield on Gross Loan Book (%)	NA	NA	NA	NA

Net Interest Margin (%)	12.20%	14.20%	15.90%	13.10%
Total Interest income (₹ in lakhs)	6,033.51	6,116.69	9,070.48	8,877.03
Finance Cost (₹ in lakhs)	1,997.74	1,789.01	3,069.78	3,498.32
Gross NPA	NA	NA	NA	NA
Net NPA	NA	NA	NA	NA
Revenue from operation (₹ in lakhs)	6,060.18	6,326.14	9,439.24	9,577.33
EBITDA (₹ in lakhs)	2,947.34	3,929.00	6,841.76	6,977.96
EBITDA margin (%)	48.63%	62.11%	72.48%	72.86%
Debt equity Ratio (times)	1.24	1.30	1.44	0.72
Total debt (₹ in lakhs)	15,875.27	18,296.61	32,991.07	38,120.00
Debt EBITDA Ratio	5.39	4.66	4.82	5.46
Capital Employed ratio (%)	10.40%	12.29%	12.22%	7.91%
PAT Margin (%)	13.20%	25.66%	30.05%	27.45%

Source: All the financial information for the industry peers mentioned above is on a consolidated basis and is sourced from the annual reports, unaudited financial results, and investor presentations as available of the respective company for the relevant period/ year submitted to the Stock Exchanges. The financial parameters above are not reclassified by us and taken as reported by players hence comparison should not be made with the tables in the rest of the competitive section of this report.