Market Intelligence & Analytics

CRISIL
An S&P Global Company

Report on Loans and Financial Services Industry in India

For Veritas Finance Private Limited

January 2025

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1. Macroeconomic Scenario in India

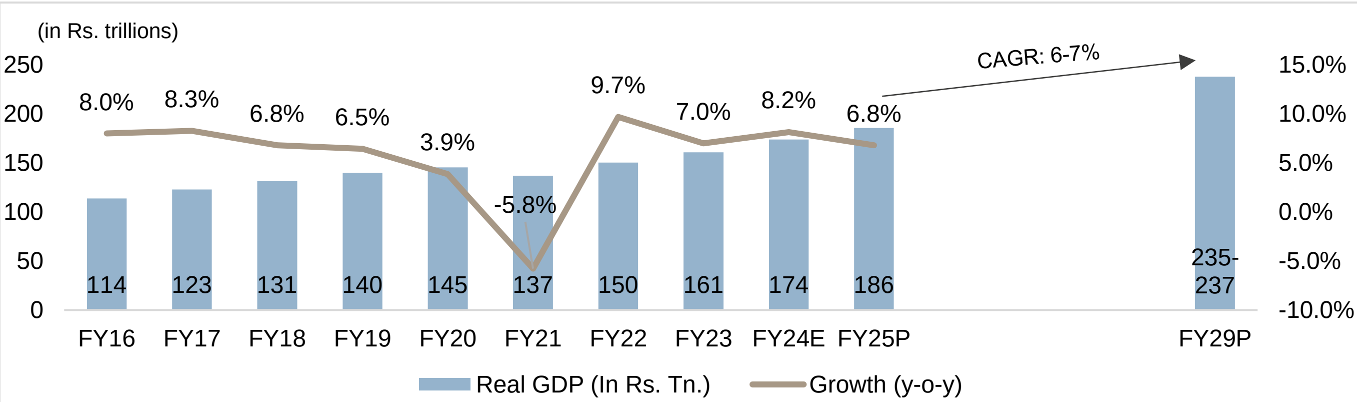
Global economy is witnessing tightening of monetary conditions

As per the International Monetary Fund (IMF) (World Economic Outlook – October 2024), global GDP growth prospects for CY24 and CY25 will hold steady at 3.2% and 3.3% respectively. Major global economies showed slight moderation in the third quarter of 2024. China to mitigate deflationary pressures, announced monetary stimulus measures, including reducing the reserve requirement ratio by 50 bps to inject greater liquidity and announced a 10 trillion-yuan debt package to ease local government financing strains. The euro area, meanwhile, held steady. The Bank of Japan turned hawkish and raised interest rates while the Federal Reserve (Fed) reduced rates by 50 basis points. Heightened geopolitical tensions in the Middle East also added to the global volatility. As per IMF, global headline inflation is expected to be around 5.8% in CY2024 and 4.3% in CY2025.

India expected to remain one of the fastest growing economies in the world

In May 2024, the National Statistical Office (NSO) in its provisional estimate of national income estimated the real GDP to have grown at 8.2% year-on-year in FY2024. Going forward, CRISIL MI&A expects moderation in GDP growth rate to 6.8% in FY2025, largely due to Government's focus on fiscal consolidation, which is likely to lead to moderation in investments, which is a key factor for economic growth. Slower global growth and possible spikes in commodity price, especially crude oil may also contribute to moderation in economic growth of India. Despite these factors, India continues to maintain its position as one of the fastest growing economies globally.

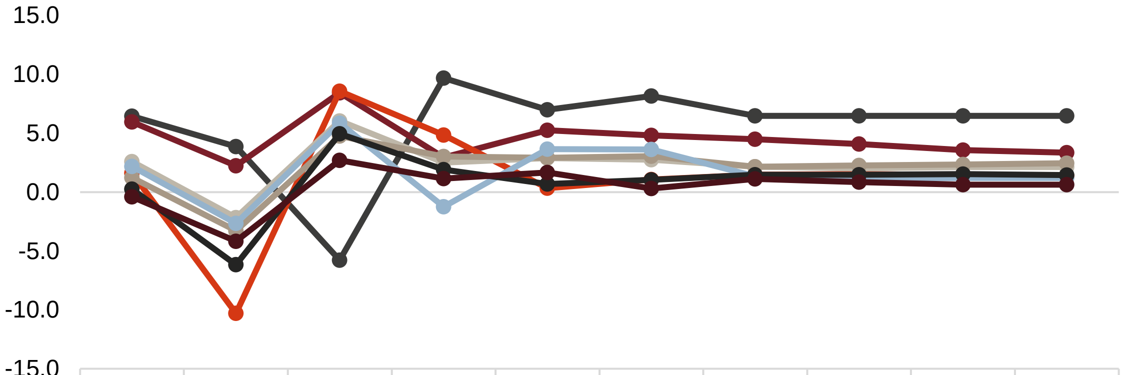
India's economy expected to grow at 6.8% in FY2025



Note: E = Estimated, P = Projected; GDP growth till FY2023 is actuals. GDP Estimates for FY23- FY24 is based on NSO Estimates and 2024-2025 is projected based on CRISIL MI&A estimates and that for FY25-FY29 based on IMF estimates; Source: NSO, CRISIL MI&A, IMF (World Economic Outlook – October 2024 update)

Over the past three fiscals (FY22-24), Indian economy has outperformed its global counterparts by witnessing a faster growth. In IMF's July 2024 update, it raised the GDP growth forecast for India highlighting India's improved prospect for private consumption particularly in rural areas. Going forward as well, IMF projects that Indian economy will remain strong and would continue to be one of the fastest growing economies.

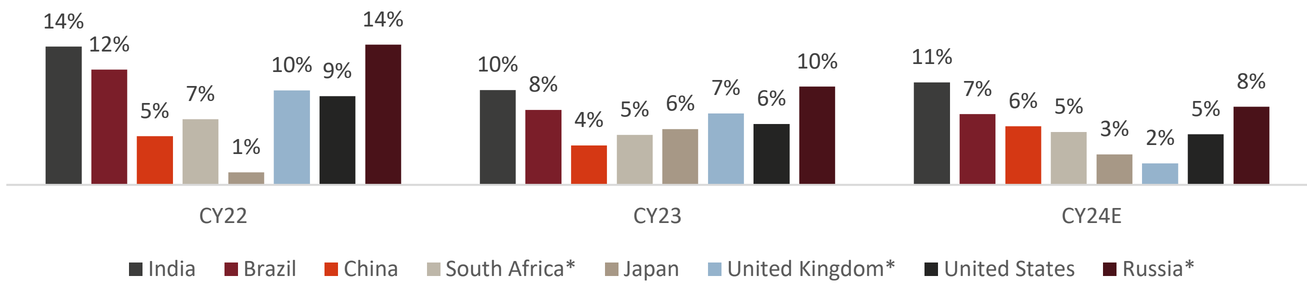
India is one of the fastest-growing major economies (Real GDP growth, % year-on-year)



	2019	2020	2021	2022	2023	2024E	2025P	2026P	2027P	2028P
India	6.5	3.9	-5.8	9.7	7.0	8.2	6.5	6.5	6.5	6.5
China	6.0	2.2	8.4	3.0	5.3	4.8	4.5	4.1	3.6	3.4
United Kingdom	1.6	-10.3	8.6	4.8	0.3	1.1	1.5	1.5	1.5	1.4
United States	2.6	-2.2	6.1	2.5	2.9	2.8	2.2	2.0	2.1	2.1
Brazil	1.2	-3.3	4.8	3.0	2.9	3.0	2.2	2.3	2.4	2.5
Russia	2.2	-2.7	5.9	-1.2	3.6	3.6	1.3	1.2	1.2	1.2
South Africa	0.3	-6.2	5.0	1.9	0.7	1.1	1.5	1.5	1.5	1.5
Japan	-0.4	-4.2	2.7	1.2	1.7	0.3	1.1	0.8	0.6	0.6

Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Data represented is for calendar years Growth numbers for India till 2024 are for financial year, 2024 is as per NSO estimates for FY24. Post FY24, all estimates for India are as per calendar year. Data represented for other countries is for calendar years, E: Estimated, P: Projected; Source: IMF (World Economic Outlook – October 2024), CRISIL MI&A

India's nominal GDP position is strengthening compared to other major economies (GDP growth, % year-on-year)



Note: All forecasts refer to IMF forecasts. GDP growth is based on current prices in national currency for each country.
** Estimated GDP growth for FY23, Data represented is for calendar years, P: Projected; Source: IMF (World Economic Outlook – April 2024), CRISIL MI&A*

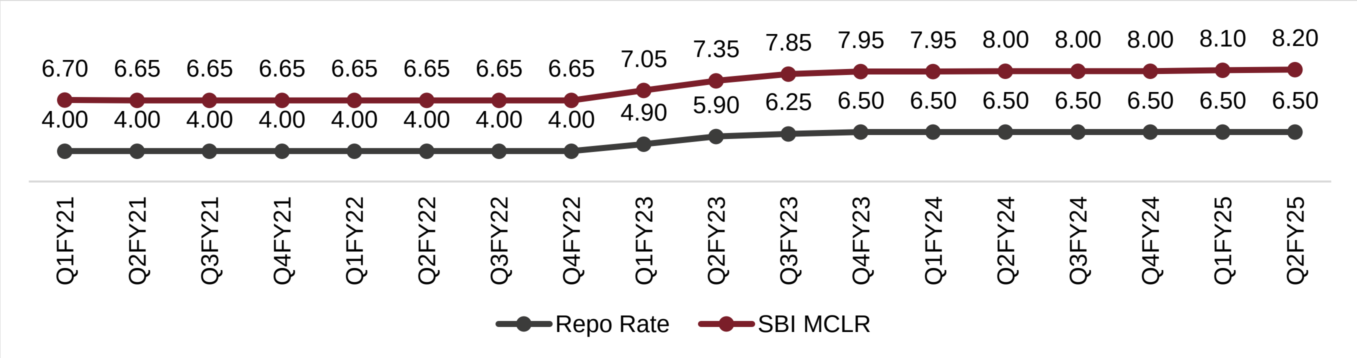
Indian Economy to be a major part of the world trade

Along with being one of the fastest growing economies in the world, India ranked fifth in the world in terms of nominal GDP according to IMF forecasts (World Economic Outlook -October Update). India overtook UK to become the fifth largest economy in the world in CY2022. In terms of purchasing power parity ("PPP"), India is the third largest economy in the world, only after China and the United States.

Repo rate remains unchanged, with phase of aggressive rate hikes behind us

Globally, major central banks are currently cautious about cutting rates, amid slower disinflation and strong growth whereas in the September meeting US cut the federal funds rate by 50 basis points. On the domestic front, while the forecast of an above-normal monsoon bodes well for disinflation, freak weather events and crude oil prices are the lurking risks. The Reserve Bank of India's (RBI) MPC in its October 2024 meeting voted to keep the policy rates unchanged. However, it changed the policy stance to ‘neutral’ from ‘withdrawal of accommodation’. The repo rates increased by 250 basis points from Q4FY22 to Q4FY23 and remained at 6.50% in Q2FY25, standing deposit facility (SDF) at 6.25%, and marginal standing facility (MSF) at 6.75%. SBI MCLR has increased by 155 basis point from Q4FY22 to Q2FY25.

Repo rate in India (%)

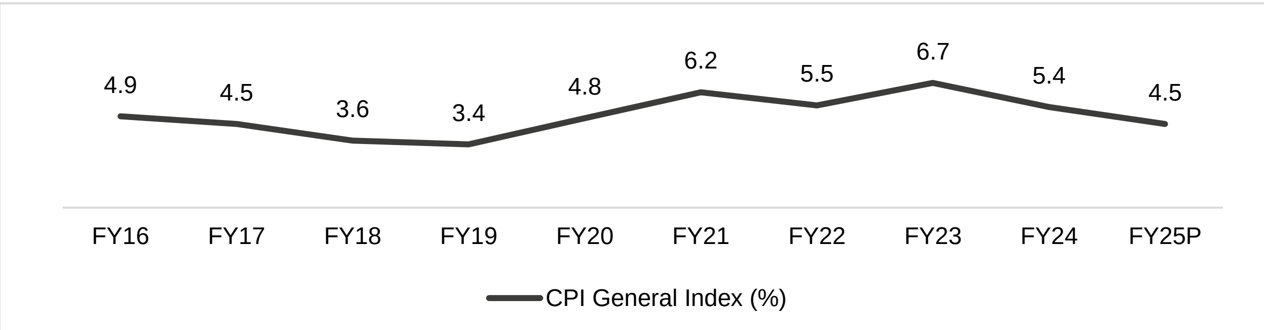


Note: Values of SBI MCLR % as on date change of interest rate, Source: SBI Website, RBI, CRISIL MI&A

Consumer Price Index (“CPI”) inflation to average at 4.5% in FY25

Consumer price index (CPI) inflation accelerated to a 14-month high of 6.2% in October from 5.5% in September. Food inflation rose to 10.9%, its highest since July 2023. Core inflation rose to 3.8% from 3.5% due to rising goods inflation. CRISIL MI&A expects CPI inflation to continue to soften in FY25 to 4.5% from 5.4% in FY24, supported by healthy Kharif sowing, softer domestic demand, and benign global oil prices.

Inflation to moderate to 4.5% in FY2025



Note: P = Projected, Source: CRISIL MI&A

Macroeconomic outlook for FY25

Macro variables	FY24	FY25P	Rationale for outlook

Real GDP (y-o-y)	8.2%#	6.8%	Slowing global growth is likely to weaken India's exports, while peak impact of past rate hikes and lower fiscal impulse could temper domestic demand. Despite the lower forecast in FY25P as compared to FY24, India continuous to grow at the highest rate among major economies propelled by budgetary support to capital expenditure and strong rural demand to support growth.
Consumer price index (CPI) inflation (y-o-y)	5.4%	4.5%	Lower commodity prices, base effect, and cooling off domestic demand is likely to help in moderating inflation in FY25. With IMD prediction of above normal monsoon, food inflation is expected to soften. But if crude oil prices surge and stay elevated on account of geopolitical reasons, inflation can increase going forward.
10-year Government security yield (Fiscal end)	7.1%	6.8%	CRISIL MI&A expect the yield to decrease in FY2025 driven by rate cuts and fiscal consolidation. This, coupled with lower inflation, is likely to moderate yields in FY25. India's inclusion in the JP Morgan Emerging Market Bond Index is favourable for capital flows into government debt.
Fiscal Deficit (% of GDP) *	5.6%	5.1%	Persistent efforts in fiscal consolidation aided by moderation in revenue spend and robust tax collections to bring down the deficit will lead to lower government market borrowings.
CAD (current account balance/GDP) (%)	-0.7%	-1.0%	Softer crude oil prices and moderation in domestic growth will keep the trade deficit in check despite tepid exports of goods. Alongside, robust services trade surplus and healthy remittances will keep the current account deficit (CAD) in check
Rs/$ (March average)	83.0	84.0	Narrower CAD and healthy foreign portfolio flows into debt amid a favourable domestic macro environment will support the rupee

*P – Projected, # As per NSO estimates *FY24 and FY25 numbers are government's revised and budget estimates; Source: Reserve Bank of India (RBI), National Statistics Office (NSO), CRISIL MI&A*

Key structural reforms: Long-term positives for the Indian economy

- The GST regime has been stabilizing fast and is expected to bring more transparency and formalization, eventually leading to higher economic growth.
- PMAY was introduced in 2015 to provide affordable housing for all by the end of 2022. The timelines were revised to FY24 and FY25 for PMAY-Gramin and PMAY-Urban respectively due to delays in completion. Execution under the scheme has been encouraging with ~2.60 crores houses being completed as of May 2024, out of the targeted 2.95 crore houses. The target for the next five years has been further increased by ~2 crore houses in the FY25 budget estimate; a 68% addition to the current target of ~3 crore houses. The move provides an impetus to the real estate sector as well its stakeholders including – developers, engineering, procurement and construction contractors, allied industries such as steel, cement etc.
- The government has also launched the JAM trinity which aims to link Jan Dhan accounts, mobile numbers and Aadhar cards of all Indian nationals to transfer cash benefits directly to the bank account of the intended beneficiary and avoid leakage of government subsidies.
- Government launched the Digital India program, on 1st July 2015 with the vision of transforming India into a digitally empowered society and a knowledge-based economy, by ensuring digital access, digital inclusion, digital empowerment and bridging the digital divide. Some of the key initiatives and related progress under Digital India are as follows-

- Unified Mobile Application for New-age Governance (UMANG) – for providing government services to citizens through mobile. More than 2077 e-Services as of October 2024 and over 489.64 crore worth of transactions have taken place on UMANG as of October 2024.
- Unified Payment Interface (UPI) is the leading digital payment mechanism, it has onboarded 632 banks and has facilitated more than 16,584.97 million transactions (by volume) worth Rs 23.5 trillion in October 2024.
- Cyber Security: The Government has taken necessary measures to tackle challenges about data privacy and data security through introducing the Information Technology (IT) Act, 2000 which has necessary provisions for data privacy and data security.
- Common Services Centers – CSCs are offering government and business services in digital mode in rural areas through Village Level Entrepreneurs (VLEs). Over 400 digital services are being offered by these CSCs. As of September 2024, 0.59 million CSCs are functional (including urban & rural areas) across the country, out of which, 0.47 million CSCs are functional at Gram Panchayat level.

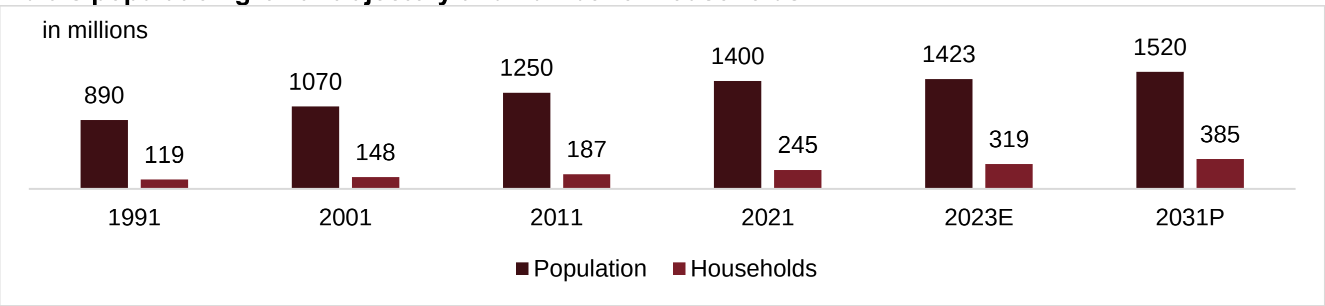
Overall, these initiatives will improve the digital connectivity of Indians along with boosting business sentiment, thereby creating new opportunities.

Key growth drivers

India has the world's largest population

As per Census 2011, India's population was ~1.3 billion and comprised nearly 187 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is expected by CRISIL MI&A to have increased at 1.1% CAGR between 2011 and 2021 and reached 1.4 billion. The population is expected to reach 1.5 billion by 2031, and the number of households are expected to reach ~385 million over the same period.

India's population growth trajectory and number of households

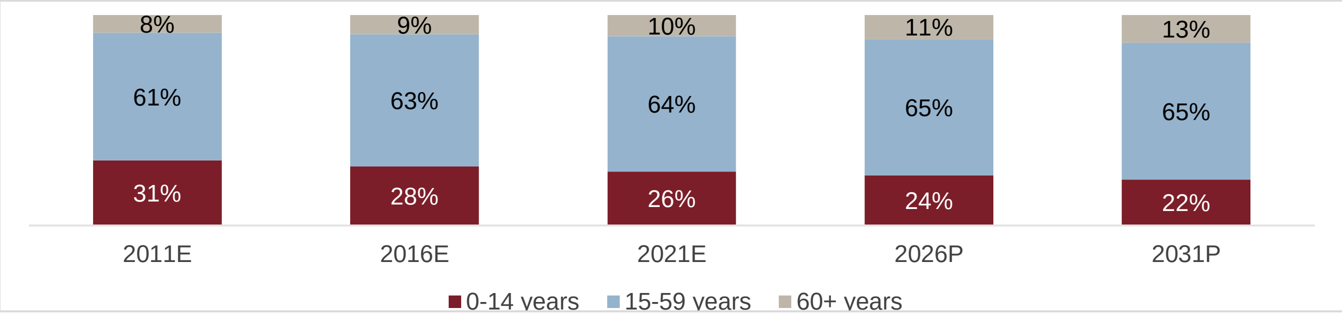


Note: As at the end of each Fiscal. P: Projected, Source: United Nations Department of Economic and Social Affairs, (https://population.un.org/wpp/), Census India, CRISIL MI&A

Favorable demographics

India has one of the world's largest youth populations, with a median age of 28 years. About 90% of Indians are below 60 years of age. In 2022, it was estimated that India had the highest share of young working population (15-30 years) compared to major developed and developing countries with the share of 27%. CRISIL MI&A expects that the large share of working population, coupled with rapid urbanisation and rising affluence, will propel growth in the economy.

India's demographic division (share of different age groups in population)



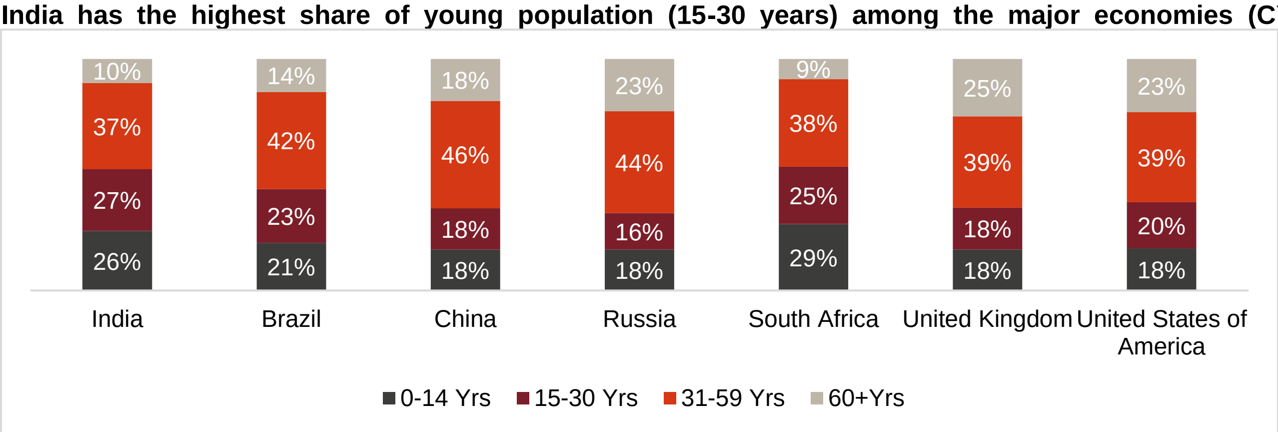
Note: P – Projected, E – Estimates
Source: Census of India 2011, Ministry of Health and Family Welfare, CRISIL MI&A

India has the highest share of young population (15-30 years) among the major economies (CY2021)

Country	0-14 Yrs	15-30 Yrs	31-59 Yrs	60+ Yrs
India	361.6	375.3	524.8	145.8
Brazil	44.0	50.0	89.9	30.5
China	251.9	253.5	662.7	257.7
Russia	25.7	22.7	63.9	32.8
South Africa	17.0	14.7	22.5	5.2
United Kingdom	11.9	12.2	26.5	16.7
United States of America	61.5	67.0	131.0	77.5

Note: Values in millions. Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

India has the highest share of young population (15-30 years) among the major economies (CY2021)

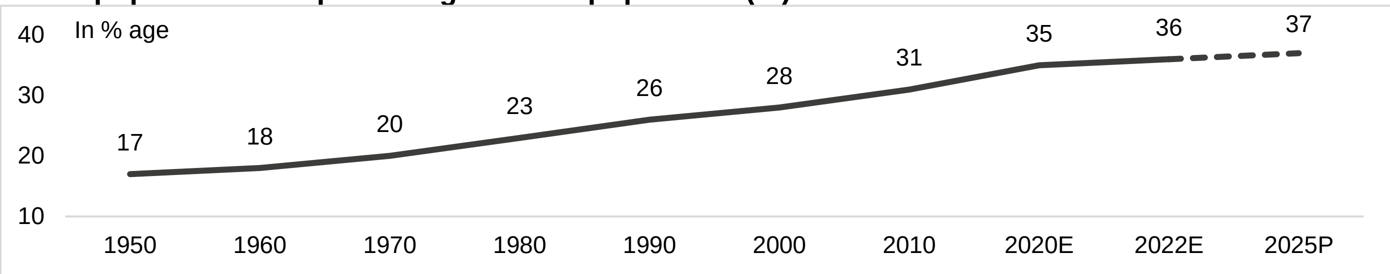


Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

Rising Urbanization

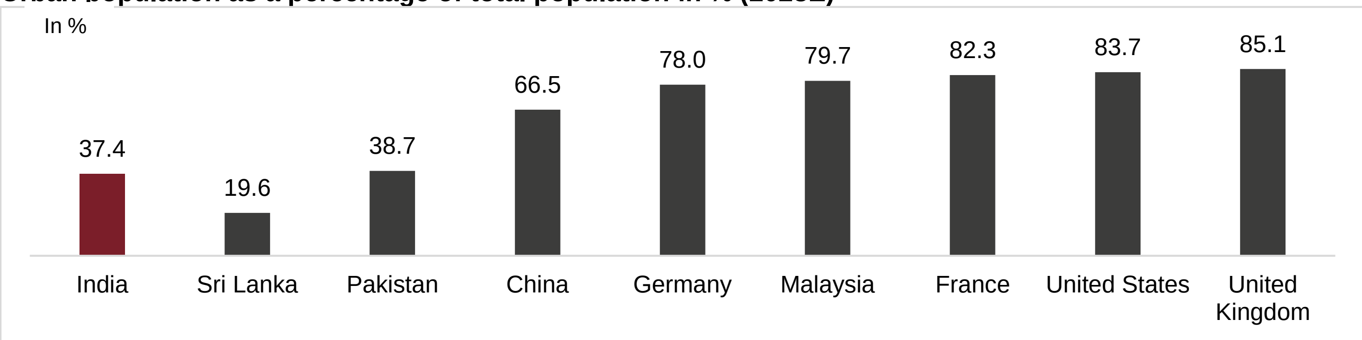
Urbanisation is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development, which in turn is expected to create jobs, develop modern consumer services, and increase the ability to mobilise savings. India's urban population has been rising consistently over the decades. As per the 2018 revision of World Urbanization Prospects, the urban population was estimated at 36% of India's total population in 2022. According to the World Urbanization Prospects, the percentage of the population residing in urban areas in India is expected to increase to 37.4% by 2025.

Urban population as a percentage of total population (%)



Note: E- Estimated, P – Projected, Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

Urban population as a percentage of total population in % (2023E)



Note: E: Estimated; Source: United Nations World Urbanization Prospects: The 2018 Revision (UN)

Increasing per capita GDP

India's per capita net national income at constant price expanded 7.4% in FY24, reflecting robust economic growth and the government's continued endeavour to make the country an upper middle-income economy. As per IMF estimates, India's per capita income (at constant prices) is expected to grow at 5-6% CAGR in real terms from FY25 to FY27.

Per capita NNI	FY2024 (Rs. '000)		Growth of Real GDP Per Capita at constant prices (%)										
	Current prices	Constant prices	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	184	107	4.6	6.2	6.7	6.9	5.5	5.2	2.5	-8.9	7.6	5.7	7.4

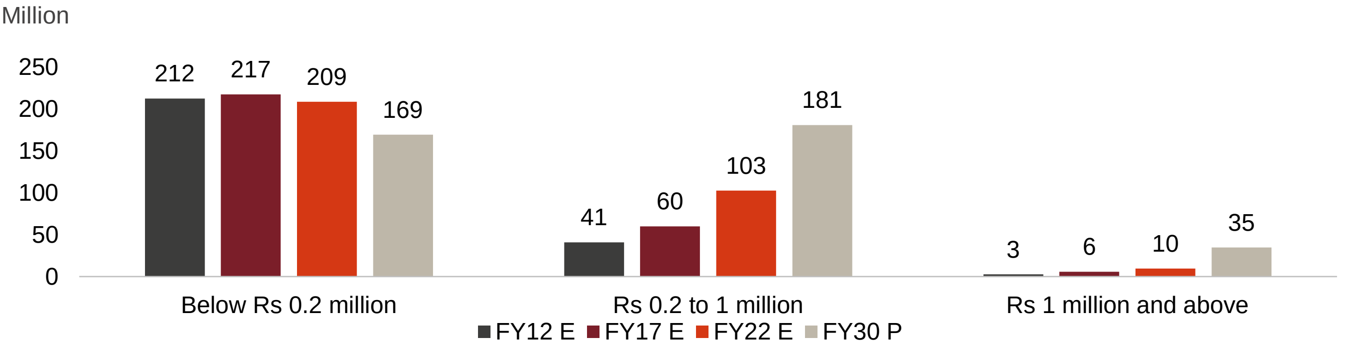
Note: P – projected. (^) Per capita NNI as per Provisional Estimates of Annual GDP, 2023-24
Source: Ministry of Statistics and Program Implementation (MoSPI), International Monetary Fund (IMF), CRISIL MI&A

Rising Middle India population to help sustain economic growth

The proportion of "Middle India" (defined as households with annual income of Rs 0.2-1.0 million) has been on the rise over the past decade and is expected to continue increasing with rising GDP and household incomes. CRISIL MI&A estimates there were 41 million middle-income households in India in FY2012 and by FY2030, expects it to increase to 181 million households by FY2030. A large number of households that have entered the middle-income bracket in the past few years are likely to be from semi-urban and rural areas. As per NSS 76th round, 83.3 % of households were living in pucca dwelling units compared to 74.6% as per 69th NSS round.

The backbone of India's economy, MSMEs significantly contribute to the country's growth, accounting for approximately 29% of the GDP, 45% of manufacturing output, and providing employment opportunities to a substantial 11 crore people. The growth of MSMEs is crucial in generating employment opportunities for the Indian population. CRISIL MI&A believes that improvement in literacy levels, increasing access to information and awareness, increase in the availability of necessities and improvement in road infrastructure have increased the aspirations of Middle India, which is likely to translate into increased demand for financial products and opportunities for providers of financial services providers.

Middle India households to witness high growth over FYs 2012-2030

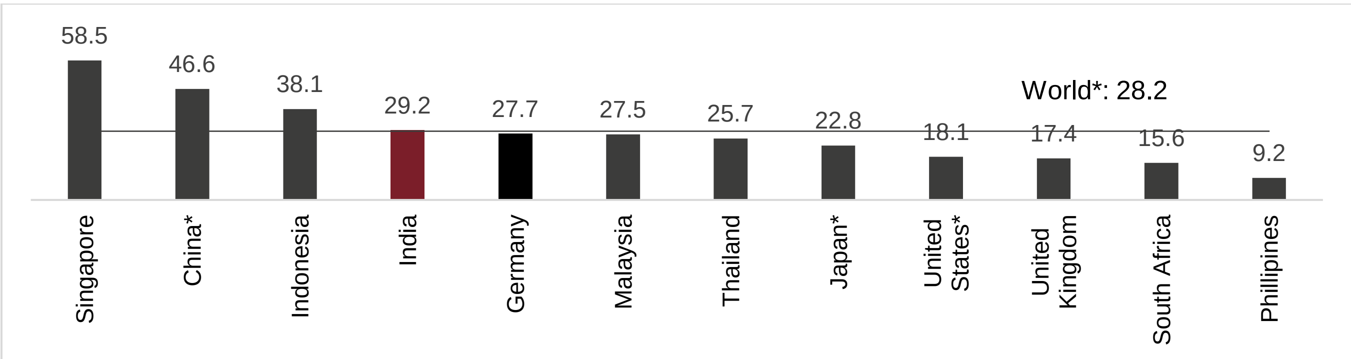


Note: E: Estimated, P: Projected; Source: CRISIL MI&A

Household savings expected to increase

In 2023, India's gross domestic savings as a percentage of GDP rose to 29.2%, reflecting an upward trend from 2022 when it reached 28.4%, highlighting the economy's recovery and improved income levels. However, in 2020, this percentage had declined to 27.3% due to the economic disruptions caused by the pandemic. India remains favorable in terms of gross domestic savings rate compared with most other emerging market peers at 29% in 2023, greater than the world average of 28% in 2022.

India’s gross domestic savings rate is higher than global average (2023)



*Note: The savings rate is in %, * Data as of 2022*
Source: World Bank, CRISIL MI&A

CRISIL MI&A expects India to continue being a high savings economy and savings rate increasing in the medium-term, as households become more focused on building a budget and financial plan for the future post the COVID-19 pandemic-induced uncertainty.

Gross domestic savings trend

Parameters (Rs. Billion)	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
GDS	36,082	40,200	42,823	48,251	54,807	60,004	59,411	57,869	73,631	81,500
Household sector savings (net financial savings, savings in physical assets and in the form of gold and silver ornaments)	22,853	24,391	24,749	27,871	32,966	38,446	38,452	45,056	47,423	49,632
Household sector savings as proportion of GDS (%)	63%	61%	58%	58%	60%	64%	65%	78%	64%	61%
Gross financial savings	11,908	12,572	14,962	16,147	20,564	22,637	23,246	30,670	26,120	29,736
Gross financial savings (% of GDS)	33.0%	31.3%	34.9%	33.5%	37.5%	37.7%	39.1%	53.0%	35.5%	36.5%
Financial liabilities	3,587	3,768	3,854	4,686	7,507	7,712	7,747	7,374	8,993	15,572
Savings in physical assets	14,164	15,131	13,176	15,946	19,442	23,095	22,522	21,355	29,683	34,834
Savings in physical assets as a proportion of GDS (%)	39%	38%	31%	33%	35%	38%	38%	37%	40%	43%
Savings in the form of gold and silver ornaments	368	456	465	465	467	427	431	405	613	634

Note: The data is for financial year ending March 31. Physical assets are those held in physical form, such as real estate, etc.

Source: MOSPI, National Accounts Statistics, CRISIL MI&A

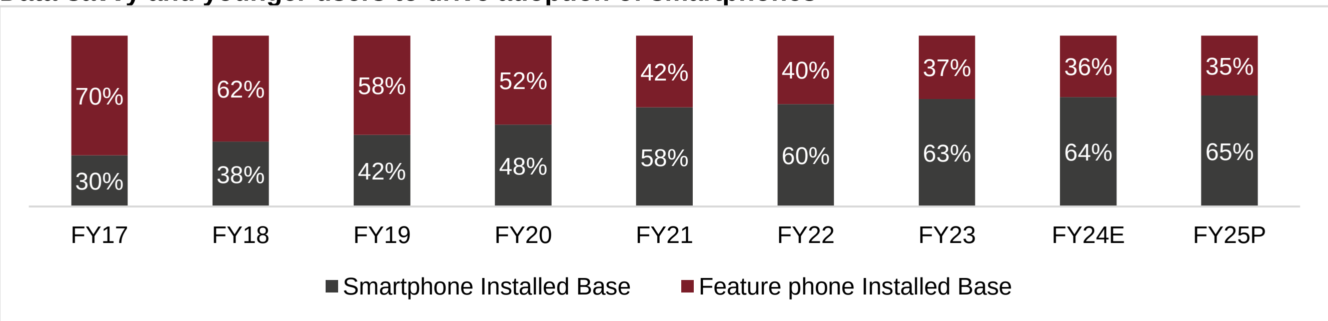
Unlike most other countries, where financial savings account for a significant proportion of savings, physical assets in the form or real estate, gold and silver still account for most household savings in India. Household savings in physical assets witnessed an increase to 70% in FY23 from 69% in FY12. The share of savings in physical assets dipped during FY21 (covid pandemic year) to 48% due to nation-wide lockdowns and slowdown in household construction. Post covid, during FY22 with opening of lockdown's this share increased significantly to 64% and further to 70% in FY23, due to increase in prices of gold and silver during the years along with rise in construction of houses.

Going forward, CRISIL MI&A expects the share of financial assets as a proportion of net household savings to increase over the next five years as elevated inflation after the pandemic could have further goaded investors to move to higher-yielding instruments in real terms.

Digitisation aided by technology to play pivotal role in growth of economy

Technology is expected to play an important role by progressively reducing the cost of reaching out to smaller markets. India has seen a tremendous rise in fintech adoption in the past few years and has the highest fintech adoption rate globally of 87% which is significantly higher than the global average rate of 64% *(Source: InvestIndia)*. Among many initiatives by the government, the Unified Payments Interface (UPI) is playing a pivotal role towards financial inclusion. It provides a single-click digital interface across all system for smartphones linked to bank accounts and facilitates easy transactions using a simple authentication method. The volume of digital transactions has also seen a surge in the past few years, driven by increased adoption of UPI. Apart from financial services industry, digitisation in other industries like retail will also play an important role in growth of economy.

Data-savvy and younger users to drive adoption of smartphones



Note: E: Estimated, P: Projected; Source: CRISIL MI&A

Rise in 4G and 5G penetration and smartphone usage

India had 1,165 million wireless subscribers at the end of FY24. The reach of mobile network, internet and electricity is continuously expanding the subscriber footprint to remote areas leading to rising smartphone and internet penetration in India. In FY23, 5G was launched which led to conversion of 25 million subscribers to 5G. This shift was facilitated by offering 5G services at the price of 4G data plans, coupled with a surge in data demand and the accessibility of affordable handsets. In FY25, CRISIL MI&A expects 5G subscribers to reach 270-280 million since data consumption will increase due to high usage on OTT platforms, in education services, banking services, healthcare, and the gaming industry.

All-India mobile and data subscriber base

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25P

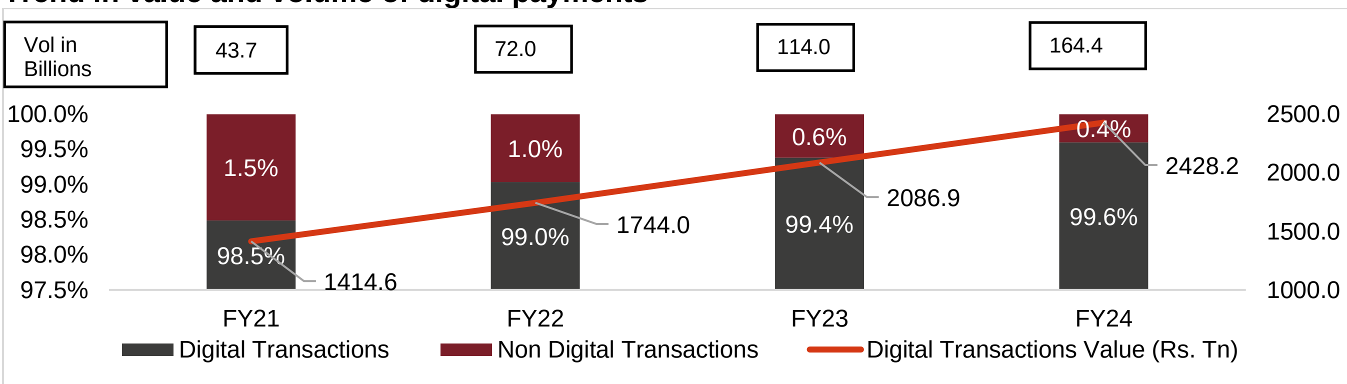
Wireless subscribers (million)	1,170	1,183	1,162	1,157	1,181	1,142	1,144	1,165	1,177-1,183
Data subscribers (million)	401	473	615	720	799	814	883	956	989-1,006
Data subscribers as a proportion of wireless subscribers	34%	40%	53%	62%	68%	71%	77%	82%	84%-85%
4G data subscribers (million)	131	287	478	635	719	734	786	707	660-670
4G data subscribers' proportion	33%	61%	78%	88%	90%	90%	89%	74%	~67%
5G data subscribers (million)	-	-	-	-	-	-	25	175	270-280

Note: P: Projected, Source: TRAI, CRISIL MI&A

Digital payments have witnessed substantial growth

Higher mobile penetration, improved connectivity, and faster and cheaper data supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one. Total digital payments in India have witnessed significant growth over the past few years. Between FY21 and FY24, the volume of digital payments transactions has increased from 43.7 billion to 164.4 billion, growing at a CAGR of ~56%. During the same period, the value of digital transactions has increased from Rs. 1,414.6 trillion in FY21 to Rs 2,428.2 trillion in FY24.

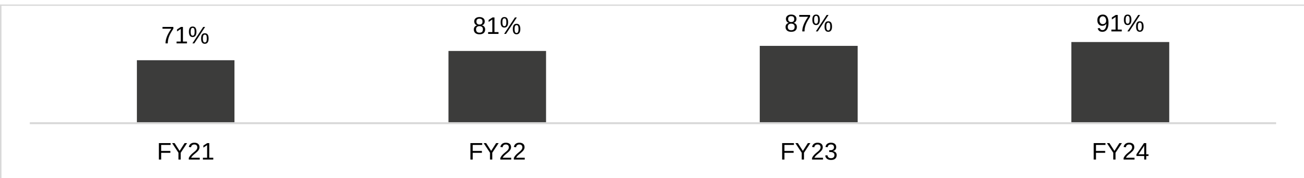
Trend in value and volume of digital payments



Note: Digital Payments includes RTGS payments, Credit transfers (AePS, APBS, ECS Cr, IMPS, NACH, NEFT, UPI), Debit Transfers (BHIM, ECS Dr, NACH Dr, NETC), Card Payments (Debit and Credit Cards) and Prepaid Payments Instruments; Source: RBI, CRISIL MI&A

Consumers are increasingly finding transacting through mobile convenient. CRISIL MI&A expects the share of mobile banking to increase dramatically over the coming years. In addition, CRISIL MI&A expects improved data connectivity, low digital payment penetration and proactive government measures to drive digitalization in the country.

Continuous increase in the volume share of mobile app-based payment modes.



Note: Mobile based payment includes Intra Bank and Inter Bank payments, The share is calculated out of total payment mode volume which include Internet payment, Cash withdrawal at ATMS, POS and Micro ATMS, Source: RBI, CRISIL MI&A

Credit Through UPI

The RBI recently announced a proposal to broaden the United Payments Interface (UPI) scope by allowing transfer to and from pre-sanctioned credit lines with banks. Previously to this announcement, only amounts held in bank deposits could be transferred through the UPI, this will allow overdraft accounts, credit cards and prepaid wallets to be eligible for linking to UPI. As per the announcement, this step enables the inclusion of credit lines as a funding account.

2. Financial inclusion

Financial penetration to rise with increase in awareness of financial products

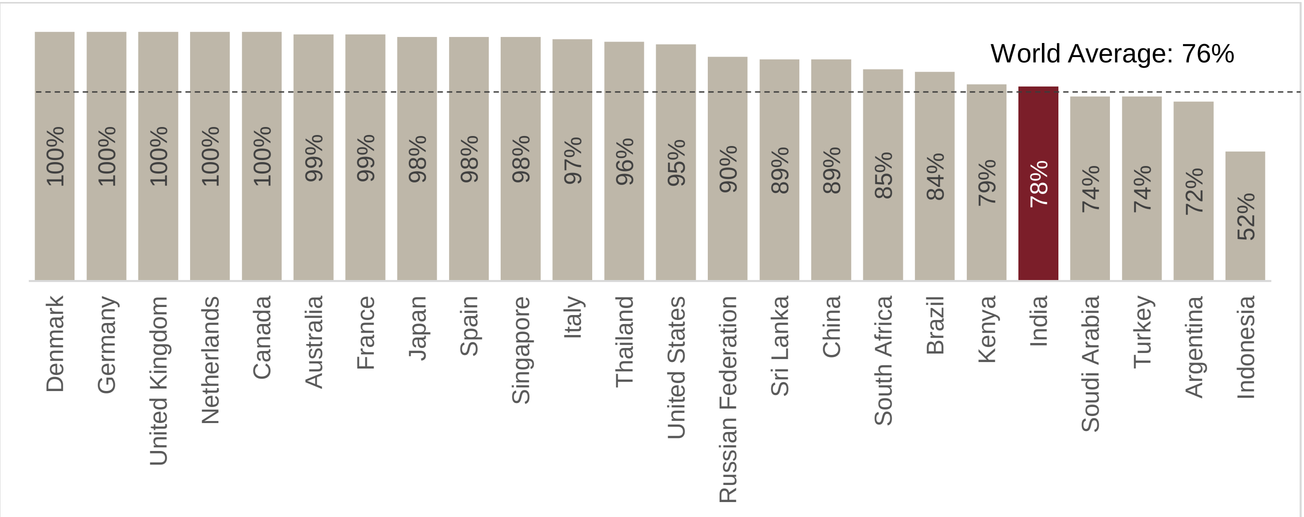
Overall literacy in India is at 77.7% as per the results of NSO survey conducted from July 2017 to June 2018, which is below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as a combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

With the increase in financial literacy, the demand for financial products, especially in smaller cities, has seen a major uptick in recent years. Going forward, CRISIL MI&A expects financial penetration to increase on account of increase in financial literacy.

Financial inclusion on a fast path in India

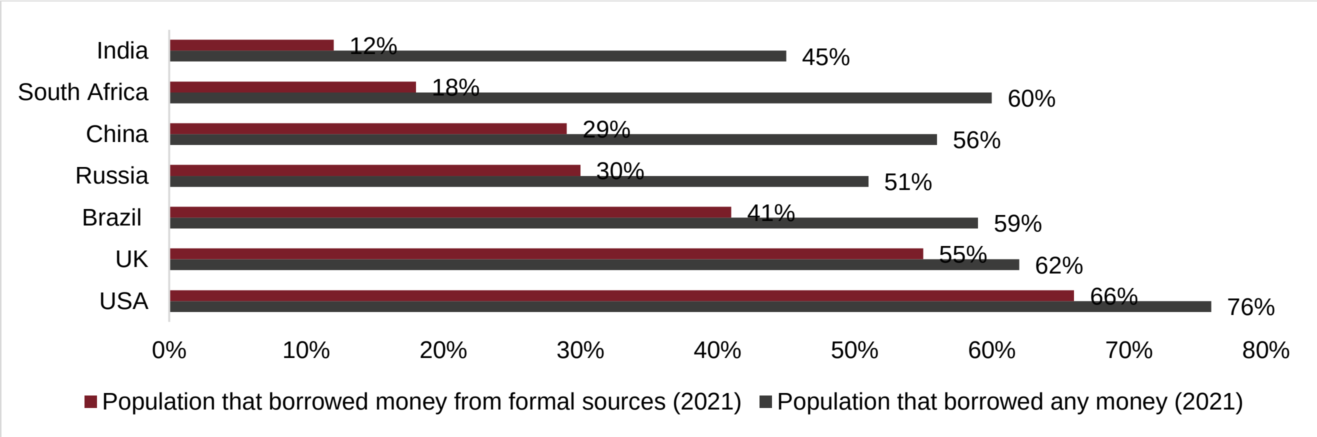
According to the World Bank's Global Findex Database 2021, the global average of percentage of adult population with an account opened with a bank, financial institution or mobile money provider, was approximately 76% in calendar year 2021. India's financial inclusion has improved significantly over calendar years 2014 to 2021 as adult population with bank accounts increased from 53% to 78% (Source: Global Findex Database) due to the Indian government's efforts to promote financial inclusion and the proliferation of supporting institutions.

Adult population with a bank account (%): India vis-à-vis other countries



Notes: 1. Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Account penetration is for the population within the age group of 15+, Source: World Bank – The Global Findex Database 2021, CRISIL MI&A

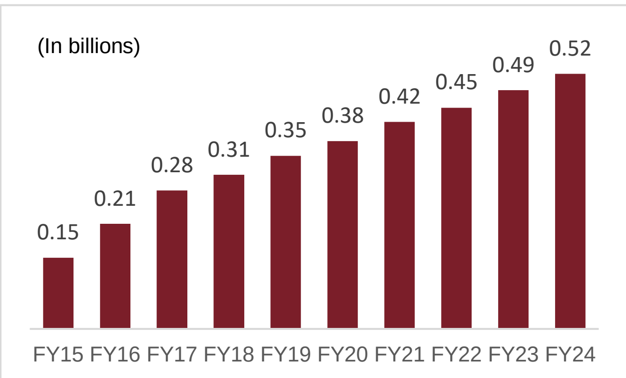
Only 12% of India's population borrowed money from formal sources (CY2021)



Note: Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Data is for the population within the age group of 15+
Money borrowed from formal sources includes money borrowed from Banks, NBFCs and usage of credit card.
Source: World Bank – The Global Findex Database 2021, CRISIL MI&A

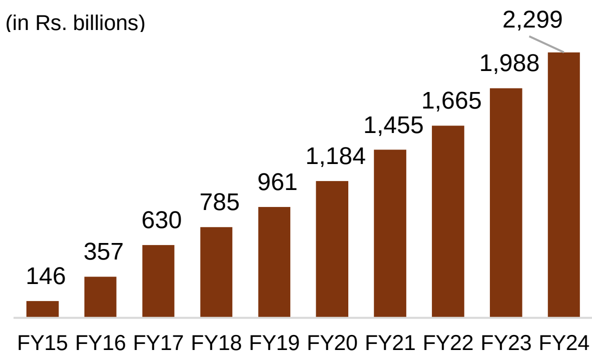
The two key initiatives launched by the Government to promote financial inclusion are the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). Under the PMJDY, the Government's aim is to ensure that every household in India has a bank account which they can access from anywhere and avail financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJJBY is a one-year life insurance scheme that offers a life cover of Rs. 0.2 million at a premium of Rs. 330 per annum per member, which can be renewed every year. The Government has also launched the Pradhan Mantri Suraksha Bima Yojana (PMSBY), an accident insurance policy that offers an accidental death and full disability cover of Rs. 0.2 million at a premium of Rs. 12 annually.

Number of PMJDY accounts



Source: PMJDY; CRISIL MI&A

Total balance in PMJDY accounts

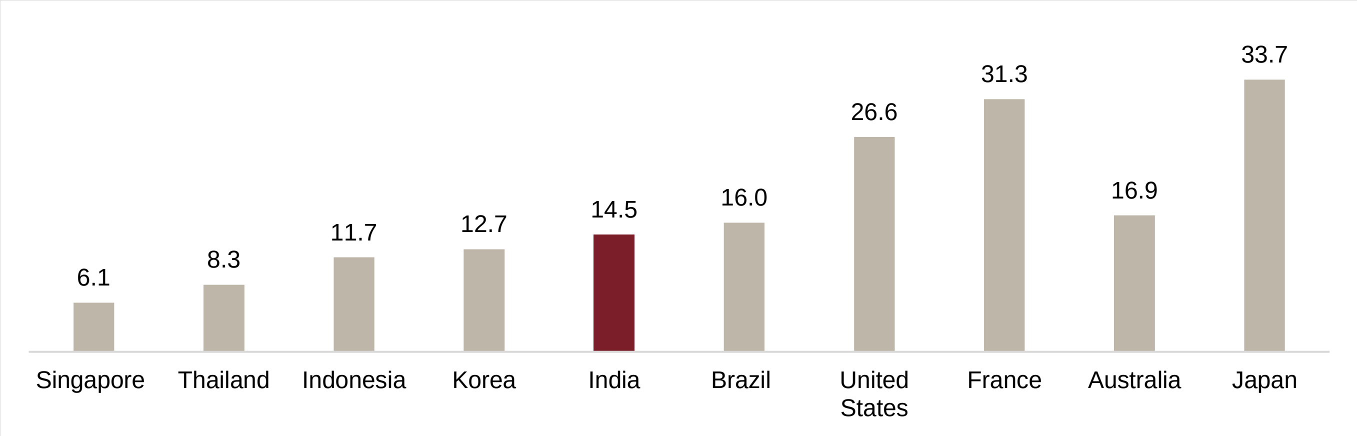


Source: PMJDY; CRISIL MI&A

Under-penetration of the Indian banking sector provides opportunities for growth

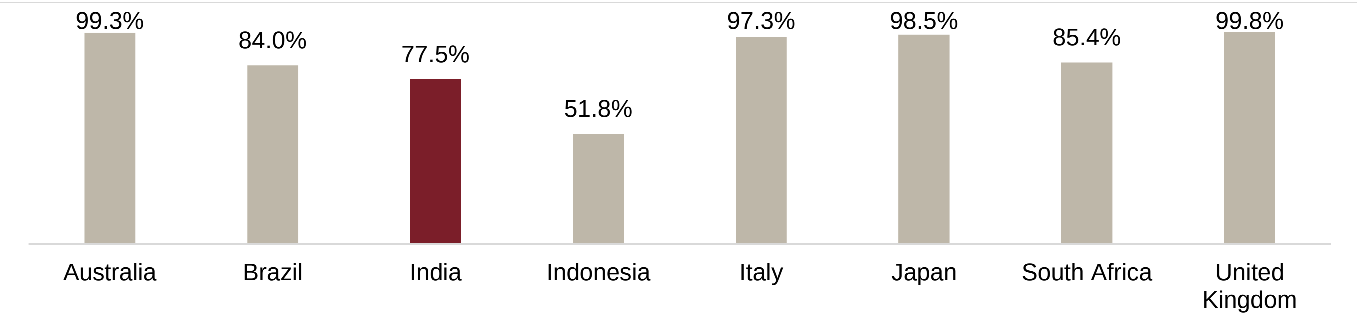
The Indian banking sector is significantly under-penetrated as observed in the bank credit-to-GDP ratio of 56% for India as of the fourth quarter of CY2023. The number of commercial bank branches as well as ATMs in India per 100,00 people, is significantly lower compared to other countries. This provides immense opportunities for banks and other financial institutions over the long term.

Number of Commercial Bank Branches per 100,000 Adults (CY 2023)



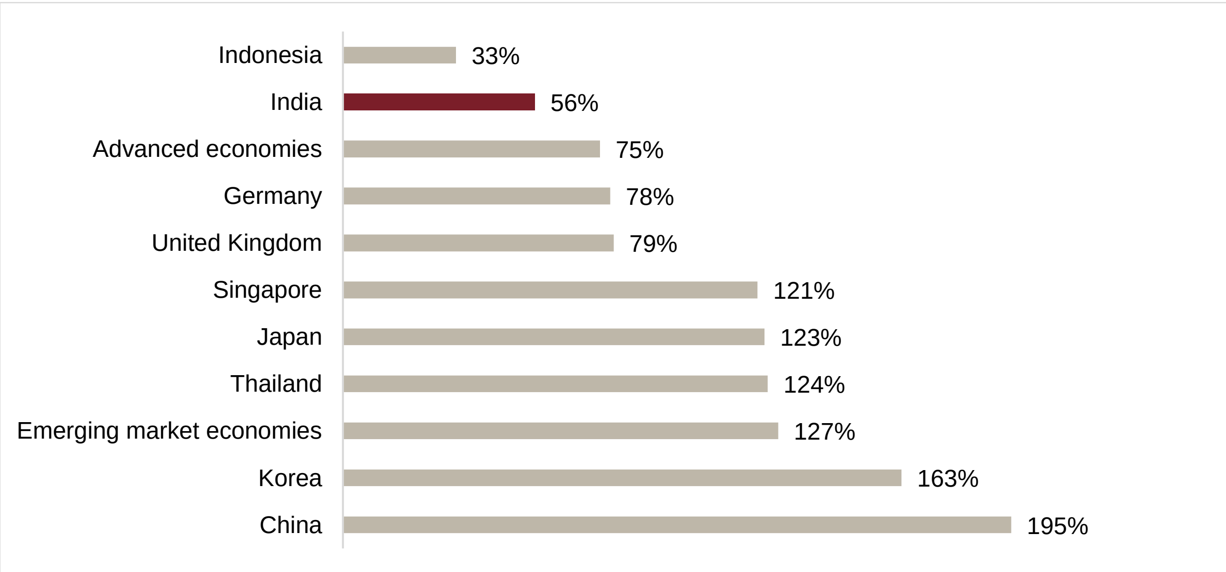
Source: IMF: Financial Access Survey; CRISIL MI&A

Percentage of population above 15 years having an account at bank or another type of financial institutions (CY 2021)



Note: percentage of population above 15 yrs having an account at bank or another type of financial institutions, Source: IMF: Financial Access Survey; CRISIL MI&A

Bank credit to private non-financial sector as a % of GDP ratio for major economies (as of Q4 CY23)



Note: Emerging market economies comprise Argentina, Brazil, Chile, China, Colombia, Czechia, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand, and Turkey; Advanced economies comprise Australia, Canada, Denmark, the euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.
Source: BIS Data, CRISIL MI&A

Rural sector supporting India growth story

India's rural segment has been a key driver of the country's consumption growth story in recent years. In the past decade, the rural segment in India has expanded at a rapid pace, driven by factors, such as rising disposable income, urbanisation, and the proliferation of e-commerce.

According to the Economic Survey (2023-24), the government strategy has been that of an integrated and sustainable development of rural India. The government aims to fuel rural growth through decentralised planning, better access to credit, skilling of youth, enhanced livelihood opportunities, empowerment of women, social security net provision, basic housing, education, health and sanitation facilities, etc. The survey notes that a multi-pronged approach has helped raise rural incomes and improve the quality of life through different schemes, such as:

1. **Livelihood and skill development**
    1. The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM), which aims to enable economically weak households to access gainful self-employment and skilled wage employment opportunities, resulting in sustainable and diversified livelihood options for them.
    2. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), under which cumulative no. of registered workers was 25.68 crore in FY24 and as of 29th November 2024 it stands at 25.17 crore. In FY24 a total of 309.01 crore person-days have been generated under the Scheme.
2. **Women empowerment**

The transformative potential of Self-Help Groups (SHGs), exemplified through their key role in the on-ground response to Covid-19, has served as the fulcrum of rural development through women empowerment. India has around 1.2 crore SHGs, 88% being all-women SHGs. Also, there has been a steady rise in Rural Female Labour Force Participation Rate (FLFPR) from 24.6% in FY2018 to 36.6% in FY2022 (Female Labour Utilization in India)

3. **Housing for all**

The Pradhan Mantri Awas Yojana – Gramin (PMAY-G) was launched in November 2016 with the aim of providing around 3 crore pucca houses with basic amenities to all eligible houseless households living in kutcha and dilapidated houses in rural areas by 2024. The target further increased by ~68% or Rs. 2 Cr. Under the scheme, landless beneficiaries are accorded the highest priority in the allotment of houses. A total of 3.21 crore houses have been sanctioned and 2.67 crore houses have been completed by as of November 19th, 2024, under the scheme.

Other initiatives of the government are towards promoting smoke-free rural homes and rural infrastructure.

Additionally, rural areas have significantly contributed in growth of e-commerce industry in India along with increased internet penetration, the proliferation of smartphones, and the convenience offered by online shopping.

The government has taken various steps to improve overall financial inclusion:

- **Direct-benefit transfer (DBT):** DBT has been instrumental in the acceleration of financial inclusion since it has helped eliminate human interface and leakages in the system, ensuring timely, accurate and quality services and fund transfers to the beneficiaries. This tool has helped in the disbursal of benefits to a wide population spread geographically through 312 government schemes, such as the Pradhan Mantri Matru Vandana Yojana (PMMVY) for women, Pradhan Mantri Ujjwala Yojana (PMUY), Krishi Unnati Yojana (KUY) or Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) for beneficiary bank accounts held by any gender.

- **Aadhaar card:** It has played a critical role in promoting financial inclusion in India by enabling easy and efficient identification of individuals and reducing the need for physical documents. Aadhaar Card has been used for various initiatives, such as PMJDY, DBT, mobile wallets, and e-KYC, to improve financial access.
- **Mobile banking:** The government has promoted mobile banking to make financial services accessible to people who are unable to access physical bank branches. Mobile banking has increased financial inclusion in rural areas. Some of the mobile banking initiatives for financial inclusion are United Payments Interface (UPI), mobile wallets, Jan Dhan Yojana Mobile App, and business correspondent (BC) model.
- **Financial literacy programmes:** The government has launched various financial literacy programmes to educate people about the benefits of financial planning and management. These programmes aim to improve financial literacy among the marginalised sections of the society and empower them to make informed financial decisions. The government and financial institutions have launched various financial literacy programmes (National Centre for Financial Education, Swabhimaan, etc.) to improve financial literacy among the general public, especially in rural areas.
- **Kisan Credit Card (KCC):** The KCC scheme aims at providing adequate and timely credit support to farmers for their agricultural activities at various stages of farming. As a result of government's efforts, the number of operational KCC accounts increased to 7.75 crores with outstanding credit in these accounts inching up to Rs. 9.81 lakh crores in 2024.
- **National Pension Scheme (NPS):** Regulated by the Pension Fund Regulatory and Development Authority (PFRDA), NPS is mandatory for Central government employees and voluntary for corporates and all citizens (aged 18-65 years) with matching contributions by the employer. As of 31st October 2024, National Pension System Trust reported AUM of Rs. 12.97 trillion and subscriber base of 18.9 Million.
- **Priority-sector lending:** The PSL requirement mandates banks allocate a specified percentage of their lending portfolio to priority sectors, such as agriculture; micro, small and medium-sized enterprises (MSMEs); education; housing; and other weaker sections of the society. Lending to such priority sectors not only increases the credit access to underserved sectors but also lead to higher economic growth and promotes inclusive development. It also encourages banks to develop innovative products and services specifically for priority sectors. As of FY2024, bank credit to PSL stood at Rs 59.1 lakh crore, up from Rs 50.2 lakh crore from FY2023 (provisional amounts from the RBI's annual report).
- **Small Saving Schemes:** Sukanya Samridhi Yojana is a savings scheme designed by the government especially for girl children. Parents of a girl child can save for their education and marriage purposes through this investment scheme. The scheme was launched as a part of the Beti Bachao, Beti Padhao campaign. Mahila Samman Savings Certificate was launched as a part of Union Budget 2023-24 through which women of any age could open an account with a minimum deposit of Rs. 1,000 and maximum deposit of Rs. 2,00,000 provided with a

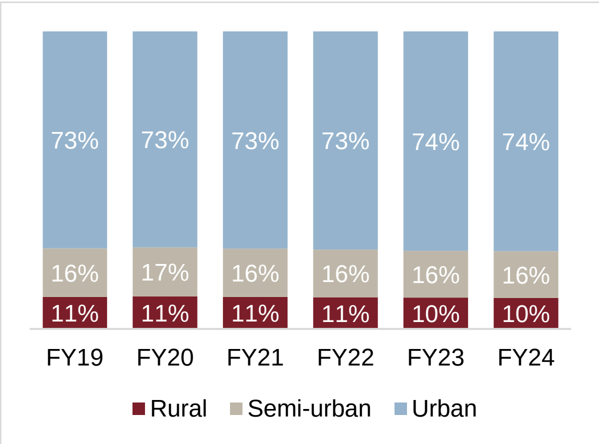
facility of partial withdrawal. The interest rate for the accounts was declared at 7.5% p.a. which will be compounded quarterly. Other small saving schemes available include Kisan Vikas Patra.

Rural India accounts for 47% of GDP, but only 10% of deposits and 9% of credit

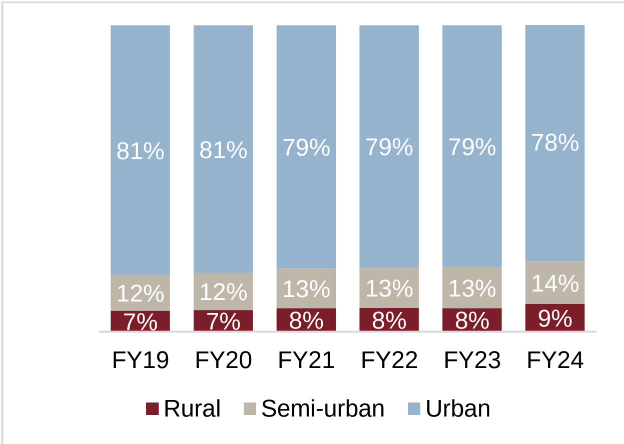
Rural India has a crucial role to play, as per the Economic Survey of 2022-2023, around 65% of Indian population lived in rural region in 2021 and as per the Census data of 2011, there are over 6.4 lakh villages in India. As per CRISIL MI&A estimates, about 47% of India's GDP comes from rural areas; however, their share is abysmally low at just 10% of total banking deposits and 9% of total banking credit as of March 2024. Lack of bank infrastructure, low level of financial literacy and investment habits, along with lack of formal identification, are some of the reasons for low penetration.

Share of bank credit and deposits shows low penetration in rural areas

Population group wise share of deposit



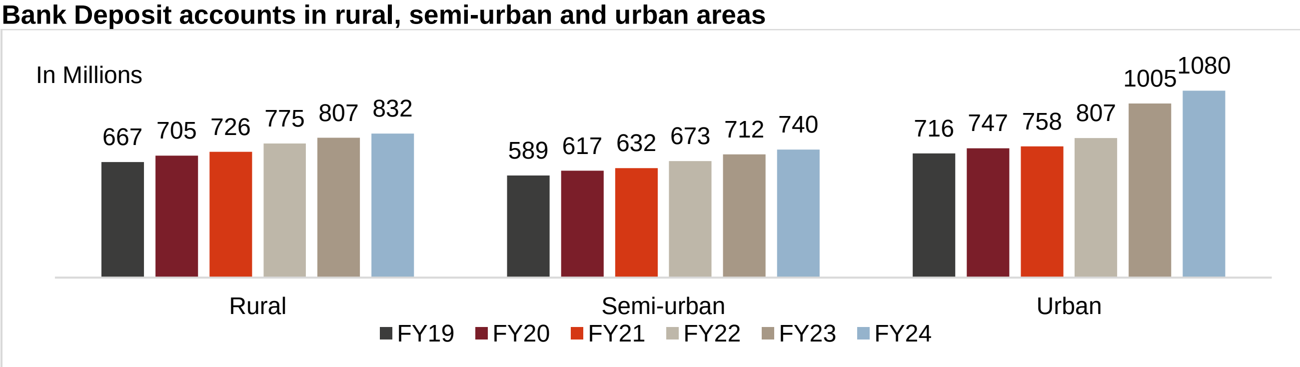
Population group wise share of credit



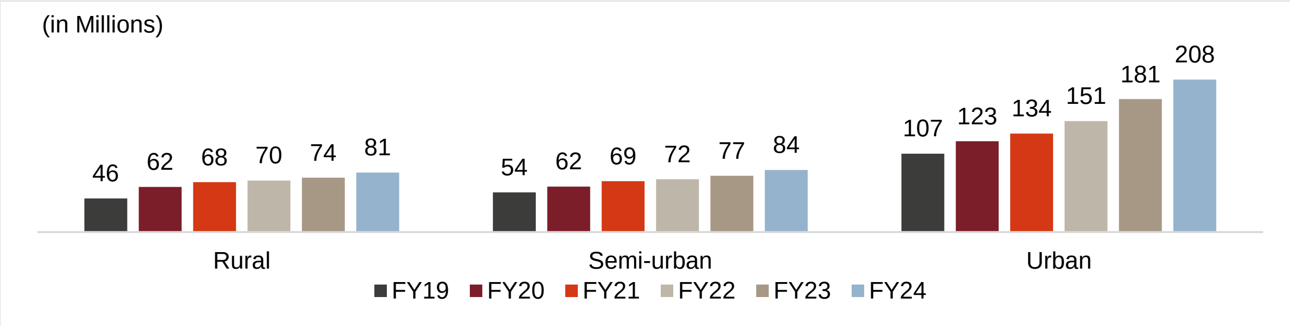
Note: Urban includes data for urban and metropolitan areas, Above data represents indicators for scheduled commercial banks in India, E: Estimated.
Source: RBI; CRISIL MI&A

Financial inclusion is lower in rural areas than in urban areas in India. Hence, there are significant growth opportunities in this segment. Initiatives such as PMJDY and digital banking, along with increasing emphasis on financial literacy, have led to increasing financial inclusion in rural areas

Bank Deposit accounts in rural, semi-urban and urban areas



Bank Credit accounts in rural, semi-urban and urban areas



Note: Urban includes data for urban and metropolitan areas; amounts are as of the end of the Fiscal year indicated. Data represents only bank deposit accounts. Above data represents indicators for scheduled commercial banks in India, Source: RBI, CRISIL MI&A

Digital Public infrastructure reforms by Government of India

Digitization improves the transparency and efficiency of government processes, and widespread digital transformations help governments and institutions with policy implementation and broad policy outreach. The key idea for Digital Public Infrastructure (DPI) is not the complete digitization of narrow public services but the establishment of a building block of digital modularity, which can be used modularly by both government and private players to create the specific digital infrastructure required. The India Stack is a collective name for a set of open APIs and public goods in digital form like DigiLocker, UPI, e-sign and etc.

Open Credit Enablement Network (OCEN)

Open Credit Enablement Network (OCEN) was introduced as a step for promoting financial inclusion and democratization of credit in India. OCEN is set of open standards which facilitates interactions and collaborations among borrowers, lenders, lending service providers, and technology service providers. This will help various digital platforms in leveraging their position in delivery of credit and value addition in lending value chain. Moreover, OCEN will also promote innovation in distribution of credit, making loans accessible to MSMEs, small vendors and individuals, leading to financial inclusion.

Use of generative AI and new technologies increasing productivity

Generative AI, or Gen AI, leverages extensive training on large datasets to swiftly produce diverse content forms like text and multimedia in response to prompts. Gen AI, exemplified by ChatGPT in BFSI, enables efficient, conversational banking, delivering prompt and responses, enhancing customer experiences, and saving time. Gen AI does well in fraud prevention, where it can swiftly detect potentially fraudulent activity by analysing customer behaviour patterns. This can help BFSI companies to take proactive measures to help bolster transaction security. Gen AI aids in risk analysis & synthetic data generation. This helps to offer detailed insights from intricate financial datasets which can be employed for decision making. The different uses of Gen AI now show a fraction of its potential to transform the BFSI sector.

Account Aggregators

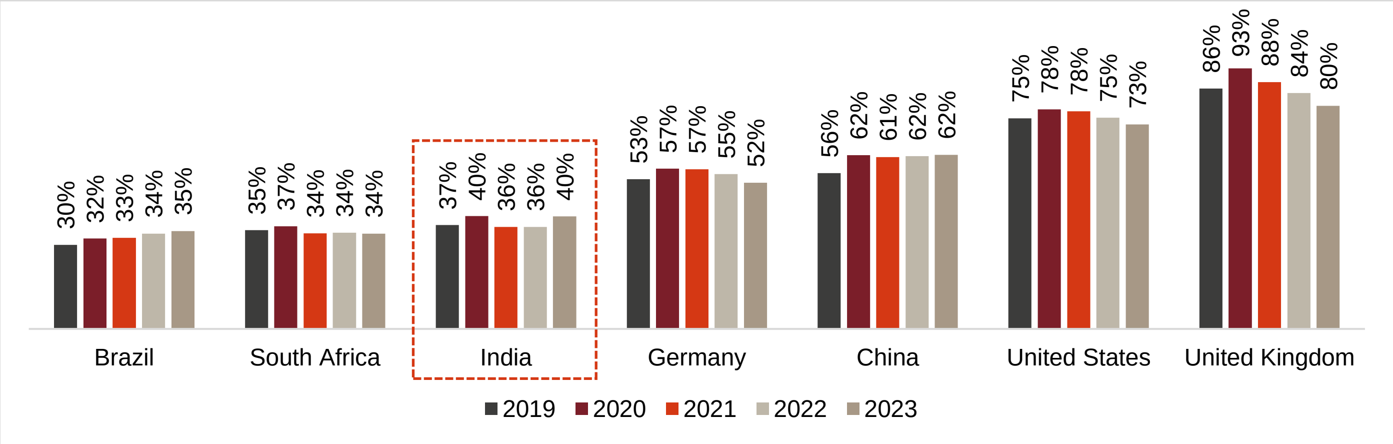
The RBI launched the account aggregator system on September 2, 2021, which has the potential to transform the MSME finance space once there is widespread adoption amongst the lending community. These account aggregators would provide granular insights to lenders into customers' financial assets and their borrowing history centrally, based on customer consent. Inclusion of additional data such as electricity bill payments and mobile recharges/bill payment data under the purview of account aggregators would further enhance its utility.

3. Overview of Credit Scenario in India

Significant retail credit gap exists in India, as compared to other nations

Significant retail credit gap exists in India, as evident by India's household credit to GDP ratio of 40% in CY23, as compared to 62%, 73% and 80% for China, United States and United Kingdom respectively. With rising financial awareness, government's continuous efforts for financial inclusion and rising credit accessibility to the underserved population, credit penetration in India is expected to rise. The surge in credit penetration would be led by growth in retail credit.

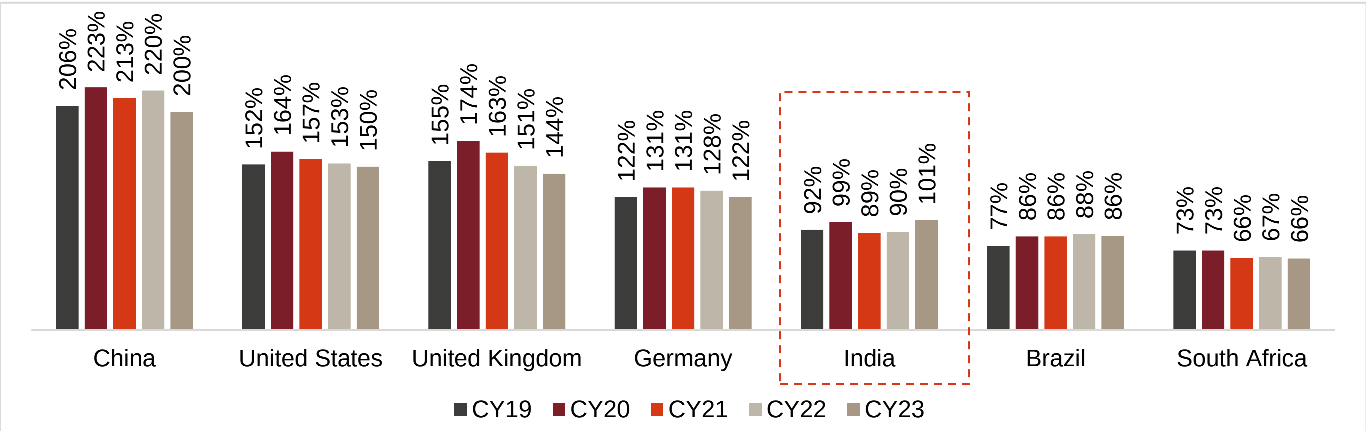
Household credit to GDP ratio of India and peer countries (CY19-CY23)



Source: Bank of International Settlements, CRISIL MI&A

Overall credit to GDP ratio in India stood at 101% in CY23, which was significantly lower as compared to 144% for United Kingdom, 150% for United States and 200% for China, signalling significant room for credit penetration in the nation.

Credit to GDP ratio from (CY19-CY23)



Source: Bank of International Settlements, CRISIL MI&A

Levels of banking credit penetration indicate growth opportunities for financiers

Chandigarh, Delhi, Maharashtra, Telangana and Tamil Nadu have a banking credit to GDP ratio of more than 100% as of March 2024 which indicates that banking credit penetration in the state is higher as compared to other states in India. For most of the states, rural credit share is significantly lower than the rural population share indicating lower credit penetration. Based on the credit penetration data, there seems a huge scope for increasing bureau coverage as well in India. Further, people who don't have credit history, formal income proofs, documentation, etc. still rely on informal sources for debt which comes at a very high cost. It could provide growth opportunities for NBFCs which provide loans at reasonable rates.

State-wise credit penetration (FY2024)

States	GSDP - Constant Prices FY24 (In Rs. Billion)	Banking Credit FY24 (In Rs. Billion)	Credit Growth CAGR (FY19-FY24)	Credit Penetration – FY24	% population living in rural areas$	% credit in rural areas – FY24	% credit in semi urban areas – FY24	% credit in urban areas – FY24	% credit in metropolitan areas – FY24
Western Region									
Maharashtra	21,656*	40,307	8%	186%	55%	2%	5%	6%	87%
Gujarat	14,756*	9,943	13%	67%	57%	7%	13%	18%	62%
Goa	599 *	315	10%	53%	38%	19%	81%	0%	0%
Southern Region									
Tamil Nadu	15,726	15,829	11%	101%	52%	11%	24%	15%	50%
Karnataka	14,232	12,390	14%	87%	61%	11%	12%	16%	62%
Telangana	7,679	9,409	14%	123%	67%**	8%	12%	9%	71%
Andhra Pradesh	8,209	7,635	16%	93%	67%	18%	25%	31%	25%
Kerala	6,162*	5,807	12%	94%	52%	4%	50%	46%	0%
Puducherry	288*	219	13%	76%	32%	12%	19%	70%	0%
Northern Region									
Delhi	6,722	17,030	6%	253%	2%	0%	1%	3%	96%
Rajasthan	8,426	6,159	15%	73%	75%	15%	23%	25%	37%
Haryana	6,340	5,821	18%	92%	65%	8%	14%	70%	8%
Punjab	4,933	3,762	10%	76%	63%	17%	29%	27%	27%
Jammu & Kashmir	1,392	1,046	14%	75%	73%	37%	29%	20%	14%
Chandigarh	339*	866	2%	256%	3%	0%	0%	99%	0%
Himachal Pradesh	1,428	553	14%	39%	90%	59%	32%	9%	0%
Central Region									
Chhattisgarh	3,219	1,936	15%	60%	77%	10%	17%	26%	47%
Madhya Pradesh	6,604	4,893	14%	74%	72%	12%	23%	18%	47%
Uttarakhand	2,134	948	13%	44%	70%	19%	21%	60%	0%
Uttar Pradesh	14,234	9,246	17%	65%	78%	20%	15%	32%	33%
Eastern Region									
West Bengal	9,041	6,019	9%	67%	68%	15%	10%	21%	54%
Bihar	4,425*	2,768	20%	63%	89%	25%	24%	25%	26%
Odisha	5,039	2,665	17%	53%	83%	22%	23%	56%	0%
Jharkhand	2,598*	1,309	16%	50%	76%	19%	19%	26%	35%
Sikkim	221*	66	14%	30%	75%	29%	10%	61%	0%
Andaman & Nicobar	72^	41	12%	58%	62%	20%	16%	65%	0%
North Eastern Region									
Assam	3,186	1,336	15%	42%	86%	24%	29%	47%	0%
Tripura	430*	174	17%	40%	74%	36%	24%	40%	0%
Meghalaya	265	143	16%	54%	80%	34%	19%	48%	0%
Manipur	205^	121	17%	59%	71%	31%	21%	47%	0%
Arunachal Pradesh	211*	91	18%	43%	77%	29%	71%	0%	0%
Mizoram	185^	80	26%	43%	48%	17%	26%	57%	0%
Nagaland	193*	90	15%	47%	71%	21%	47%	31%	0%

Note: 1. Credit penetration calculated as banking credit to states as of March 2024 divided by state GSDP (at constant prices) as of FY2023.
2. (*) GSDP as of FY2023
3. (^) GSDP as of FY2022

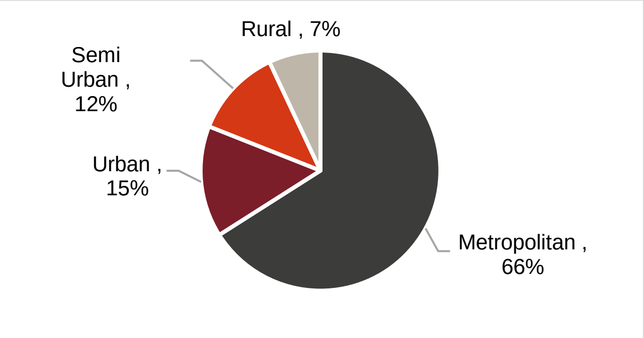
4. ($) According to Census 2011
5. (**) Rural population considered same as Andhra Pradesh
Source: RBI, MOSPI, CRISIL MI&A

Rural and semi-urban India – Under penetration and untapped market presents a huge opportunity for growth of financiers

Bank credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% as of March 31, 2019, to 59% as of March 31, 2024. Between the same period, credit share has witnessed a marginal rise in rural (7% as of FY19 to 9% as of FY24) and semi-urban areas (12% as of FY19 to 14% as of FY24). As of March 31, 2024, rural areas, which is estimated to account for 47% of GDP, received just 9% of the overall banking credit, which shows the vast market opportunity for banks and NBFCs to lend in these areas. With increasing focus of government towards financial inclusion, rising financial awareness, increasing smartphone and internet penetration, CRISIL MI&A expects delivery of credit services in rural area to increase. Further, usage of alternative data to underwrite customers is also expected to help banks and NBFCs to assess customers and cater to the informal sections of the society in these regions.

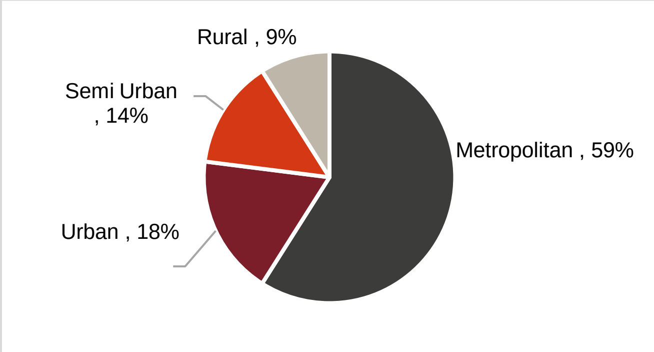
Share of rural and semi-urban regions in banking credit increased marginally between FY19 & FY24

Share of region wise banking credit data as of FY2019



Source: RBI, CRISIL MI&A

Share of region wise banking credit data as of FY2024

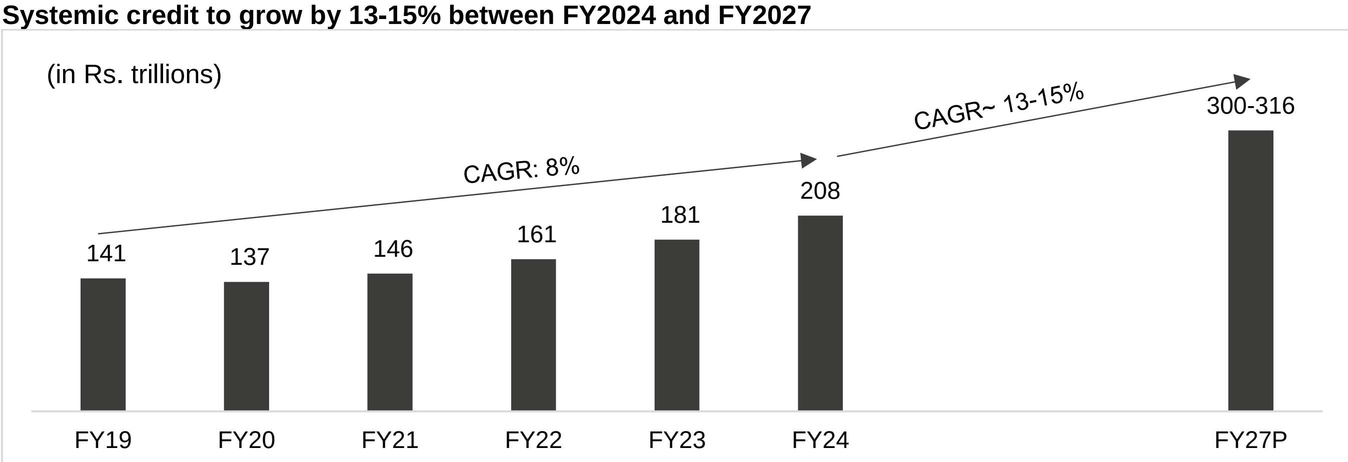


Source: RBI, CRISIL MI&A

Systemic credit

CRISIL MI&A projects systemic credit to grow at 13-15% between FY24 and FY27.

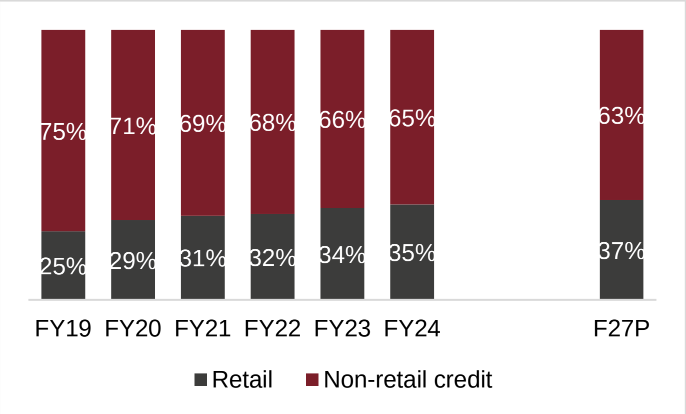
Systemic credit to grow by 13-15% between FY2024 and FY2027



Note: P: Projected, E: Estimated, Systemic credit includes domestic banking credit (after deduction of bank lending to NBFC), NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC.
Source: RBI, Company Reports, CRISIL MI&A

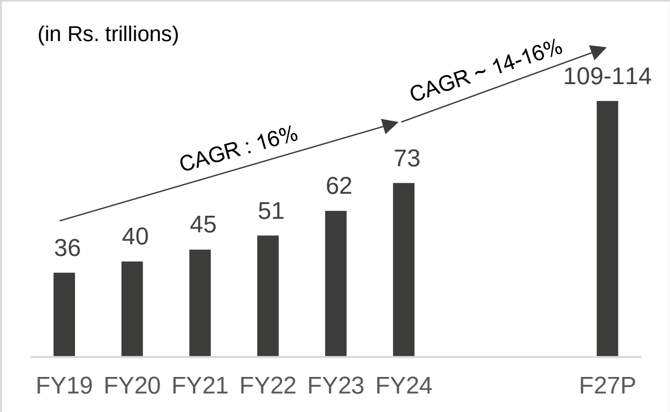
The retail credit including small ticket loans for asset classes such as Housing finance, Vehicle Financing, Gold Loans, Education Loans, Consumer Durables, Personal loans, credit cards and microfinance, in India stood at Rs. 73 trillion, as of FY24 which rapidly grew at a CAGR of 16% between FY19 and FY24. Retail credit grew at 19% in FY24 supported by steady demand in underlying assets like housing, auto and growth in credit card and personal loans growth driven by consumption. The Indian retail credit market has grown at a strong pace over the last few years and is expected to grow further at 14-16% between FY24 and FY27. Moreover, the increasing demand and positive sentiments in the Indian retail credit market, presents an opportunity for both banks and NBFCs to broaden their investor base. However, RBI's risk weight circular, sustained inflation and increase in lending rates could moderate the retail credit growth.

Retail segment is projected to account for 37% of overall systemic credit as of FY27



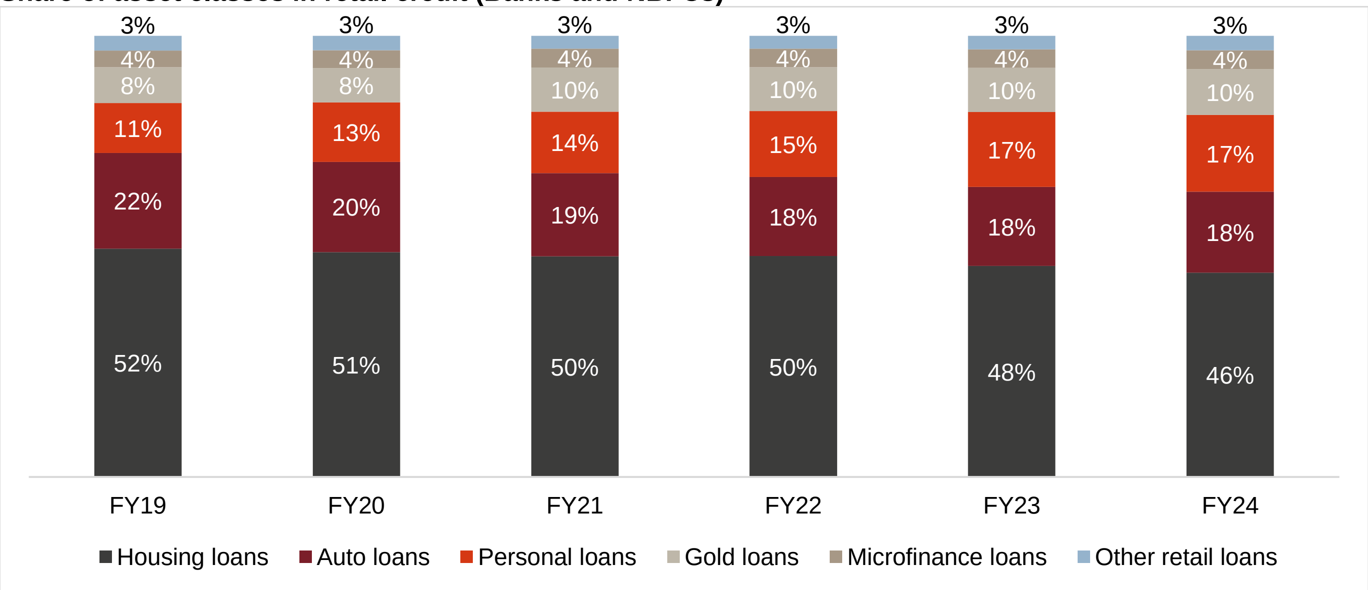
Note: E: Estimated, P: Projected. The above percentages are calculated on total systemic credit
Source: RBI, CRISIL MI&A

Retail credit growth is projected to grow on a strong footing from FY2024 to FY2027



Note: E: Estimated, P: Projected
Source: RBI, CRISIL MI&A

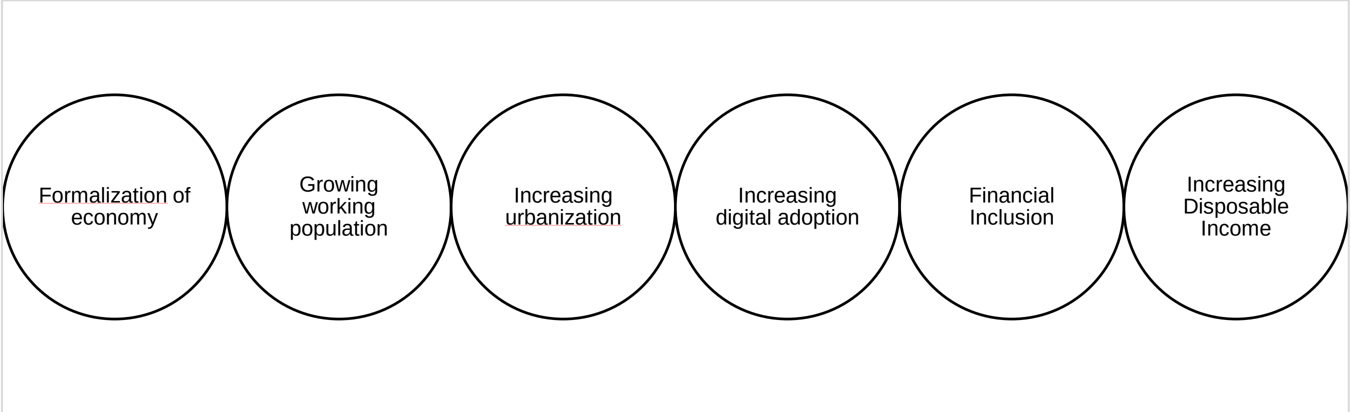
Share of asset classes in retail credit (Banks and NBFCs)



Note: Auto Loans include personal vehicle loans, commercial vehicle loan, two-wheeler loan and used car loan. The above data includes portfolio outstanding of banks as well as NBFCs. Other retail loans include consumer durable and education loans

Source: CRISIL MI&A

Factors that will support retail credit growth



Source: CRISIL MI&A

Impact of digitization on retail credit

Higher mobile penetration, improved connectivity, and faster and cheaper data, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one. Technology has played an important role in taking the financial sector to the next level of growth, by helping to surmount challenges stemming from India's vast geography, which makes physical footprints in smaller locations commercially unviable.

In the financial space, the underwriting process can be improved leveraging all available data efficiently. Lenders are increasingly using their web platforms and creating apps to register, score, approve and disburse loans to their customers. For lenders, digitization has enabled them to make informed decision making through business insight generation and data visualization. Moreover, it has improved lead generation for lenders with faster onboarding of customers, comprehensive loan servicing, and fraud detection. For customers, it has become easier to gather information about different lenders with the help of digitization and compare them.

Furthermore, the India Stack, a set of APIs and tools that enable the building of digital platforms for various services, has been a game-changer in the retail credit sector. The India Stack includes Aadhaar (for identity verification), e-KYC (for paperless Know Your Customer processes), eSign (for digitally signing documents), and the Unified Payments Interface (UPI) for seamless and instant fund transfers. All of these components have been seamlessly integrated into the lending ecosystem, traditional lending players have also integrated these components in their loan processes which had made it easier for lenders to streamline their operations and offer a seamless experience to borrowers. Looking ahead, the digitization of retail credit in India is expected to continue evolving.

4. Overview of NBFC Sector in India

The Indian financial system includes banks and non-banking financial companies (NBFCs). Though the banking system dominates financial services, NBFCs have grown in importance by carving a niche for themselves by catering to customers in underbanked regions or those who would not be catered to by traditional financial institutions, due to absence of credit history or lack of proper collateral records.

NBFC Market Landscape

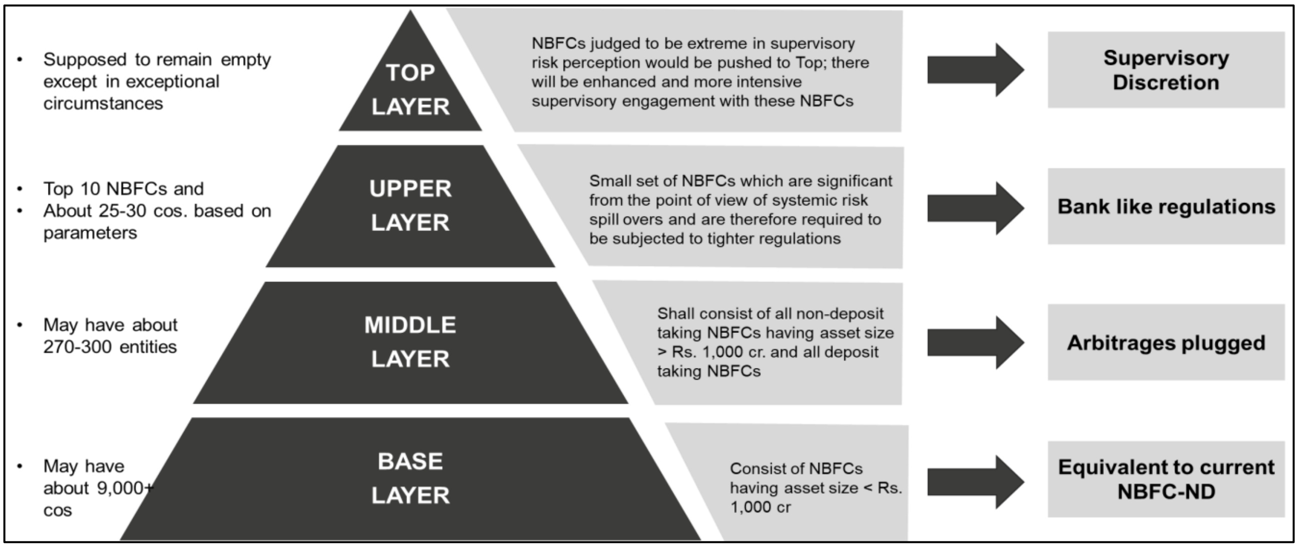
NBFC Sector Overview

NBFCs started as financial intermediaries, giving out loans to the population not serviced by banks opened under Companies Act. In 1934, Chapter III B was included in Reserve Bank of India Act through which RBI started to regulate the NBFC sector. In 1997 the RBI Act was again amended to put in place a regulatory and supervisory structure for NBFCs. NBFCs are classified based on liabilities into two broad categories: a) deposit-taking; and b) non-deposit-taking. Further, in 2015, non-deposit taking NBFCs with an asset size of Rs. 5 billion and above were labelled as 'systemically important non-deposit taking NBFCs' ("NBFC–ND–SI") and separate prudential regulations were made applicable to them.

Scale based approach for NBFCs

In January 2021, the RBI had proposed a tighter regulatory framework for NBFCs by creating a four-tier structure with a progressive increase in regulation intensity in a discussion paper titled '**Revised Regulatory Framework for NBFCs - A Scale-based Approach**'. Based on the inputs received, in October 2021, the RBI put in place a revised regulatory framework for NBFCs, which became effective from October 2022.

As per the RBI's Scale-Based Regulation for NBFCs framework, the regulatory and supervisory framework of NBFCs should be based on a four-layered structure depending on their size, activity, and perceived riskiness: base, middle, upper, and top layers.



Source: RBI, CRISIL MI&A

The RBI has taken a balanced view, and instead of going for a one-size-fits-all approach, it has opted for differential regulations based on the size and systemic importance of an NBFC. Furthermore, the importance of NBFCs in providing credit to underserved customers has been recognised. The RBI has not proposed imposition of CRR and SLR on NBFCs, which would come as a relief to NBFCs.

Net owned fund

The RBI has specified Rs. 100 million as net owned fund required for below mentioned categories of NBFCs to commence or carry on the business of non-banking financial institution from October 01, 2022. Provided that mentioned NBFCs having net owned fund of less than ten crore rupees, shall achieve the NOF of Rs.100 million as per the following.

Net Owned Fund Requirement		
NBFCs	**By 31st Mar 2025**	**By 31st Mar 2027**
NBFC- Investment & Credit Company	Rs. 50 million	Rs. 100 million
NBFC-Micro Finance Institution (MFI)	Rs. 70 million	Rs. 100 million
NBFC-MFI in Northeastern region	Rs. 50 million	Rs. 100 million
NBFC-Factor	Rs. 70 million	Rs. 100 million

Source: RBI, CRISIL MI&A

RBI in its latest review of Regulatory Framework for HFCs has specified the minimum net owned fund requirement at Rs. 20 crores for a company to commence housing finance as its principal business or carry on the business of housing finance as its principal business. If a Housing Finance company holding a Certificate of Registration (CoR) and is having net owned funds of less than Rs. 20 crores, it may continue to carry on the business of housing finance, if such company meets the requirement of net owned funds requirement of Rs. 15 crores by March 31, 2022 and Rs. 20 crores by March 31, 2023.

RBI's Master Direction on Scale Based Regulation of NBFCs, 2023

The RBI published the Master Direction on Scale Based regulation (SBR) of NBFCs to bring an end to the basic categorization of systemically important and non-systemically important NBFCs, while the classification based on acceptance of public deposits and specialisation continues to be in force. In addition, considering the systemic importance, the SBR Master Directions has enhanced the corporate governance in middle layer and upper layer NBFCs. For instance, NBFCs that are part of a common Group or are floated by a common set of promoters shall not be viewed on a standalone basis. The total assets of all the NBFCs in a Group shall be consolidated to determine the threshold for their classification in the Middle Layer.

RBI tightens provisioning norms on Standard assets for NBFC Upper Layer

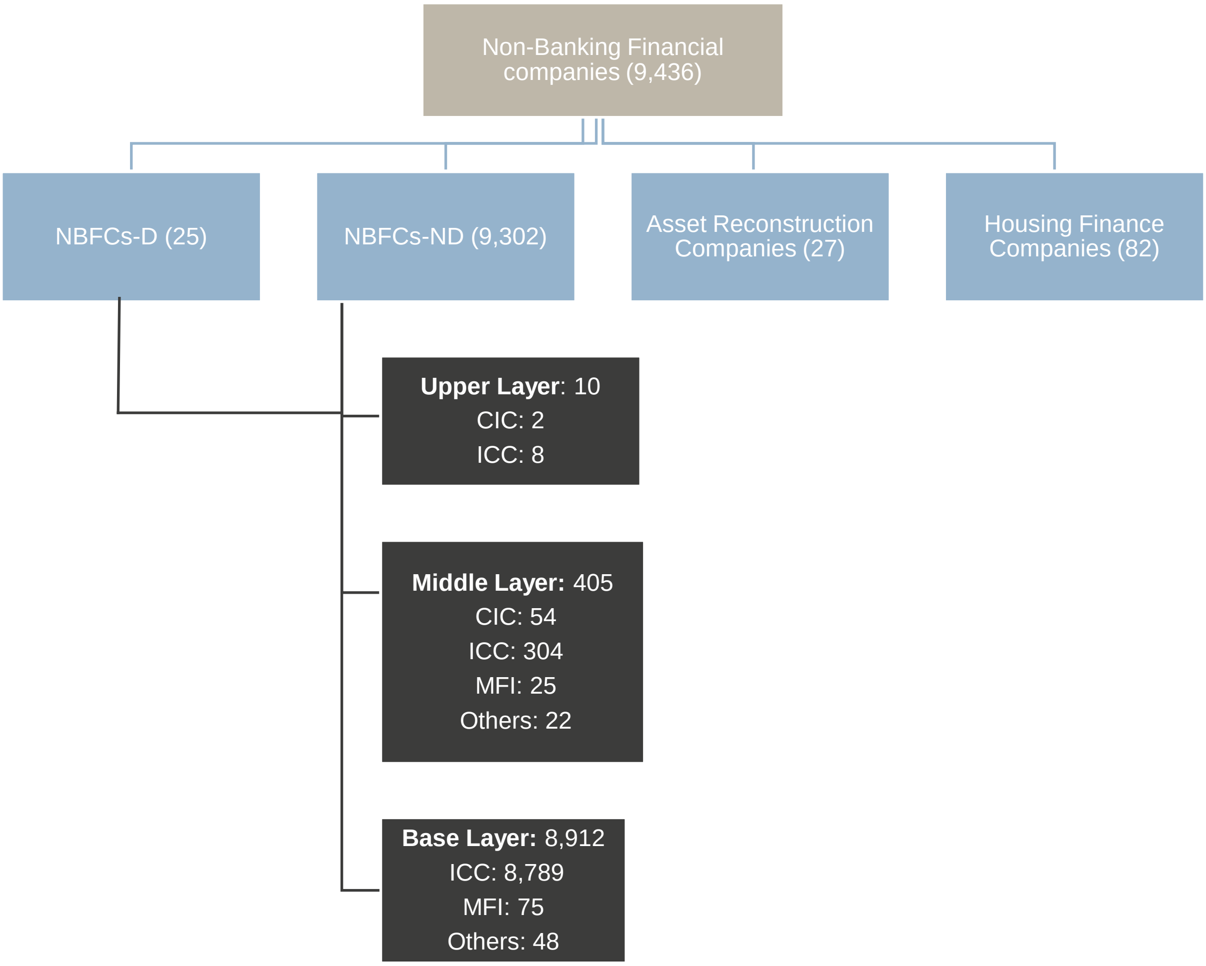
On June 6th, 2022, the RBI released a circular aligning provisioning for standard assets by NBFCs in the upper layer as per RBIs scale-based regulations with that prevalent with the banks, which was effective from October 1, 2022. The impact of the norms is unlikely to be material as most large NBFCs already maintain Stage 1 and Stage 2 provisioning, which is comfortably higher than the required levels. The below table shows the provisioning that NBFC-ULs are required to maintain in respect of standard assets for the funded amount outstanding:

Provisioning norms for standard assets for NBFC-ULs

Category of Assets	Rate of Provision
Individual housing loans and Small and Micro Enterprises	0.25%
Housing loans extended at teaser rates	2.00%, which will decrease to 0.40% after 1 year from the date on which the rates are reset at higher rates (if account remains standard)
Advances to Commercial Real Estate – Residential Housing (CRE - RH) sector	0.75%
Advances to Commercial Real Estate (other than CRE -RH) sector	1.00%
Restructured Advances	As stipulated in the applicable prudential norms for restructuring of advances
All other loans and advances not included above, including loans to Medium Enterprises	0.40%

Note: NBFC-UL includes non-banking financial companies and housing finance companies; Source: RBI, CRISIL MI&A

Classification of NBFCs based on scale-based approach (as of 31st March 2024):



Note: Figures in brackets represent the number of entities registered with RBI as of March 2024.
CIC: Core Investment Company, ICC: Investment and Credit Company, MFI: Microfinance Institutions, Others include Infrastructure Debt Fund, Infrastructure Finance Company, Account Aggregator , Factor, Mortgage Guarantee Company , Non-operative Financial Holding Company , Peer to Peer Lending , Primary Dealer.
Source: RBI, CRISIL MI&A

Regulatory distinction between banks and NBFCs

	NBFC – ND –SI	NBFC – D	Banks (Basel-III)
Minimum net owned funds	Rs 20 million	Rs 20 million	N.A.
Capital adequacy	15.0%	15.0%	11.5%
Tier I capital	10.0%	10.0%	9.5%
Stage III assets	90 days#	90 days#	90 days
Cash reserve ratio (CRR)	N.A.	N.A.	4.50%
Statutory liquidity ratio (SLR)	N.A.	15.0%$	18.00%
Priority sector	N.A.	N.A.	40% of Adjusted net bank credit
SARFAESI eligibility	Yes*	Yes*	Yes
Exposure norms (% of NOF)	Single borrower: 15% (+10% for IFC)	Single borrower: 15%	Single borrower: 15% (+5% for infrastructure projects)
	Group of borrowers: 25% (+15% for IFC)	Group of borrowers: 25%	Group of borrowers: 30% (+10% for infrastructure projects)

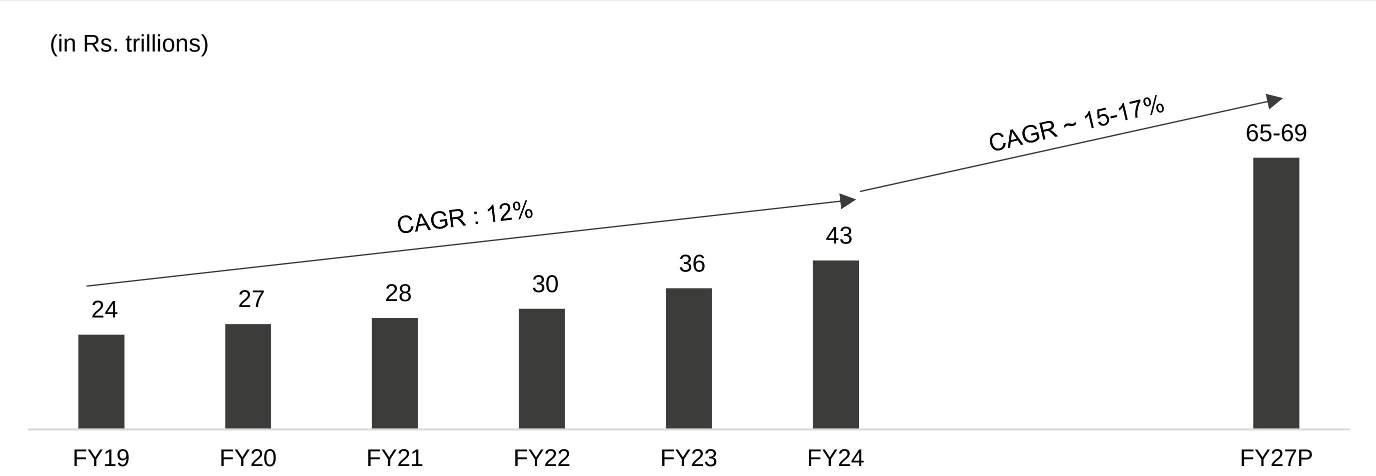
Note: N.A. = Not applicable

The Ministry of Finance, in its union budget for 2021, proposed that the SARFAESI threshold be reduced from Rs.5 million to Rs.2 million, # Discretion with the audit committee of NBFCs to defer stage 3 classification beyond 90+dpd, $ as per RBI regulations, NBFC-D, shall invest in India in unencumbered approved securities valued at the price not exceeding the current market price of such securities an amount which shall, at the close of business or any day, not be less than 15% of the "public deposit". Source: RBI, CRISIL MI&A

NBFC Credit to grow faster than systemic credit

The credit growth of NBFCs which has trended above India's GDP growth historically, is expected to continue to rise at a faster pace. NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs 2 trillion AUM at the turn of the century to Rs. 43 trillion at the end of FY24. During FY19 to FY24, NBFC credit is estimated to have witnessed a growth at CAGR of 12%. Rapid revival in the economy is expected to drive consumer demand in FY25, leading to healthy growth in NBFCs.

NBFC credit to grow at 15-17% between FY24 and FY27



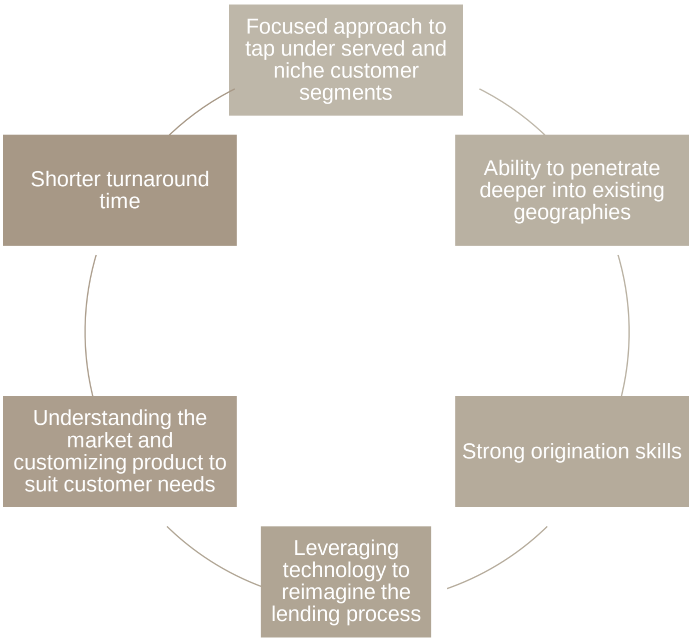
Note: P = Projected, E: Estimated; HDFC is not considered while calculating overall NBFC Credit, Source: RBI, Company reports, CRISIL MI&A,

Going forward, CRISIL MI&A expects NBFC credit to grow at 15-17% between FY24 and FY27 driven by growth in retail segment, and MSME loans in the wholesale segment continuing to be the primary drivers.

NBFC's share in systemic credit is estimated to have increased from 12% in FY08 to 20% in FY24. Overall, consolidation in certain corporate groups and other corporate activities indicate buoyancy in the NBFC space and expectations of healthy credit growth.

CRISIL MI&A believes that NBFCs will remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are less in focus by the Banks. Going forward, NBFCs are expected to continue to gain market share over other lenders due to their ability to provide flexible lending solutions and tailored services, focused approach to tap under-served and niche customer segments, ability to penetrate deeper into geographies, leveraging technology to reimagine the lending process, strong origination skills and shorter turnaround time.

Growth of NBFCs reflects the customer value proposition offered by them



Source: CRISIL MI&A

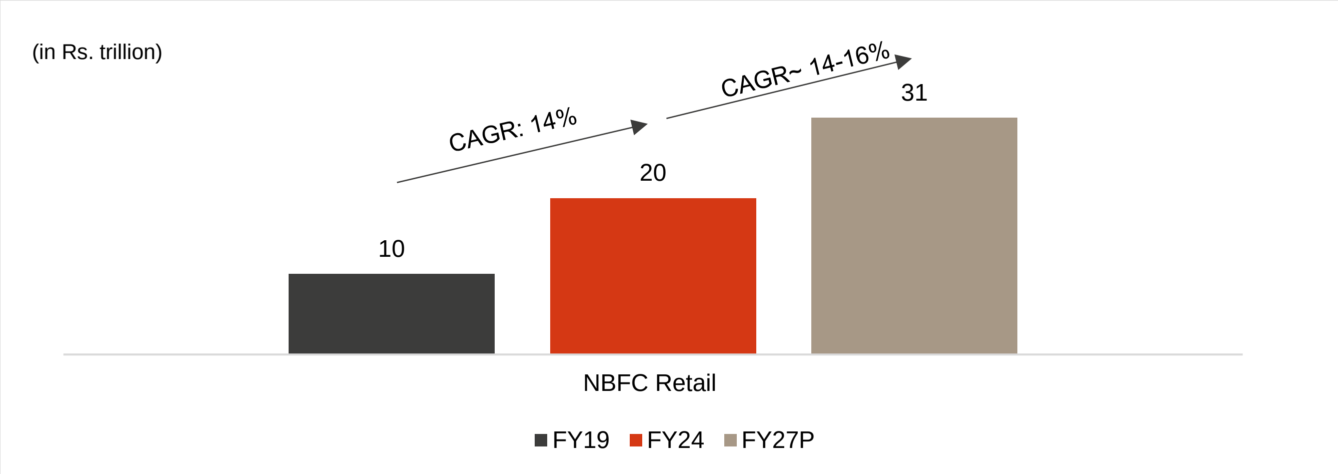
With high focus on retail loans, NBFCs are driving financial inclusion

While banks are the primary institutions for banking in India, retail loan portfolio forms only 34% of the overall banking credit as of FY24. Other focus areas for banks are wholesale lending to large corporates, credit to services sector and agriculture sector. Lower presence of banks in the retail space has created an opportunity for NBFCs to penetrate the segment which has also led to greater financial inclusion as NBFCs also cater to riskier customer profiles with lower income. Compared to that of banks, NBFC credit to retail segment forms 48% of its portfolio as of FY2024 indicating larger focus on retail customers. Rural areas, presents vast market opportunity for NBFCs. NBFCs have played a major role in meeting this need, complementing banks and other financial institutions. NBFCs help fill gaps in the availability of financial services with respect to products as well as customer and geographic segments. A strong linkage at the grassroots level makes them a critical cog in the financial machine. They cater to the unbanked and underbanked masses in rural and semi-urban India and lend to the informal sector and people without credit histories, thereby enabling the government and regulators to realize the mission of financial inclusion.

The 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, with a number of players with heterogeneous business models starting operations. The increasing penetration of neo-banking, digital authentication, and mobile phone usage as well as mobile internet has resulted in the modularization of financial services, particularly credit. Overall NBFC credit during FY 2019 to FY 2024, is estimated to have witnessed a CAGR of ~12% which was majorly led by retail segment which is estimated to have witnessed a CAGR of ~14%, while NBFC non-retail credit is estimated to have witnessed a growth of ~10% during the same time period.

Going forward, growth in the NBFC retail segment is expected at 14-16% from FY24 to FY27 which will support overall NBFC credit growth, with continued focus on the retail segment and multiple players announcing plans to reduce wholesale exposure.

NBFCs retail credit is expected to grow at 14% - 16% from FY2024 to FY2027



Note: P = Projected; Retail credit above includes housing finance, vehicle finance, microfinance, gold loans, construction equipment finance, consumer durable finance and education loans; Source: Company reports, RBI, CRISIL MI&A

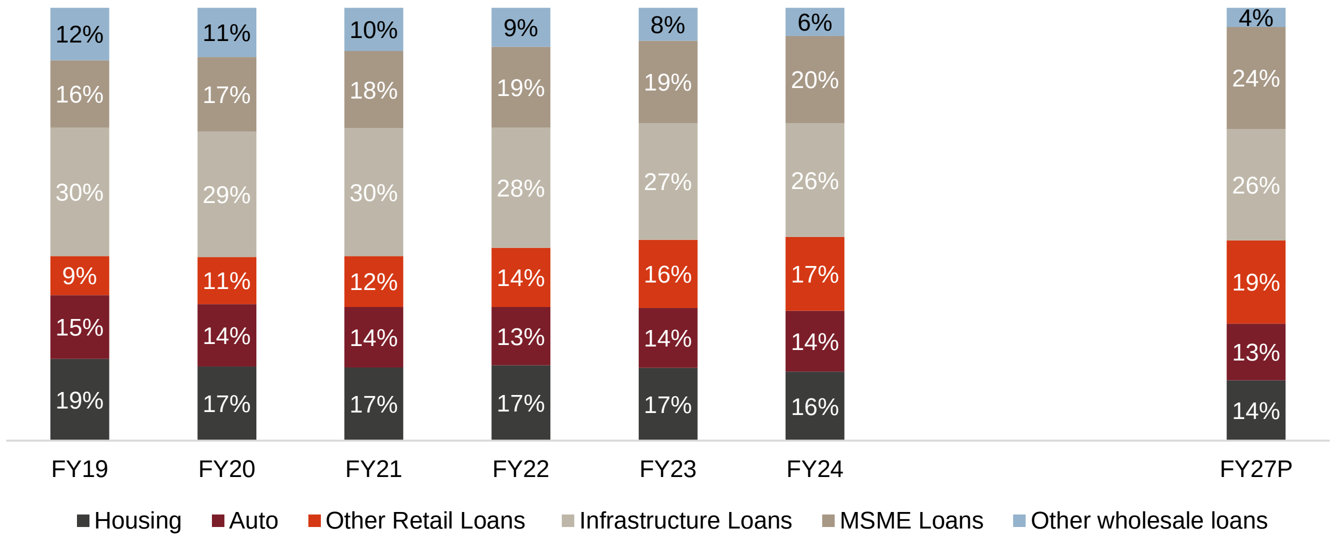
MSME, Housing and Auto Financing contributed ~50% to overall NBFC credit in FY2024

In fiscal 2024, the retail segment was driven by strong growth in vehicle loans, personal loans, housing loans, and microfinance, while on the wholesale side, MSMEs and infrastructure finance, particularly power finance companies, led the way with high double-digit growth rates. Lending to MSMEs has gained traction over the past three fiscals, with NBFCs increasing focus on unsecured business loans amid higher competition from banks in the traditional segments.

Though infrastructure accounts for the highest share in NBFC credit (26%) as of FY2024, its share in the overall NBFC credit outstanding has come down over the past years from 30% in FY2019. Retail and MSME segments are expected to experience higher growth in the upcoming fiscals. MSME credit accounted for 20% share as of FY2024, witnessing a rise in its market share from 16% in FY2019. Housing and auto segment constitute ~16% and ~14% share in overall NBFC credit as of FY2024.

Going forward, the growth trend is expected to moderate for retail segment on account of caution on unsecured lending and due to visible stress in unsecured book such as micro finance and personal loans where there are higher slippages in stage 1 loans during first quarter of fiscal 2025 primarily due to overleveraging of customers and impact of elections. Meanwhile, the RBI's vigilant oversight and recent risk weight circular will temper growth in unsecured portfolios, ensuring a more measured pace of expansion. On the other hand, wholesale credit is expected to grow faster supported by credit momentum among the infrastructure finance NBFCs and MSME lending. The share is expected to remain steady, with retail and wholesale segments expected to comprise 46% and 54%, respectively, in FY27.

Distribution of NBFC Credit across asset classes



Note: Other retail loans include gold loans, microfinance loans, personal loans, consumer durable loans, education loans, Other wholesale loans include wholesale loan and construction equipment loan;
Source: Company reports, CRISIL MI&A

Growth of asset classes

Asset class (Rs trillion)	FY24 portfolio outstanding (Rs. trillion)	Share of NBFCs/HFCs/ NBFC-MFIs	Overall portfolio CAGR (FY20-FY24)	NBFCs/HFCs portfolio CAGR (FY20-FY24)	Growth FY24-FY25 for overall portfolio	Growth FY24-FY25 for NBFCs
MSME Loans	35.4	24%	18%	17%	20-21%	24-25%
Housing loans	34.0	20%	13%	11%	14-15%	12-13%
Auto Loans	13.4	44%	13%	12%	15-16%	16-17%
Personal loans	12.8	25%	24%	34%	17-18%	25-26%
Gold loans	7.6	21%	25%	16%	21-22%	18-19%
Microfinance loans	3.1	54%	17%	24%	16-17%	18-19%
Consumer durables	0.8	48%	18%	19%	22-23%	23-24%

Source: RBI, NHB, MFIN, CRIF, and CRISIL MI&A estimates

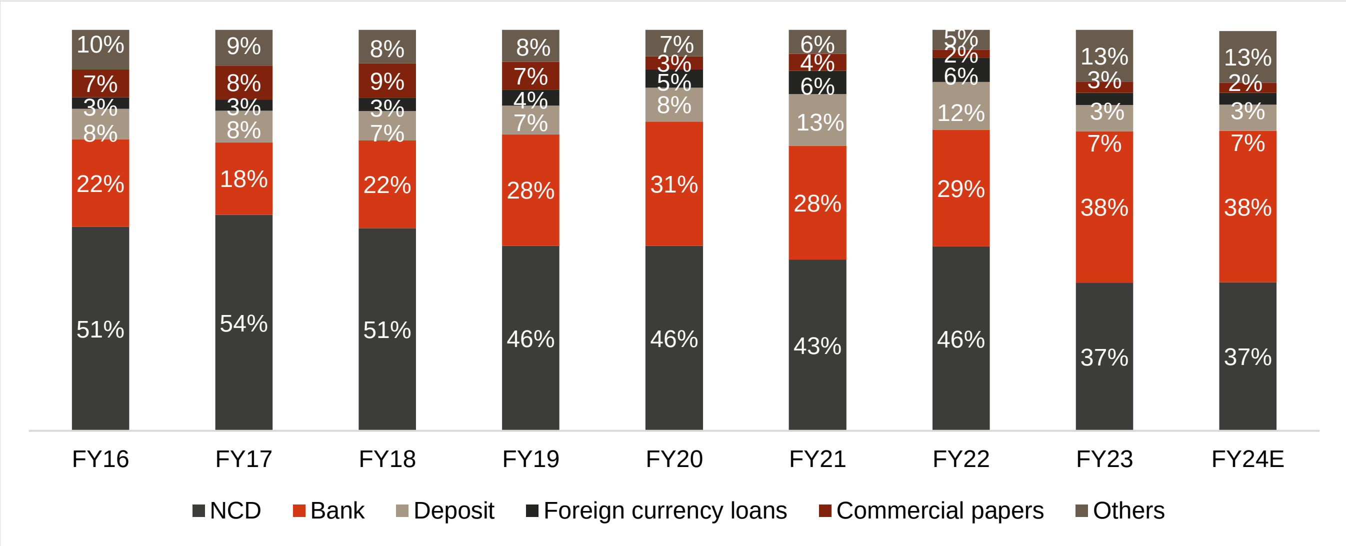
Banks continue to gain share in borrowing mix of NBFCs; expected to undergo moderation in near to medium term

Share of bank's lending to NBFCs have almost doubled during last 10 years.

Going forward, CRISIL MI&A believes that funding access would gradually improve for NBFCs who are able to demonstrate strong performance. Reliance on bank funding is expected to remain at 38% as of FY2025, while it is expected to moderate in the near term with impact of RBI circular on risk weight and further transmission of rate hikes accelerated by deficit liquidity in the banking system.

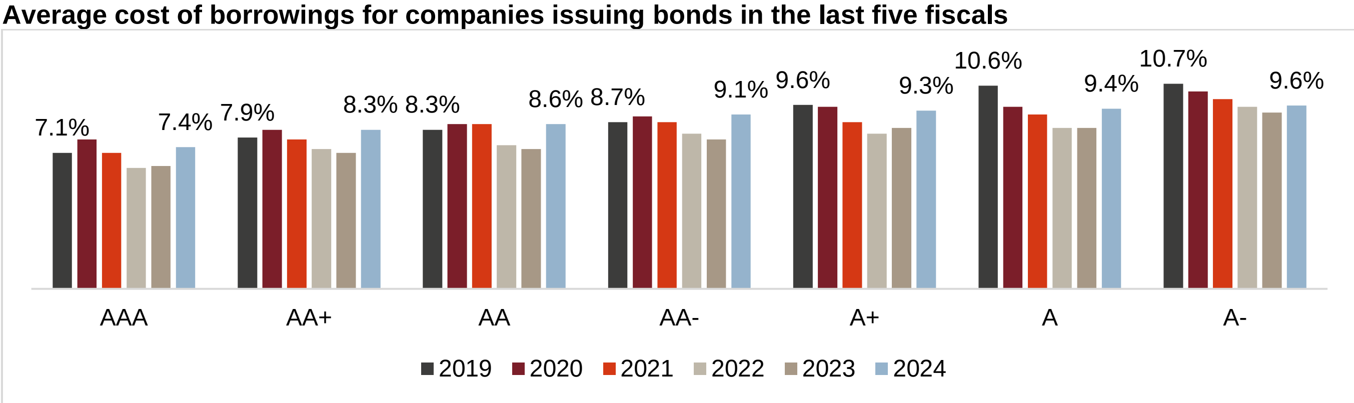
The RBI circular acted as a catalyst against the backdrop of rapid growth of unsecured lending by NBFCs and banks. As per CRISIL MI&A, impact of RBI circular will be higher on players giving unsecured loans. The impact of the circular was visible with reduced growth in unsecured segment in second half of FY2024.

Bank borrowings expected to remain primary source of funds for the NBFCs, apart from NCDs



Note: Based on sample set of NBFCs accounting for more than 80% of overall borrowings of NBFCs as of March 2023; For FY23, NCD includes Debt Securities and NCDs, Bank includes Banks and National Housing Bank, and Others include Related Parties, Foreign Institutions, External Commercial Borrowings, and other sources
Source: Company reports, CRISIL MI&A

Average cost of borrowings for companies issuing bonds in the last five fiscals



Source: CRISIL MI&A

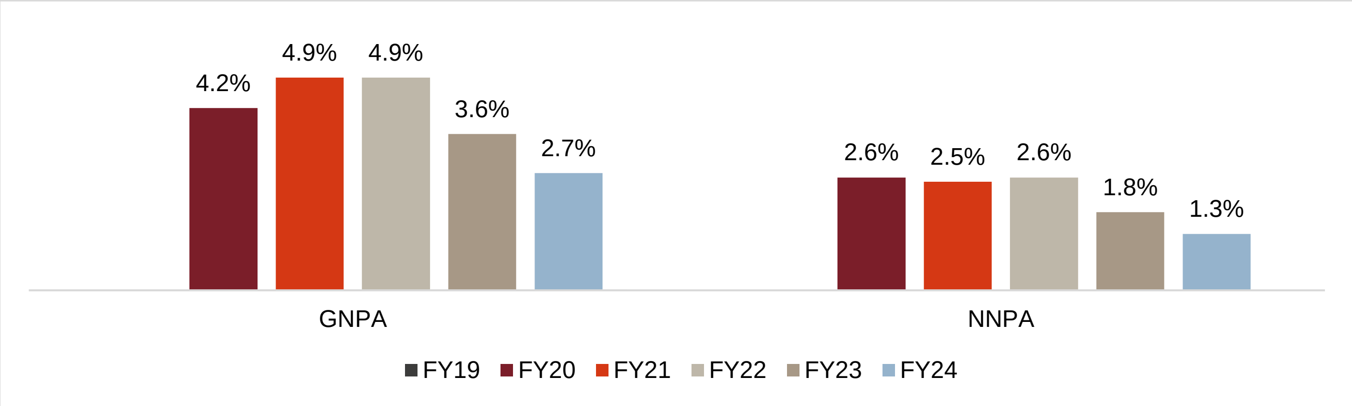
Average cost of borrowing for companies increases with deterioration in credit rating. Average cost of borrowings for AAA rating category NBFCs was in the range of 7.0-7.5% between FY19 and FY24, whereas average cost of borrowings for A- rating category NBFCs was in the range of 9.5-11% between FY19 and FY24. With softer policy rates abroad, large NBFCs have also tapped overseas funding options through the external commercial borrowing (ECB) route. Going forward with a decline in rates globally the share of borrowing via the ECB route is expected to see an uptick in current and next fiscals. Commercial papers in past have remained on a lower end as a financing source for NBFCs, however, the instrument has seen an uptick during FY2025 on account of non-banks accessing the short term funding market in anticipation of rate decline in the near term post which the options of bond and bank term loan funding would be more attractive. However, the pass on of interest rate will come with a lag and hence the cost of funds are expected to be higher for most NBFCs creating pressure on margins in the near term.

Alternatively, NBFCs have also started exploring several other sources of funds through securitization, there are generally two types of securitization structures, direct assignment (DA) and pass-through certificate (PTC), the common feature of these two types of transactions is that they both involve pooling of loans and selling them to a counterparty, therefore transferring credit risk. CRISIL MI&A expects, securitisation will continue to remain an important tool for NBFCs to mobilise liquidity. While volumes are expected to evolve significantly in FY25 with a rebound in both economic and credit growth, the overall pace of recovery in the transactions will be a function of extent in improvement in economic activities.

Asset Quality

Asset quality for NBFCs is influenced by various factors such as economic cycle, target customer segment, geographical exposure, and local events. Within the NBFC universe itself, it is observed that various asset classes tend to exhibit heterogeneous behaviour. For example, the asset quality in small business loans and personal loans tends to be highly correlated with the macroeconomic environment. This is because asset quality is more influenced by local factors, events that have wide ranging repercussions such as demonetisation and COVID-19 and relative leverage levels amongst borrowers.

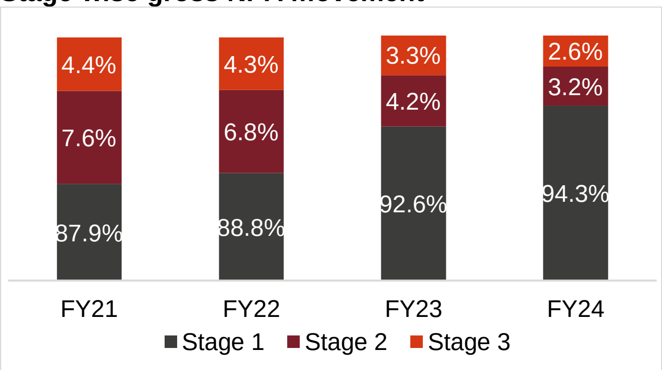
Improving asset quality of NBFCs gives more comfort for mid-term growth



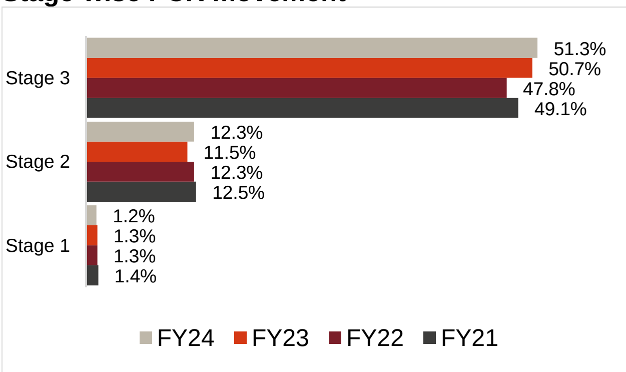
Note: For calculating GNPA and NNPA, 100 NBFCs are considered that collectively account for loans and advances of Rs 23,000 billion as on March 31, 2024, The above set excludes PFC and REC Limited. Source: RBI, CRISIL MI&A

Decline in stage-3 assets and corresponding increase in provisioning by NBFCs instil optimism

Stage-wise gross NPA movement



Stage-wise PCR movement



Note: The above analysis is basis aggregate data for NBFCs / HFCs that covers 27 companies in FY24, that collectively account for a gross exposure of Rs 15,810 billion as on March 31, 2024.
Source: RBI, company reports, CRISIL MI&A

Asset quality metrics improved in FY2023 for two reasons. First is the RBI's follow-up circular dated February 15, 2022, deferring the implementation of the NPA upgradation norm till September 30, 2022. This provides a reasonable transition time for NBFCs to recalibrate processes, revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation. Second is the improvement in macro-economic activity, which acted as a tailwind.

Asset Quality for NBFCs improved in FY2024 on account of normalisation of economic activity and improved collection efficiency across segments with the gold segment being an exception. The asset quality of NBFCs continued the improvement trend till March 2024, however, with the challenges in unsecured lending segments and high PAR 90 in gold finance segment, it will lead to increase in segmental NPAs in short term. Along with this the credit cost and write off is also expected to elevate during FY2025 primarily due to deterioration in unsecured lending portfolio's such as micro finance and personal loans.

Credit cost for NBFCs moderately declined in FY2024, with improvement seen in profitability as well as asset quality

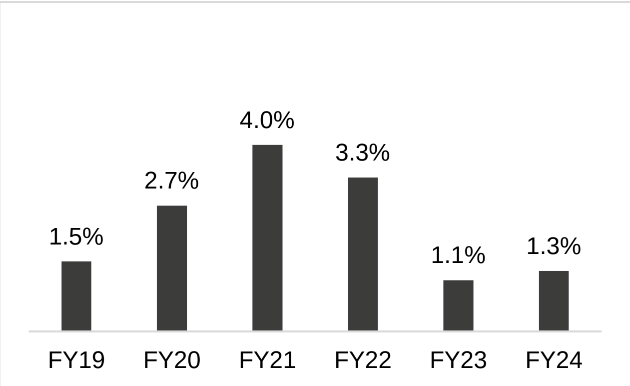
Overall yield for the retail segments increased in FY2023 due to the interest rates hikes. However, the amount of pass-on has been distinct across all segments on account of level of competition, nature of asset class and segmental credit demand. Accordingly, a stable or modest increase in RoA was seen across all segments in FY2024.

In FY2023, decline in credit costs due to improved collections and lower slippages supported improvement in profitability aided by higher yields. The MFI segment, which typically has more pricing power, was able to improve its NIM. Similarly, the housing segment also improved its NIM owing to the floating nature of its loan book where it was able to pass on the increase in rates to its customers faster. However, competition from banks and subdued credit demand resulted in NIM compression for the gold segment.

In FY2024, credit cost moderately declined on account of improved collections and lower asset quality stress translating to moderate increase in RoA. In the near term, the impact of RBI circular on risk weights on cost of funds, thereby NIM and RoA will be a key monitorable.

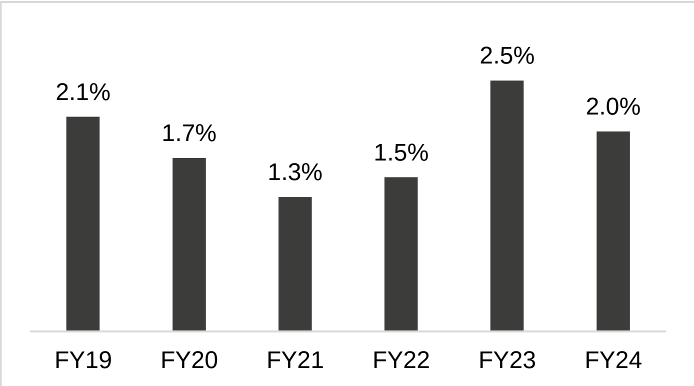
Profitability ratios of NBFCs

Credit costs for NBFCs moderately declined in FY2024



Source: CRISIL MI&A

Profitability (RoA) moderately increased in FY2024 for NBFCs



Source: CRISIL MI&A

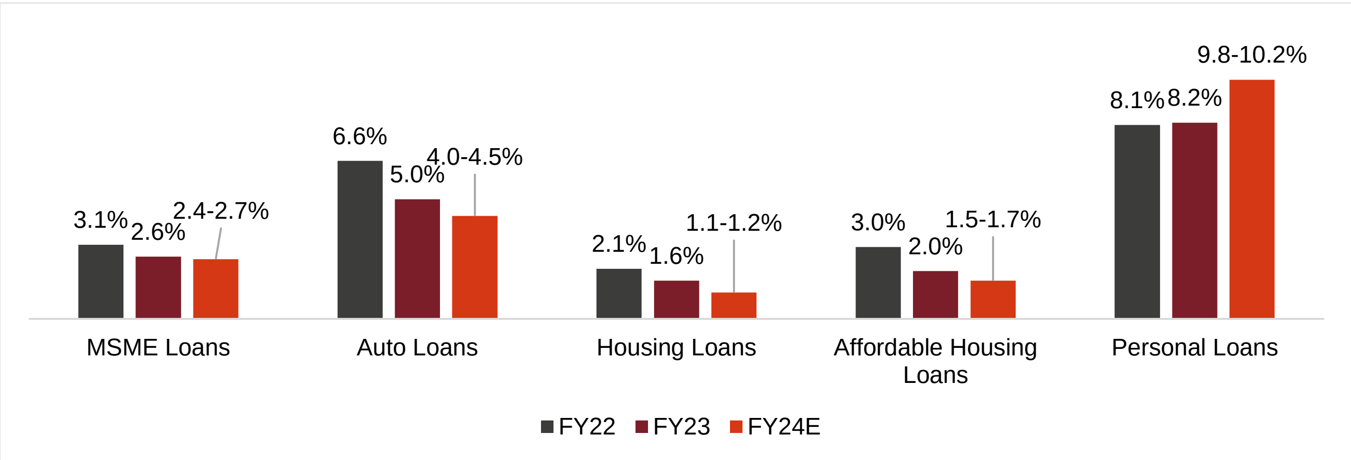
ROA Tree for NBFCs across asset classes

Asset Class	Financial Metric	FY22	FY23	FY24E and FY25P
MSME Loans	Interest income to average assets	14.5%	15.5%	15.5-16%
	Interest expense to average assets	5.6%	5.7%	5.8-6.2%

	Credit Cost	1.2%	1.3%	1.3-1.5%
	Opex	4.2%	3.6%	3.4-3.6%
	ROA	3.3%	3.7%	3.6-3.9%
Auto Loans	Interest income to average assets	12.0%	12.4%	13.2-13.4%
	Interest expense to average assets	6.0%	5.8%	6.9-7.1%
	Credit Cost	2.5%	1.8%	1.6-1.8%
	Opex	1.6%	2.5%	2.0-2.2%
	ROA	1.9%	2.3%	2.4-2.6%
Housing Loans	Interest income to average assets	8.7%	9.2%	9.5-9.7%
	Interest expense to average assets	5.7%	5.9%	6.2-6.4%
	Credit Cost	0.6%	0.5%	0.3-0.5%
	Opex	0.9%	0.9%	0.8-1.0%
	ROA	1.5%	1.9%	1.9-2.1%
Affordable Housing Loans	Interest income to average assets	9.9%	10.3%	10.8-11.0%
	Interest expense to average assets	5.4%	5.4%	5.8-6.0%
	Credit Cost	0.7%	0.4%	0.2-0.4%
	Opex	1.5%	1.7%	1.7-1.9%
	ROA	2.3%	2.8%	2.8-3.0%
Personal Loans	Interest income to average assets	16.4%	16.8%	16.6-17.0%
	Interest expense to average assets	6.5%	6.7%	6.6-6.8%
	Credit Cost	3.6%	3.2%	2.8-3.2%
	Opex	4.5%	4.4%	4.2-4.4%
	ROA	3.6%	3.2%	2.8-3.2%

Source: CRISIL MI&A, Company Documents, Note: Ratios on average total assets

GNPAs for NBFCs across asset classes



Source: CRISIL MI&A, Company Documents, Note: Ratios on average total assets

5. MSME Credit in India

Overview of MSME Sector in India

As per the MSME Development Act 2007, Micro enterprises are classified as enterprises with investment in plant and machinery or equipment not more than Rs. 1 crore and annual turnover not more than Rs. 5 crores. Small enterprises are enterprises with investment in plant and machinery or equipment not more than Rs. 10 crores and annual turnover not more than Rs. 50 crores. While medium enterprises are classified as enterprises with investment in plant and machinery or equipment not more than Rs. 50 crores and annual turnover not more than Rs. 250 crores.

As of March 31, 2022, there are approximately 70 million MSMEs in India contributing to a substantial portion of the national GDP and total workforce. The MSME sector contributes to India's socio-economic development by providing huge employment opportunities in rural and backward areas, reducing regional imbalances, and assuring equitable distribution of national wealth and income. The Government expects that MSMEs' contribution to GDP to increase from 29.2% in FY2022 to 40-50% by FY2030. As of FY24, 45.7% of India's exports are by MSMEs thus supporting economic development and growth. As per Ministry of Micro, Small and Medium Enterprises, 57 million MSMEs are registered on Udyam Registration Portal and Udyam Assist Platform (UAP) providing employment to about 241.4 million people as of December 2024. (*Source: The MSME Revolution, Year End Review – 2024, Ministry of Micro, Small & Medium Enterprises*)

MSME segment accounts for ~29% of Indian GDP

Rs trillion	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India GDP (in %)	Number of MSMEs (in millions) *
FY16	41	11.0%	126	32.3%	138	29.7%	63.5
FY17	45	10.9%	140	32.2%	154	29.2%	65.5
FY18	51	13.0%	155	32.8%	171	29.8%	66.5
FY19	57	12.9%	172	33.5%	190	30.0%	68.5
FY20	61^	7.6%	184	33.4%	201	30.5%	NA
FY21	54^	-12.0%	182	29.7%	198	27.2%	NA
FY22	69^	27.1%	214	32.0%	235	29.2%	70.0
FY23	81^	8%	246	30.1%	269	NA	NA

Note: (*) – Estimated, All India GDP as of current prices, (^) Calculated numbers, Source: MSME Ministry Annual reports, Role of MSME Sector in India- Ministry of Micro, Small & Medium Enterprises, Source: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1946375, CRISIL MI&A

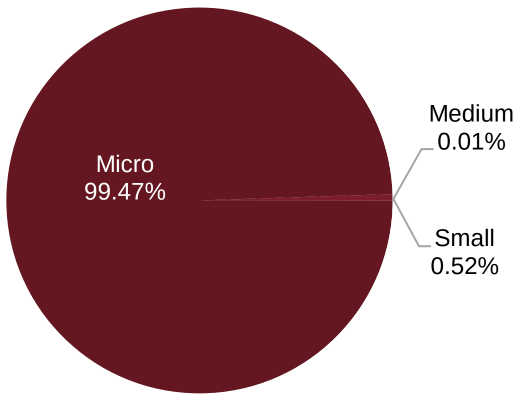
According to the National Sample Survey's 73rd round dated June 2016, micro segment accounted for as much as approximately 99.47% of total estimated number of MSMEs in India. Small and medium sector accounted for 0.52% and 0.01%, respectively of the total estimated MSMEs. At a region level, rural regions accounted for marginally higher share of 51% as compared to urban region. Out of 63.05 million micro MSMEs, 51% micro MSMEs are present in rural areas. MSMEs units are largely dominated by bigger states including Uttar Pradesh, Rajasthan, Tamil Nadu, Maharashtra, and Gujarat.

In terms of constitution, close to 94% of the entities in the MSME universe in India are estimated to be sole proprietorship firms, wherein a small business undertaking is run and managed by the business owner and the business, and the owner can virtually not be separated.

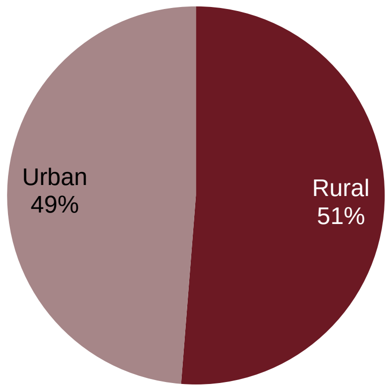
Micro segment account for dominant share

Rural region accounts for marginally higher share as

as percentage of total number of MSMEs



percentage of total number of MSMEs



Source: National Sample Survey (NSS) 73rd round dated June 2016, CRISIL MI&A

As of July 2024, micro enterprises accounted ~97.1% of total registered MSMEs in India. Small and medium enterprises accounted for 2.6% and 0.3%, respectively of the total registered MSMEs. Maharashtra, Tamil Nadu and Uttar Pradesh account for the highest number of registered MSMEs in the country, with Maharashtra accounting for 17%, followed by Tamil Nadu and Uttar Pradesh accounting for 10% each.

In terms of constitution, close to 94% of the entities in the MSME universe in India are estimated to be sole proprietorship firms, wherein a small business undertaking is run and managed by the business owner and the business, and the owner can virtually not be separated.

Behavioural shift in MSMEs

Due to various initiatives and schemes by the Government, MSMEs have witnessed a behavioural shift which is expected to help them in gaining more access to credit.

Formalization of MSMEs - Around 38% of total estimated number of MSMEs in India are registered under Udyam system

There has been a large push for formalization of MSMEs in recent years with an exponential increase in the number of MSMEs registered on the Udyam portal (similar government portals) from FY2016 to FY2024. Udyam certificate is required by MSMEs for taking benefit of any scheme of the Central government. The Udyam portal is also integrated with the Government e-Marketplace ("GeM") and the Trade Receivables and Discounting System ("TReDS") so that enterprises can participate in government procurement and have a mechanism for discounting their bills.

Year-wise and MSME category-wise registration of MSMEs

Year / Category	FY16	FY17	FY18	FY19	FY20	FY21*	FY22^	FY23$	FY24
Micro	4,21,516	21,47,908	13,44,612	18,70,932	22,48,730	35,95,577	49,75,082	1,26,17,959	2,62,34,956
Small	70,866	2,16,558	1,66,259	2,41,187	3,02,299	4,00,525	1,72,432	4,35,885	7,08,216
Medium	2,631	8,592	6,584	9,426	11,229	35,541	11,294	39,854	67,481

Total	4,95,013	23,73,058	15,17,455	21,21,545	25,62,258	40,31,643	51,58,808	130,93,698	270,10,653

*Note: * Based on UAN and Udyam registrations, ^Based on Udyam registrations, $ Based on Udyam registrations as on December 2022 as stated in the MSME Annual Report 2022-23; Source: Development Commissioner Ministry of Micro, Small & Medium Enterprises (DCMSME), Udyam Registrations, CRISIL MI&A*

Top 10 State-wise Udyam registration of MSMEs

The top 5 states together accounted for approximately 50% of the total number of MSMEs registered on Udyam as of 4th December 2024.

State	Cumulative MSME Registration	Share in overall MSME registration
Maharashtra	5,086,702	16.2%
Tamil Nadu	3,058,972	9.7%
Uttar Pradesh	3,019,146	9.6%
Rajasthan	2,229,537	7.1%
Gujarat	2,170,102	6.9%
Karnataka	1,801,098	5.7%
Madhya Pradesh	1,538,749	4.9%
West Bengal	1,342,555	4.3%
Bihar	1,287,020	4.1%
Punjab	1,184,289	3.8%

Note: (*) Based on Cumulative MSME registration as of 4th December 2024(https://dashboard.msme.gov.in/Udyam_Statewise.aspx)
Source: Udyam Registrations, CRISIL MI&A

MSME Credit Gap

High risk perception and prohibitive cost of delivering services physically have constrained formal lending to MSMEs. The emerging self-employed individuals and micro, small and medium enterprise segment is largely unaddressed by lending institutions in India. The MSME sector in India faces a significant and growing credit gap. This gap, estimated at Rs.58.4 trillion in 2017, is projected to have expanded to approximately Rs.103 trillion by FY2024.

An IFC report titled Financing India's MSMEs (November 2018) estimated the MSME credit demand at Rs. 69.3 trillion in FY17, of which only approximately 16% of demand was met through formal financing and consequently, the MSME credit gap *(defined as the gap between the demand for funds amongst MSMEs and the supply from formal financiers)* was estimated at Rs. 58.4 trillion. This gap was met through informal sources including moneylenders, chit funds and personal sources from friends and relatives. The interest rate for these sources generally ranges between 30-60% per annum.

The addressable credit demand was at Rs. 36.7 trillion after removing demand from new MSMEs, commercially unviable MSMEs and micro MSMEs that do not seek formal financing as these types of MSMEs voluntarily go for informal source of credit on account of the process being much faster, some MSMEs are quite young with no operational track record to prove their credit worthiness to the lender and MSMEs which are estimating near term bankruptcy.

Out of the total addressable credit demand of Rs. 36.7 trillion in FY17, formal source accounted for Rs. 10.9 trillion taking potentially addressable credit demand gap to Rs. 25.8 trillion (FY17) which represented MSME credit gap that could have been addressed by Financial Institutions in the near term. The credit gap is estimated to have further widened over the last 4 years due to slower economic growth in FY20, followed by the COVID-19 pandemic in FY21. In FY21, the nationwide lockdown to contain the spread of the COVID-19 pandemic disrupted economic activity, hurt demand, impacted working capital needs and supply chain along with future investments and expansions. Furthermore, government schemes post the COVID-19 pandemic such as the ECLGS scheme provided relief only to MSME units with existing loans from a formal financial institution.

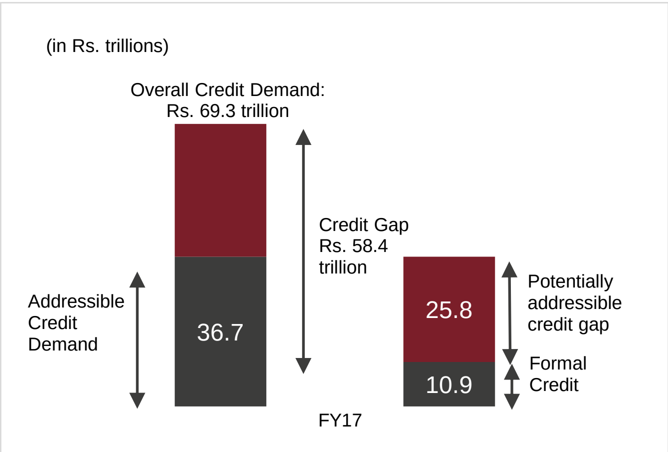
As of FY24, the estimated MSME credit demand in India was approximately Rs. 138 trillion, with only 25% of this demand being met through formal financing channels. Assuming an increase of around 10% annually in the demand for credit and the availability of credit from formal sources, CRISIL MI&A estimates the credit gap to have increased to Rs. 103 trillion as of FY24.

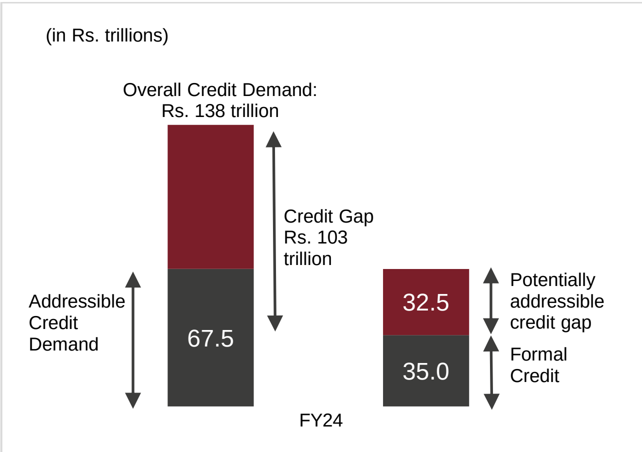
CRISIL MI&A estimates that as of FY24, the total addressable credit demand was Rs. 67.5 trillion, while current formal financing amounted to Rs. 35 trillion leaving a potentially addressable MSME credit gap of Rs. 32.5 trillion to be fulfilled by financial institutions. CRISIL MI&A expects that this increase in total addressable credit demand is attributed to factors such as greater support from bank, favourable government policies and increased lender focus on tailored products and technological advancements. Technology and use of various data sources are helping lenders analyse cash flow for NTC (New to Credit) MSME customers faster and bring many MSMEs into the formal financing network. Further, this demand is expected to grow as the Government expects MSMEs' contribution to GDP to increase in the coming years.

Despite increase in MSME loans outstanding, large credit gap still exists

The MSME sector in India faces a significant and growing credit gap. This gap, estimated at Rs. 58.4 trillion in FY17, is projected to have expanded to approximately Rs 103 trillion by FY24.

MSME Credit Demand





Note: E: Estimated, Source: IFC report on Financing India's MSMEs dated November 2018, CRISIL MI&A estimates

Smaller enterprises relatively more starved of credit

The smaller enterprises are much more starved of institutional credit, and therefore, they primarily depend on promoter contribution for working capital and fund requirements. While the access to funding has improved in the last few years, credit remains out of bounds for large swathes of the MSME population in India.

Modes of funding for MSMEs

MSMEs need credit for various purposes including term loan for expansion of business and working capital for daily operational activities. These credit needs are being fulfilled by banks and NBFCs (including Fintech companies).

Additionally, there are several schemes by the Government and institutions like NABARD and SIDBI which are offered to MSMEs for supporting them in their businesses. Such schemes support MSMEs by facilitating collateral free loans, subsidies on term loans for setting-up and/or expanding the business, promotion of innovation, marketing assistance, technology enhancements, etc.

Banks and NBFCs offer various credit products based on the need of MSMEs. Such products include Loan against property, Supply chain financing, Inventory funding, Unsecured business loans, etc.

Loan against property: It is a secured business loans which is disbursed by financial institutions against the mortgage of property. The property act as collateral / security and therefore the financial institution charges comparatively lesser interest rates than unsecured loans.

Supply chain finance (SCF): SCF consists of financing MSMEs against invoices and receivables as intermittent collaterals. It includes providing cash to suppliers against receivables from buyers.

Inventory funding: Inventory acts as one of the most important factors for running business smoothly. Inventory financing facilitate MSMEs to buy adequate inventories which could act as collateral for the loan. It helps MSMEs in maintaining optimal stock levels without impacting their cash flows

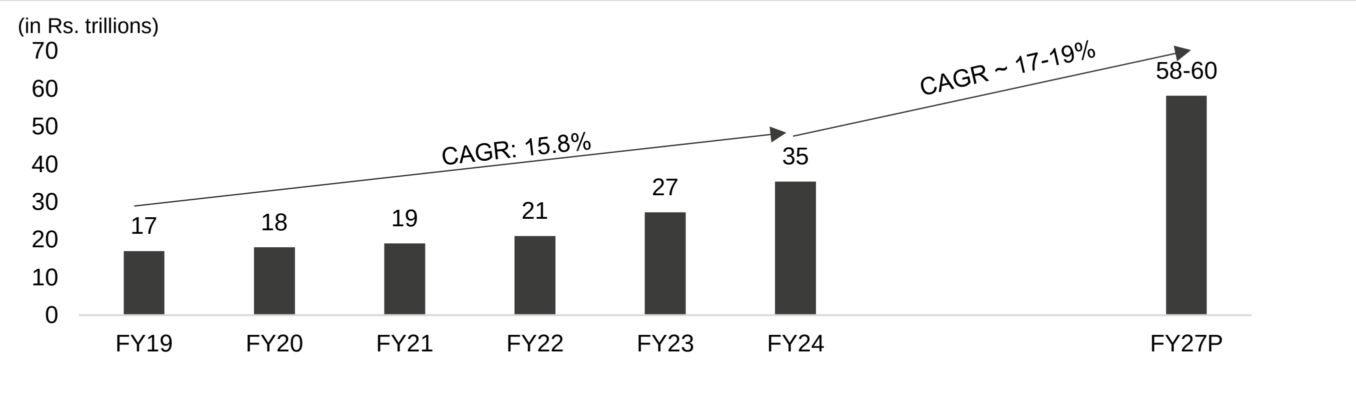
Overview of overall MSME credit in India

Overall MSME Credit Outstanding

CRISIL MI&A estimates the total size of MSME lending market across ticket sizes and various player groups (banks, NBFCs, small finance banks, and other formal lenders) to be around Rs. 35 trillion as of March 2024. This market size includes loans taken by MSMEs across various constitution types (sole proprietorships, partnership firms, private and public limited companies, and co-operatives) and the ticket size spectrum, and includes loans extended in the name of the firm/entity/company as well as the individuals in case of micro enterprises or entrepreneurs.

The two pandemic waves were particularly tough for the MSMEs on account of no or fewer economic activities. The pandemic led frequent lockdowns and restrictions interrupted supply chains, demand and hence profitability of the MSMEs. During FY2023, the Indian economy normalised, with industrialisation and urbanisation picking up pace. As a result, revenue increased to 20% for corporate India, while SMEs revenue grew 11%. In line with the overall growth, aggregate MSME credit grew 25% in FY2023. In FY2024, overall MSME credit grew by 22% on the back of higher credit demand from MSME's, higher focus of lenders on the asset class leading to higher disbursements. In H1FY25, the credit growth in the MSME segment was slower given the overall market environment and regulator's view on overleveraging and asset quality concerns.

Portfolio outstanding (Rs trillion) for MSME portfolio to grow at 17-19% CAGR between FY24 and FY27



Source: CRISIL MI&A estimates

Growth drivers for MSME Credit

Large and increasing credit gap in the MSME segment

As per estimates, less than 15% of approximately 70 million odd MSMEs have access to formal credit in any manner as of March 2022. High risk perception and the prohibitive cost of delivering services physically have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs and self-employed individuals historically. As a result, they resort to credit from informal sources. This untapped market offers huge growth potential for financial institutions. As stated earlier, the credit gap was estimated at around Rs. 58.4 trillion as of FY17 *(Source: IFC report named Financing India's MSMEs released in November 2018)* and is estimated to have widened further to around Rs. 103 trillion as of FY24.

Increased data availability and transparency

With increased digital initiatives by the MSMEs, the shift towards their formalisation and digitisation has created a plethora of data points for lenders that would help improve the efficacy of credit assessment and gradually enable provision of credit to hitherto underserved customer segments. This has created a digital footprint of customers, which can be potentially used for credit decision making, along with other relevant parameters such as customer demographics, business details, credit score, and personal situation of the borrower. Demonetisation and GST have further accelerated formalization of the Indian economy.

Increasing access and faster TAT

Due to availability of multiple data points and technology solutions, the lending process involving documentation, verification and processing of the transactions has evolved and now takes much lesser time. Technology led enhancements such as use of big data analytics and social media campaigns to acquire customers, use of direct and derived variables for underwriting, automated processes, minimum documentations, Aadhar based e-KYC, Account aggregators, flexible repayment options due to simplified real-time digital payments system, have helped in reducing hassles, increasing access to credit for borrowers and faster TAT.

Growth in branch network of players offering MSME loans

Over past few years, players offering MSME loans have expanded their branch network with the intent to serve a larger customer base. Share of borrowers from top cities in India has been on a declining trend indicating that lenders are shifting their focus on MSMEs in rural and semi urban areas. In the future also, CRISIL MI&A expects lenders with a strong focus on MSME lending and healthy competitive positioning to continue to invest in branch expansion. With increasing branch network, customer acquisition and credit penetration, share of MSME loans is also expected to increase.

Increasing competition with entry of new players and partnerships between them

Lenders are increasing the use of digital platforms to help automate and digitize loan sanctioning process however the borrower is required to possess documents for the initial clearance as stated by the banks. Incumbent traditional lenders will increasingly leverage the network of their partners and/or digital ecosystem to cross-sell products to existing customers, tap customers of other lenders, and also cater to new-to-credit customers. This will expand the market for MSME loans.

Robust government support

The government has special focus on the MSME sector on account of its economic contribution to the economy and number of people employed in the sector. MSMEs in India come under the purview of Government of India, Ministry of MSME, Khadi Village and Coir Industries Commission (KVIC). The government launched Udyam Assist Platform (UAP) on 11th January 2023 to enhance formalization of the economy. As of FY24, 26 million informal micro enterprises have joined UAP to come under the formal economy. Government of India has also introduced a new scheme called ‘PM Vishwakarma’ aiming to improve the quality of products and services of small artisans and craftsman and ensure that their companies are a part of national and global supply chain. The scheme was launched on 17th September 2023. The initial amount to be disbursed under the scheme is Rs. 13,000 crores for five years from FY23-24 to FY27-28.

Relaxation in the threshold under SARFAESI Act from Rs. 5 million to Rs. 2 million for NBFCs

In the Union Budget 2021-22, for NBFCs with a minimum asset size of Rs. 1 billion, the minimum loan size eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) Act, 2002 was proposed to be reduced from the existing level of Rs. 5 million to Rs. 2 million. The objective of this move is to improve credit discipline while continuing to protect the interest of small borrowers. This relaxation is expected to facilitate recovery from stressed books, help the NBFCs to improve their ability to recover smaller loans and strengthen their overall financial health. More importantly, it acts as a deterrent to default and enhances the enforceability of collateral for players focused on the medium ticket size LAP segment with loans of Rs. 2 million – Rs. 5 million.

Inclusion of retail and wholesale trade under MSME category

In July 2021, the Ministry of Micro, Small and Medium enterprises decided to include Retail and Wholesale trade as MSMEs for the purpose of Priority Sector Lending and they would be allowed to be registered on Udyam Registration Portal. The move is structurally positive from long-term perspective, as it will enable entities operating in the segment to register on Government's Udyam portal, participate in government tenders and also avail financing options/ benefits available to the category. This move will also aid in the formalization of India's retail trade and enable financial support to small and mid-sized retail businesses. By widening the scope of MSME to cover wholesale as well as retail trade, this move also creates an additional opportunity for MSME lenders to increase their penetration and business.

Prime Minister's Employment Generation Programme (PMEGP) providing margin money to MSMEs

PMEGP is a credit linked subsidy scheme to provide employment opportunities by establishing new micro enterprises in the non-farm sector where margin money is provided to MSMEs availing loan from banks to set up new enterprises. The maximum margin money provided under the scheme for setting up a new project is Rs 5 million for manufacturing sector and Rs. 2 million for service sector. Geo-tagging for the products and services of the units set up under this scheme has been initiated. This will help the enterprises with creating market linkages.

Credit Guarantee Fund Scheme extended to cover NBFCs

One of the major reasons why MSMEs are credit-starved is the insistence by banks or financial institutions for the provision of collateral against loans. Collaterals are not easily available with such enterprises, leading to a high-risk perception and higher interest rates for these MSMEs. In order to address this issue, the government launched the Credit Guarantee Fund Scheme under the aegis of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to make collateral-free credit available to micro and small enterprises. In January 2017, the scheme was extended to cover systemically important NBFCs as well.

Other government initiatives addressing structural issues in the MSME market

Some of the other government and regulatory initiatives are detailed below:

- **Stand-up India:** It facilitates bank loans between Rs. 1 million and Rs. 10 million to at least one scheduled caste or scheduled tribe borrower and at least one-woman borrower per bank branch for setting up a greenfield enterprise.
- **Make in India**: Launched with an intention to make India a global manufacturing hub, which in turn will provide employment to numerous youths in India
- **Mudra loans**: To fulfil funding requirement of MSMEs who were earlier left out by financial institutions; credit guarantee support also offered to financiers.
- **59-minute loan:** Online marketplace that provides in-principle approval to MSME loans up to Rs. 10 million in 59 minutes.
- **Unified Payments Interface 2.0 (UPI 2.0):** Real-time system for seamless money transfer from account

- **Trade Receivables Discounting System (TReDS):** Institutional mechanism to facilitate financing of trade receivables of MSMEs from corporates and other buyers through multiple financiers.
- In an amendment to Factoring Regulation Act, 2011, the Lok Sabha passed the Factoring Regulation (Amendment) Bill in July 2021, which is expected to support more participation from NBFCs.

Further, there have been several schemes by the government such as Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship, Scheme of Fund for Regeneration of Traditional Industries, Micro and Small Enterprises-Cluster Development Programme, MSME Champions Scheme, etc.

Digital penetration

The lenders have been increasingly leveraging technology solutions and alternative data to source and underwrite MSME loans. Such changes in MSME lending have been driven by

Digital/technological changes:

- **E-commerce platforms (B2C and B2B):** Connecting buyers and sellers
- **Introduction of digital lending focused NBFCs**: Use of technology to provide MSME lending
- **Low-cost internet data availability:** Facilitating increase in internet penetration

Government led initiatives:

- **Introduction of UPI:** Simplified real-time digital payments
- **GST implementation:** Simplified business taxes, Improved formalization of businesses
- **Aadhaar based e-KYC:** Reduced documents requirements, faster TAT, Aadhaar-PAN linkage facilitating lenders to verify information
- **ONDC:** Facilitated adoption of e-commerce through open protocol

RBI-led initiatives:

- **TReDS:** TReDS is an electronic platform for facilitating the financing/discounting of trade receivables of MSMEs through multiple financiers
- **Account aggregators**: Act as a common platform which enable sharing and consumption of data from various entities with user consent

Above are some of the broad initiatives in the market which are assisting lenders to facilitate growth in MSME lending market by leveraging technologies and alternate data points.

Additionally, such technological changes have led to innovative, simple, and cost-effective processes.

Customer acquisition/Sourcing: Lenders can use big data analytics, social media campaigns, partner with various stakeholders such as e-commerce platforms, provide multilingual chatbots, mobile apps, etc. to generate leads, and acquire customers. This makes the application process convenient and quick and increases the success rate of customer onboarding.

Underwriting: Lenders can use alternative data points (direct and derived variables) to assess creditworthiness of borrowers. Usage of advanced algorithms to identify risk profiles and repayment ability of borrowers can lead to sanctioning of loans to underserved and new-to-credit customers within minutes.

Through proprietary scorecard model-based underwriting system for MSME rural loans, lenders assess a borrower's income-earning capacity by evaluating customers' asset documentation, cash flows, and income and non-income-related documents. Additionally, lenders also conduct reference checks within the borrower's local community, including their trading ecosystem, friends, family, and neighbours. This approach goes beyond traditional metrics such as documentation and credit scores typically used by banks and financial institutions, enabling a more holistic and tailored assessment of creditworthiness.

Collection: Flexible repayment options can be provided with initiatives such as e-NACH, UPI and other digital payment options which make the collection process easier and increase collection efficiency.

With all these changes in the lending process, penetration of digital lending has been increasing in the past few years with lenders trying to provide all the services digitally to customers.

Key success factors for NBFCs offering MSME Loans

- **Ability to dive into deeper geographies with a strong branch network**: Players need to have a clear and deeper understanding of their target customer segment, the markets they operate in and develop a strong local network. The deeper understanding and presence of inhouse sales team for direct sourcing within the segment also leads to lower customer churn.
- **Focussed approach to tap underserved niche borrower segments:** MSME focussed lenders need to build a portfolio with deep understanding of the target segment and market. Specific tailor-made lending products for MSMEs with easier data availability to help lenders take a focussed approach.
- **Strong underwriting capabilities**: MSMEs tend to generally be more impacted by vagaries of the business cycle given their limited financial wherewithal and/or reliance on larger buyers. On account of limited data to support credibility of the MSME borrower, lenders are now using alternate methods of underwriting like cash flow analysis to strengthen their underwriting capabilities.
- **On-the-ground presence to manage collections and maintain portfolio quality**: Additionally, given that players in the segment also cater to a relatively riskier profile, a strong focus on collections and monitoring risk of default at customer level is vital to manage asset quality. Direct Sourcing allows control over the quality of customers and processes involved for disbursement, which can lead to better asset quality, as compared to other methods of customer acquisition.
- **Collateral risk management**: Properties that are used as collateral for MSME loans sometimes lack proper property titles, especially in the outskirts of large cities, semi-urban and rural areas.

Key Industry Parameters

In absolute terms, the aggregate size of extending secured MSME loans is estimated to be around Rs. 11.3 trillion as of September 2024. With growth in number of MSMEs and increasing requirement of credit for scaling their businesses, CRISIL MI&A believes that secured MSME lending would provide a huge opportunity for lenders to grow their loan book. There are various kind of players serving this segment including Banks, NBFCs and Small Finance Banks that offer loans to MSMEs, self-employed individuals and businesses.

In the secured MSME segment, NBFCs focused on secured MSME lending typically achieve the highest yield compared to other lenders like Banks, SFBs and HFCs, even with the highest cost of borrowing it maintains the highest spread and ROA among the other lenders. These NBFCs offer an average ticket size ~ 2.3 million, with a repayment tenor of 60 to 96 months**.**

Within NBFCs, there are players that operate at relatively higher ticket sizes and offer both secured and unsecured business loans. These NBFCs offer loans at the most competitive rates among other NBFCs, target customers that are relatively better in terms of credit profile and have lower cost of borrowings compared to other NBFCs. Compared to these, NBFCs that have singular focus on business loans or have significant proportion of business loans in their unsecured portfolio and operating at lower ticket sizes offer loans at a higher rate due to much riskier customer profile. Fintech firms with NBFC license and SFBs are other players that operate in the MSME loans landscape.

Comparison of various MSME focussed NBFCs based on yield on advances and average ticket size (FY2024)

	Yield less than 18%	Yield between 18% and 22%	Yield more than 22%
Average ticket size more than or equal to Rs 10 lakhs	Fedbank Financial Services Ugro Capital Capri Global Poonawalla Fincorp	Bajaj Finance Vistaar Financial Services	Neogrowth
Average ticket size less than Rs 10 lakhs	HDB Financial SBFC Finance	IIFL Finance	Veritas Finance Five-Star Business Finance Aye Finance Lendingkart Finance Finova Capital Kinara Capital

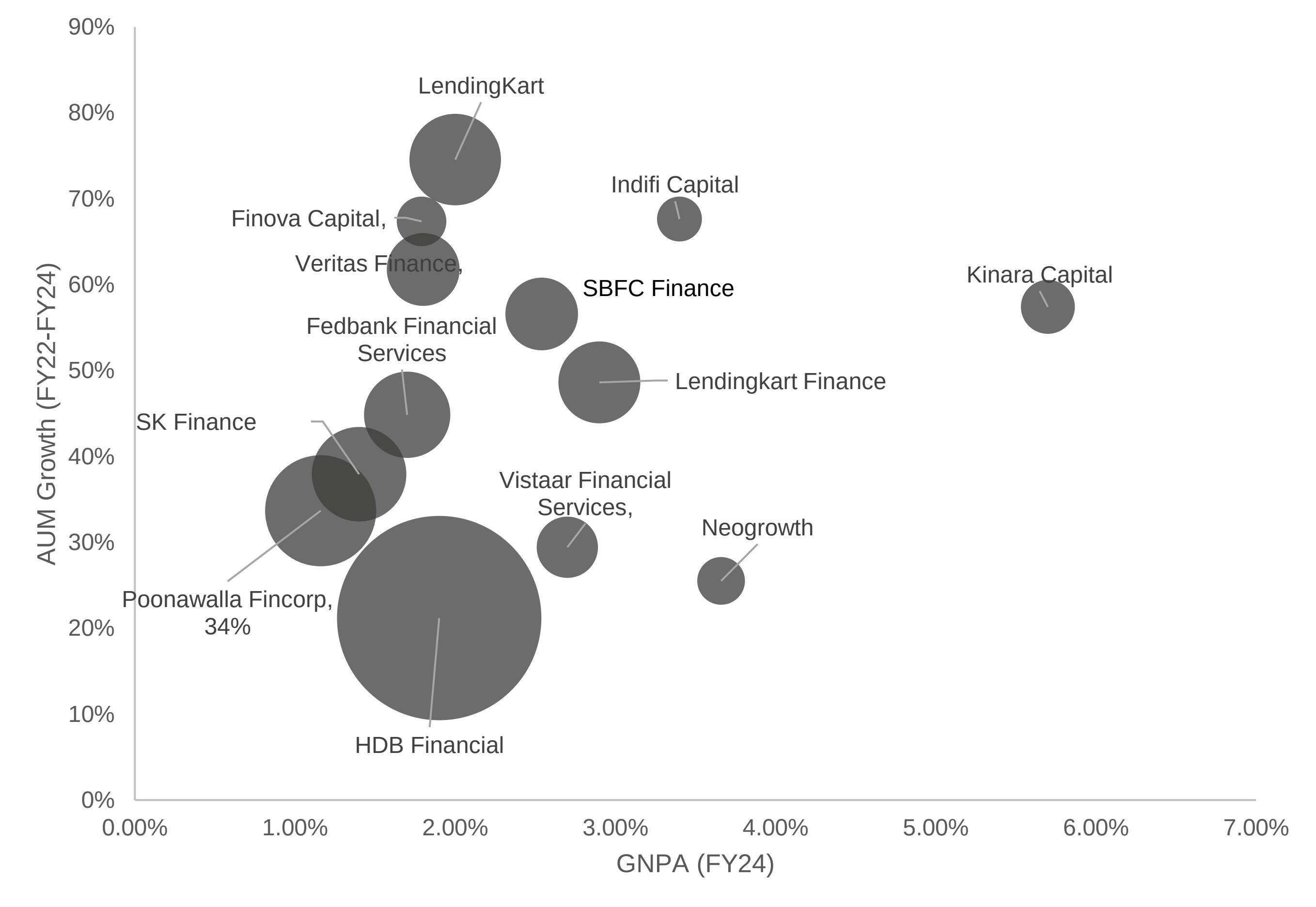
Note: Yield based on overall portfolio, Source: Company Reports, CRISIL MI&A

Comparison of players based on secured and unsecured loans mix in small business loans with asset quality

MSME players offering unsecured business loans (GNPA ratio)	MSME players offering secured business loans (GNPA ratio)
1. Neogrowth Credit (3.7%) 2. LendingKart Finance (2.9%) 3. Indifi Capital (3.4%) 4. Kinara Capital (5.7%)	1. HDB Financial Services (1.9%) 2. Ugro Capital (2.0%) 3. Fedbank Financial services (1.7%) 4. Poonawalla Fincorp (1.2%) 5. SBFC Finance (2.5%) 6. Finova Capital (1.8%) 7. Veritas Finance (1.8%) 8. Vistaar Financial Services (2.7%) 9. Five Star Business Finance (1.4%)
Average GNPA ~ 4%	**Average GNPA ~ 2%**

Note: GNPA on overall portfolio, Source: Company Reports, CRISIL MI&A

Comparison of various MSME players based on MSME portfolio size, MSME portfolio growth (FY22-FY24) and Gross Stage 3 assets (%) (FY24)



Note: Size of the bubble denotes relative size of the MSME loan portfolio as of FY2024. For HDB Financial, LAP and business loans have been taken into consideration.
Source: Company Reports, CRISIL MI&A

Overall Secured MSME Portfolio Outstanding

Overall Secured MSME portfolio outstanding is projected to grow by 16-18% over FY2024 - FY2027

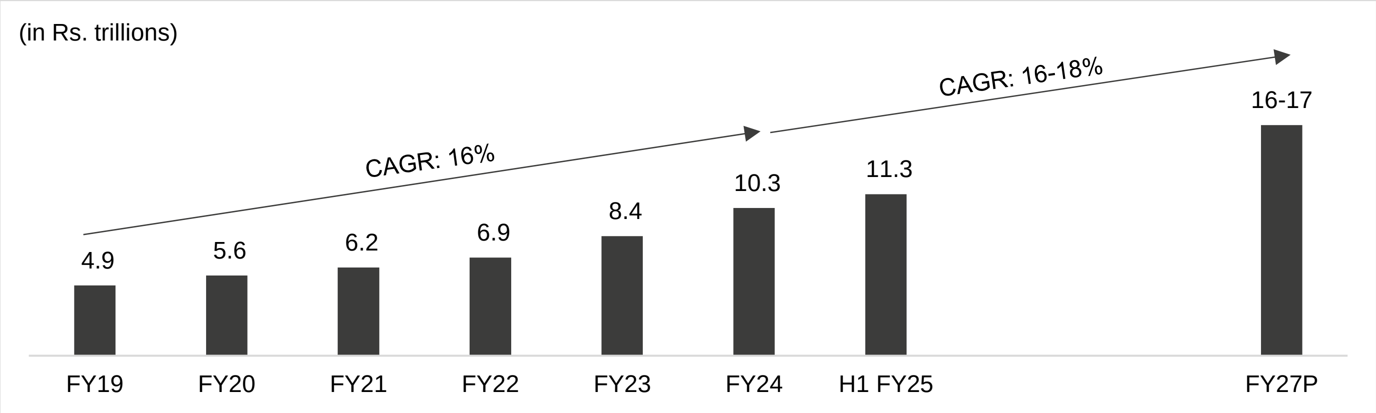
Overall Secured MSME loan segment grew at a strong pace with portfolio outstanding registering a CAGR of ~16% from FY19 to FY24. CRISIL MI&A estimates such outstanding secured MSME loans given out by banks and NBFCs to be around Rs. 10.3 trillion as of FY2024. A secured MSME loan can be obtained by mortgaging a residential or commercial real estate with the lender.

The loan product can be used for personal or business objectives, and both salaried and self-employed individuals are eligible to apply. The main purpose of the loan is not strictly regulated as it offers the financier security in the form of real estate. Secured MSME offers a lower interest rate than a personal or corporate loan. Self-employed borrowers are provided unsecured MSME loans in the absence of a collateral.

In FY2022, overall secured MSME loan portfolio outstanding grew at a slower rate of 11% year on year as MSMEs needed cash for day-to-day activities in the backdrop of global and domestic uncertainties. NBFCs moved towards niche credit assessments without the requirement of property collateral to help provide credit and meet the rapid demand from MSMEs. In FY2023, overall secured MSME loan segment bounced back with 22% year on year growth as economic activity normalised through support of RBI and centre's promotion of Aatmanirbhar Bharat. In FY2024, overall secured MSME portfolio grew at 24% year on year backed by robust economic conditions and increase in domestic consumption and growth.

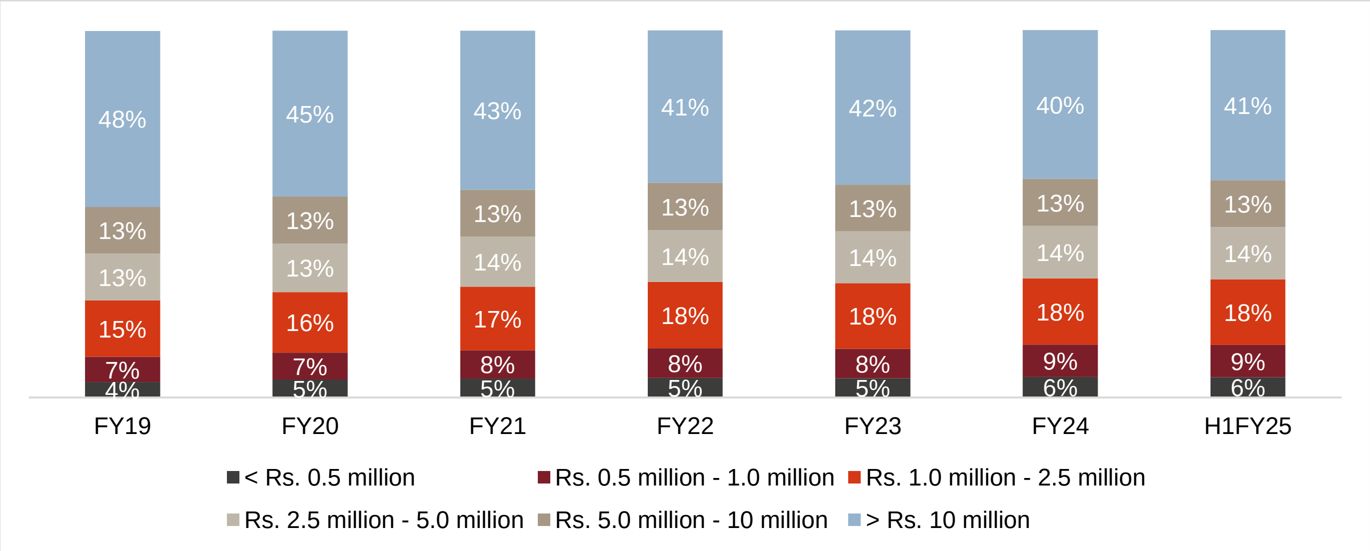
Over the last few years, expansion in branch network, more data availability and government initiatives like GST, Udyam, and increasing formalisation of the MSME segment has led to increasing focus of lenders, especially the NBFCs, on this space. NBFCs (including HFCs, NBFC-Fintech) enjoy a market share of 38% as of September 2024 in overall secured MSME portfolio outstanding.

Overall Secured MSME portfolio outstanding is projected to grow by 16-18% over FY24-FY27



Note: P: Projected, Source: CRIF Highmark, CRISIL MI&A

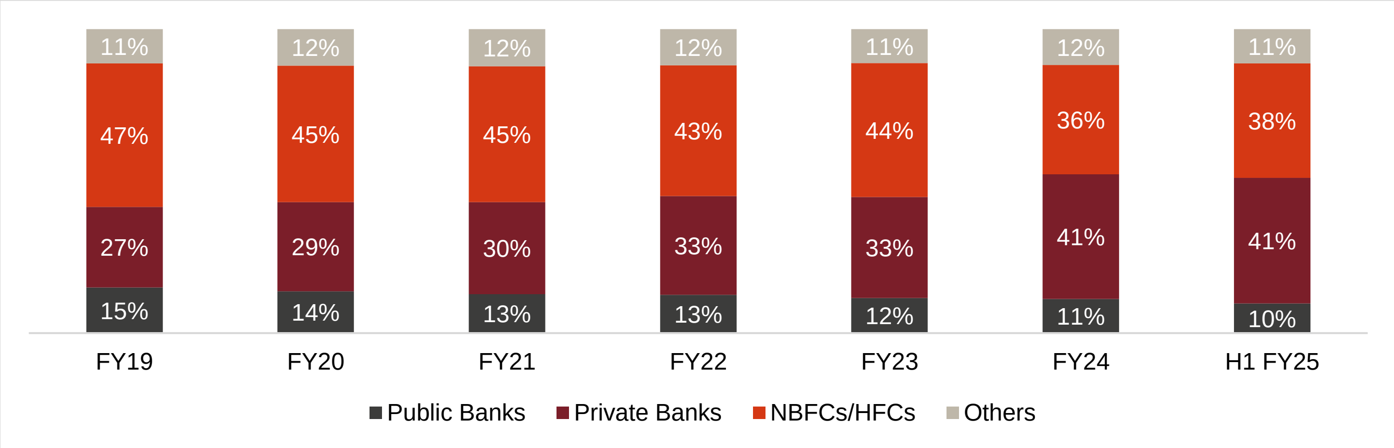
Share of overall secured MSME portfolio outstanding with ticket size < Rs. 0.5 Million has been increasing in the overall pie



Source: CRIF Highmark, CRISIL MI&A

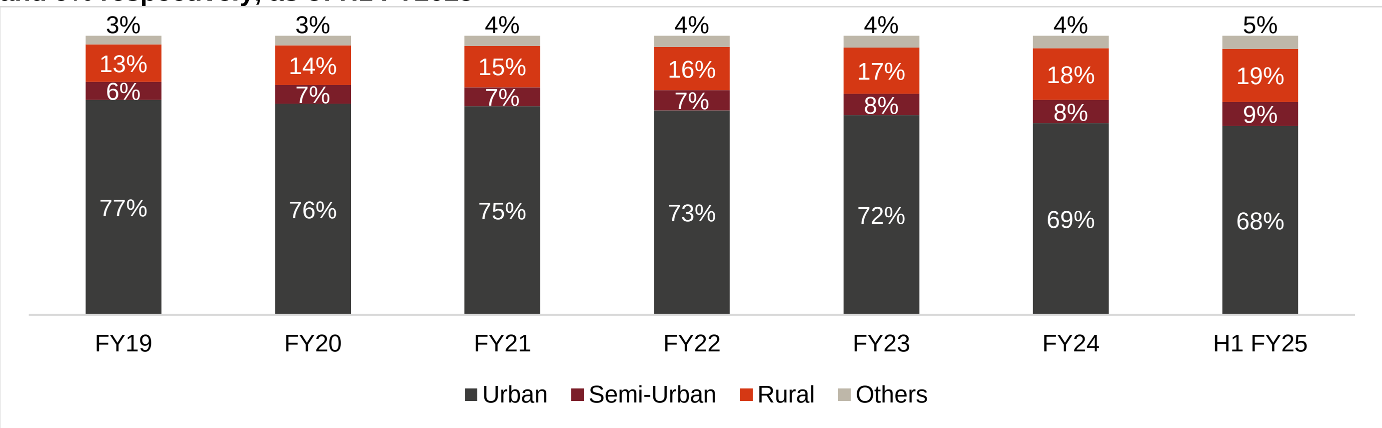
Private banks have the highest share of overall Secured MSME loan outstanding, which increased from 27% in FY2019 to 41% in FY2024. NBFCs/HFCs have established a significant presence in MSME loans by prioritizing customer needs, ensuring quick turnaround times, delivering excellent customer service, and expanding their geographic reach. Over time, the MSME portfolio of NBFCs has shown faster growth compared to the overall MSME portfolio at a systemic level. CRISIL MI&A expects the competitive positioning of NBFCs to remain strong, given their strong target customer and product focus.

Share of lender wise portfolio outstanding in overall Secured MSME portfolio outstanding



Note: On account of merger of HDFC Bank with HDFC Limited, share of private banks has shown a sudden increase in FY2024.
Source: CRIF Highmark, CRISIL MI&A

Share of Rural and Semi Urban areas in overall secured MSME portfolio outstanding has increased to 19% and 9% respectively, as of H1 FY2025



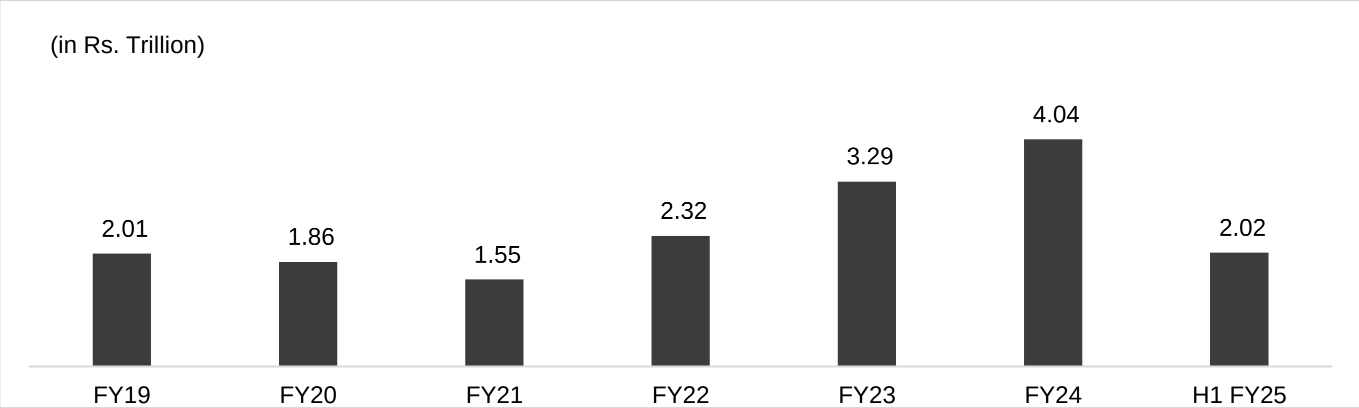
Note: Others include unclassified areas, Source: CRIF Highmark, CRISIL MI&A

Lenders are utilizing technologies like AI, ML, and alternative credit scoring mechanisms to determine customer's creditworthiness. These non-traditional data points are assisting in the underwriting process for customers with limited credit history. The share of MSMEs obtaining secured loans who are new to credit has improved from 2.4% to 3.0% from FY2019 to FY2024.

Overall secured MSME portfolio witnessed steady disbursement growth over FY19 - FY24

Between FY19 and FY21, secured MSME disbursements witnessed a decline from Rs. 2.01 trillion to Rs. 1.55 trillion, after bouncing back in FY22 and increasing to Rs. 3.29 trillion as of FY23 and Rs.4.04 trillion in FY24.

Secured MSME disbursements (in Rs. trillion) has shown a strong growth post Covid-19

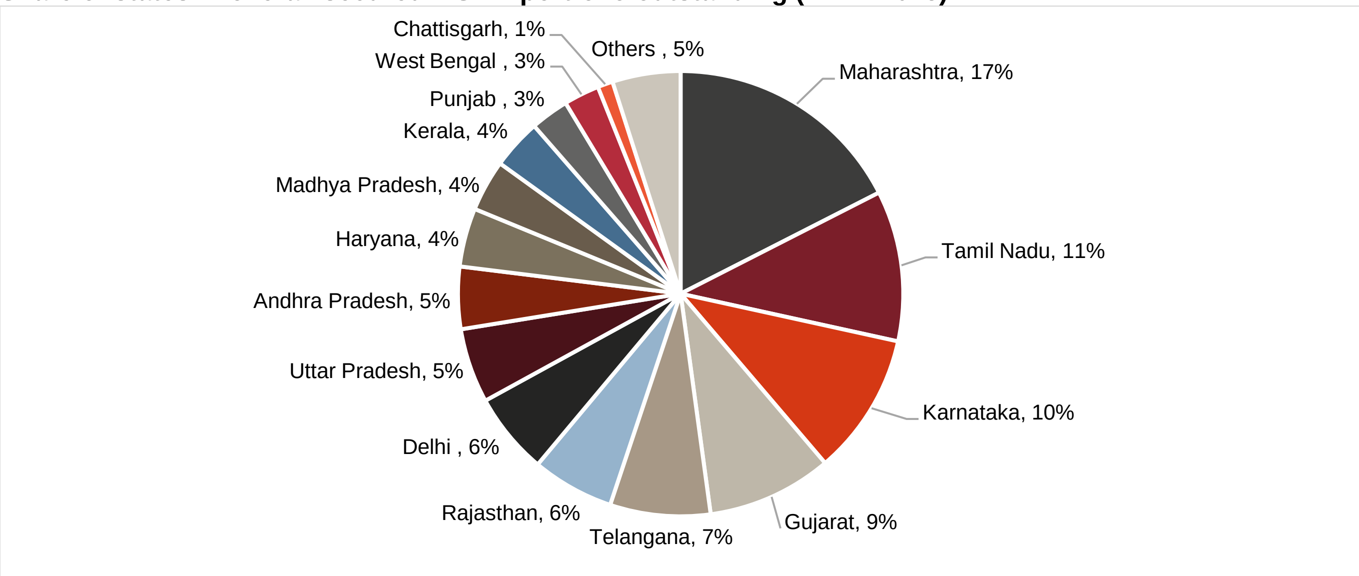


Source: CRIF Highmark, CRISIL MI&A

Maharashtra reported the highest share in overall Secured MSME portfolio outstanding as of H1 FY2025

As of H1 FY2025, Maharashtra reported the highest portfolio outstanding of overall secured MSME portfolio outstanding at 17% followed by Tamil Nadu (11%), Karnataka (10%), Gujarat (9%) and Telangana (7%).

Share of states in overall secured MSME portfolio outstanding (H1 FY2025)



Note: Others include Bihar, Uttarakhand, Odisha, Assam, Jharkhand, Chandigarh, Himachal Pradesh, Goa, Pondicherry, Jammu & Kashmir, Tripura, Dadra & Nagar Haveli, Meghalaya, Sikkim, Manipur, Mizoram, Nagaland, Daman & Diu, Arunachal Pradesh, Andaman and Nicobar, Lakshadweep and other unclassified loans outstanding
Source: CRIF Highmark, CRISIL MI&A

Similarly, in terms of disbursement, Maharashtra recorded the highest amount at Rs. 683 billion, followed by Tamil Nadu, Karnataka, Gujarat, and Telangana as of FY2024. The top 15 states collectively contributed to approximately 95% of the market share of overall secured MSME portfolio outstanding as of H1 FY2025.

State wise analysis of overall secured MSME portfolio outstanding

State	GSDP at constant prices FY24 (in Rs. Billion)	Portfolio Outstanding H1 FY25 (in Rs. billion)	Portfolio CAGR FY19-H1 FY25	Disbursement FY24 (in Rs. Billion)	Disbursement CAGR FY19-24	GNPA H1 FY25
Maharashtra	21,656*	1,979	14%	683	11%	5.6%

Tamil Nadu	15,726	1,238	16%	422	13%	3.5%
Karnataka	14,232	1,167	17%	414	15%	5.3%
Gujarat	14,756*	1,027	16%	369	16%	2.4%
Telangana	7,679	824	28%	309	25%	1.4%
Delhi	6,722	671	9%	277	9%	2.8%
Rajasthan	8,426	675	18%	242	18%	2.7%
Uttar Pradesh	14,234	613	18%	226	19%	3.2%
Andhra Pradesh	8,209	511	21%	176	19%	2.9%
Haryana	6,340	482	17%	210	22%	1.9%
Kerala	6,162*	411	16%	110	7%	12.2%
Madhya Pradesh	6,604	422	22%	146	22%	3.7%
Punjab	4,933	315	14%	109	13%	3.8%
West Bengal	9,041	292	15%	105	12%	6.5%
Chattisgarh	3,219	125	14%	40	15%	3.5%
Bihar	4,425*	107	30%	38	32%	2.2%
Uttarakhand	2,134	93	16%	31	13%	2.9%
Odisha	5,039	92	24%	33	21%	3.9%
Assam	3,186	61	26%	22	29%	3.8%
Jharkhand	2,598*	47	29%	18	28%	3.2%
Chandigarh	339*	39	9%	15	8%	2.1%
Himachal Pradesh	1,428	25	17%	9	14%	7.0%
Goa	599*	21	10%	6	3%	4.0%
Pondicherry	288*	18	13%	5	7%	4.9%
Jammu & Kashmir	1,392	18	22%	7	19%	2.6%
Tripura	430*	7	43%	2	36%	4.2%
Dadra & Nagar Haveli	-	5	28%	2	22%	2.3%
Meghalaya	265	4	28%	2	33%	2.6%
Sikkim	221*	3	14%	1	-8%	1.5%
Manipur	205**	3	33%	0	11%	7.8%
Mizoram	185**	3	50%	1	46%	5.3%
Nagaland	193*	2	18%	1	18%	2.2%
Daman & Diu	-	2	26%	1	18%	3.1%
Arunachal Pradesh	211*	2	35%	1	22%	2.1%
Andaman and Nicobar	72**	1	15%	0	12%	11.0%

Note: (*) GSDP as of FY2023, (**) GSDP as of FY2022, GNPA calculated as sum of portfolio with > 90 DPD, Source: CRIF Highmark, CRISIL MI&A

Average ticket size (ATS) decreased for all lenders except Public Banks from FY2019 to FY2024

As of FY2024, private banks recorded the highest average ticket size of Rs. 2.43 million, trailed by Public Banks, NBFCs, HFCs, and other lenders. With the exception of public banks, all other lenders witnessed a decline in the average ticket size within the overall secured MSME portfolio outstanding.

ATS (in Rs. Million)	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25
Public Banks	2.15	2.05	1.76	1.99	2.24	2.36	2.41
Private Banks	2.54	2.38	1.98	2.13	2.15	2.43	2.34
NBFCs	2.64	1.75	1.76	1.96	2.15	2.31	2.52
HFCs	2.02	1.57	1.39	1.44	1.52	1.62	1.76
Others	1.64	1.54	1.22	1.39	1.58	1.47	1.44

Note: Others include foreign banks, SFBs and other small lenders, Source: CRIF Highmark, CRISIL MI&A

Potential market for residential property backed secured MSME lending for average ticket size less than Rs. 0.5 million is estimated at Rs. 22 trillion

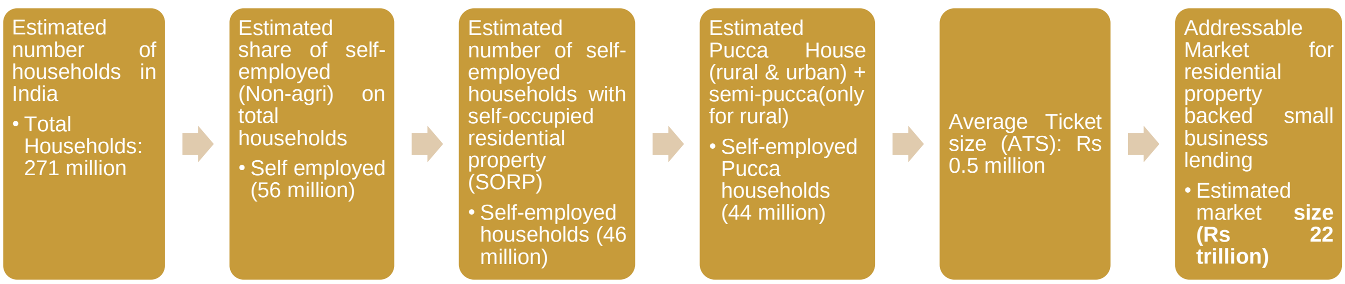
The sheer size of the gap between the supply and demand of credit and the number of enterprises impacted indicates a veritable opportunity in MSME financing. There therefore exists a plethora of players – universal banks, small finance banks, traditional NBFCs, new age fintechs, MFIs, as well as local moneylenders – who try to meet the financing requirements of MSMEs by offering secured or unsecured loans straddling various tenures.

CRISIL MI&A has attempted to decipher the size of the potential opportunity in secured residential property-backed secured MSME lending (hereafter referred to as the Addressable market for secured MSME loans), using data, information and insights at a state-level pertaining to:

- Number of households from NSS 76th round (July 2018-December 2018)
- Self-employed non-agricultural households in both urban and rural areas from Periodic Labour Force Survey (PLFS) dated July 2019-June 2020
- Proportion of self-employed households, which are staying in their own pucca or semi-pucca home (which can be taken as a collateral by financiers) from NSS 76th round (July 2018-December 2018)

Based on our analysis and assumptions detailed in the figure below, small ticket size secured (SORP – Self occupied residential property) MSME lending market potential is estimated at Rs. 22 trillion. Players such as SBFC Finance Limited, Five Star Business Finance Limited, Vistaar Financial Services Private Limited, Veritas Finance Private Limited, Finova Capital, Kinara Capital etc. currently operate in this market; our analysis indicates the Addressable Market available for these players. The top 8 states which includes Uttar Pradesh, West Bengal, Bihar, Maharashtra, Rajasthan, Tamil Nadu, Gujarat and Madhya Pradesh together account for more than 60% of the addressable market.

Addressable market estimation methodology for secured MSME loans given to non-agriculture self-employed households with residential self-occupied property as collateral (FY21)



Source: NSS 73rd round (July 2015 – June 2016) and NSS 76th round (July 2018 – December 2018), CRISIL MI&A

While the latent market opportunity is indeed significant, we observe that there are not many formal financiers who cater to this segment and have built scale. This can be attributed to the high cost of serving the market and the time it takes to build expertise, the requirement of having a strong knowledge of the local market and regional dynamics, and the challenges associated with building a credit underwriting model for non-income proof customers and collections infrastructure. However, likelihood of default in respect of self-occupied residential properties is lower.

Most small businesses in India do not maintain documents such as income proof, business registration, GST registration, income tax filings, and bank statements, making credit assessment challenging. These businesses have limited or no access to formal credit from banks and financial institutions due to the requisite documentation and stringent underwriting norms.

Examples of such businesses include provision stores, building materials stores, tea shops, vegetable vendors and others. The small business in manufacturing and services include small fabrication units, machine tools manufacturers (using lathe machines), tailors, saloons, Gym owners, vehicle service centres, etc.

Micro enterprises are estimated to account for 97% of total employment provided by MSMEs in India

As per the National Sample Survey (NSS) 73rd round, micro enterprises are estimated to account for ~97% of total employment provided by MSMEs in India. With small and medium enterprises accounting for 2.9% and 0.2% share respectively. As per the survey, 45% of these employees are present in the rural areas while 55% are present in the urban areas.

Estimated Employee Split			
Particulars	**Micro**	**Small**	**Medium**
Number of Employees (Lakhs)	1076.2	32.0	1.8
Percentage Breakup	97.0%	2.9%	0.2%

Source: MSME Annual Report 2023, CRISIL MI&A

State wise split of addressable market basis National Sample Survey (NSS) 73rd round conducted during 2015-16

Top 15 states	Total households ('000)	Total Non-Agri Self Employed households ('000)	Total Non-Agri Self Employed–Households - SORP ('000)	Total Non-agri Self Employed–Households - SORP – Pucca + Semi Pucca ('000)	Secured MSME Addressable Market Size with ATS < Rs 0.5 million (Rs billion)	% of secured MSME addressable market size with ATS < Rs 0.5 million	Market share of secured MSME < Rs. 5 lakhs as of FY24
Uttar Pradesh	38,224	7,776	7,023	6,674	3,337	14.96%	4.36%
West Bengal	23,781	5,923	5,143	4,849	2,424	10.86%	2.12%
Bihar	19,960	4,498	4,270	3,953	1,976	8.86%	0.55%
Maharashtra	24,120	4,353	3,316	3,270	1,635	7.33%	13.87%
Rajasthan	13,384	3,075	2,743	2,685	1,342	6.01%	8.86%
Tamil Nadu	20,200	3,715	2,584	2,523	1,262	5.66%	15.04%
Gujarat	13,064	3,188	2,471	2,428	1,214	5.44%	8.58%
Madhya Pradesh	15,251	2,360	1,988	1,922	961	4.31%	6.03%
Andhra Pradesh	14,279	2,677	1,956	1,895	947	4.24%	9.11%
Kerala	8,577	1,988	1,795	1,789	895	4.01%	7.45%
Karnataka	14,928	2,740	1,822	1,786	893	4.00%	9.11%
Assam	6,740	1,965	1,702	1,660	830	3.72%	0.30%
Odisha	10,401	1,909	1,647	1,415	707	3.17%	0.80%
Punjab	5,922	1,636	1,415	1,409	705	3.16%	2.05%
Telangana	9,793	1,788	1,205	1,188	594	2.66%	5.23%

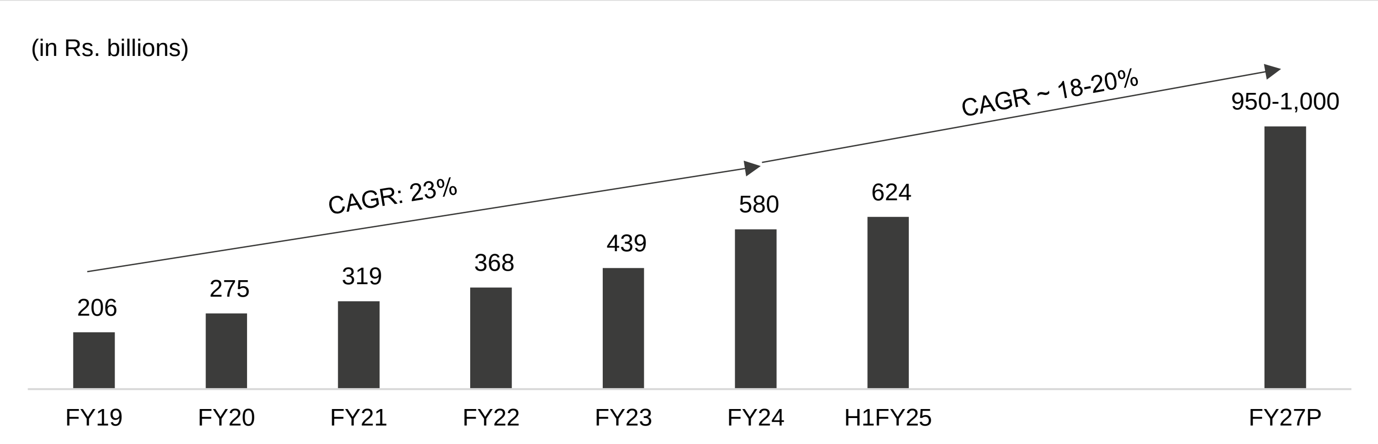
Haryana	5,216	1,174	1,000	997	499	2.23%	2.12%
Delhi	4,255	1,122	766	760	380	1.70%	1.54%
Chhattisgarh	5,664	748	624	613	306	1.37%	0.86%
Uttarakhand	2,129	426	340	335	167	0.75%	0.84%
Himachal Pradesh	1,735	259	214	214	107	0.48%	0.18%
Others	13,485	2,856	2,373	2,261	1,131	5.08%	1.00%
All India	**2,71,105**	**56,115**	**46,397**	**44,624**	**22,312**	**100%**	**100%**

Note: States are arranged in order of Addressable market size,
Source: NSS 73rd round (July 2015 – June 2016) and NSS 76th round (July 2018 – December 2018), Periodic Labour Force Survey (PLFS) dated July 2019-June 2020, CRIF Highmark CRISIL MI&A

Secured MSME portfolio outstanding (< Rs. 0.5 million)

In this section, CRISIL MI&A has considered secured MSME loans < Rs. 0.5 million as reported in the consumer bureau for analysis. Secured MSME loan segment grew at a strong pace with portfolio outstanding registering a CAGR of 23% from FY2019 to FY2024. CRISIL MI&A estimates such outstanding secured MSME loans given out by banks and NBFCs to be around Rs. 580 billion as of FY2024. Secured MSME portfolio outstanding (< Rs. 0.5 million) outpaced the overall secured MSME lending in terms of CAGR growth by registering 23% from FY2019 to FY2024.

Secured MSME portfolio (< Rs. 0.5 million) to grow at 18-20% CAGR overs FY24-FY27

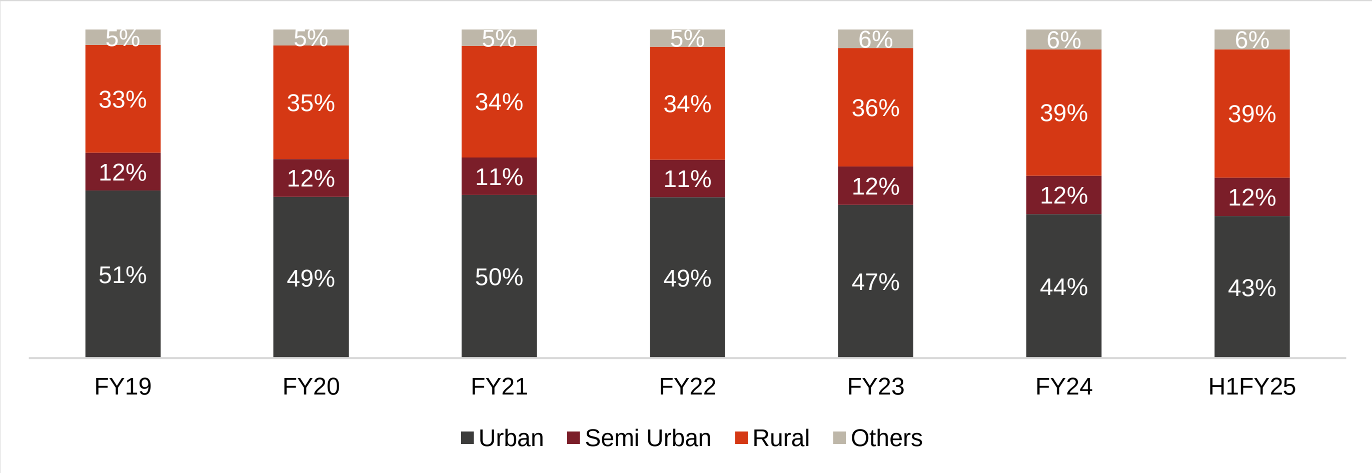


Note: P: Projected Source: CRIF Highmark, CRISIL MI&A

Going forward, CRISIL MI&A expects the portfolio of secured MSME loans with ticket size < Rs. 0.5 million to grow at 18-20% CAGR over FY24 and FY27 aided by increasing focus and higher penetration lenders for such loans, enhanced availability of data thereby increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and continued government support.

Rural areas increased its market share in secured MSME portfolio outstanding (< Rs. 0.5 million) by 6% from FY19 to FY24, Whereas market share of urban decreased to 43% in H1 FY25 from 51% in FY19. Semi urban's market share remained unchanged at 12% during the same period.

Location wise portfolio outstanding for secured MSME portfolio outstanding (< Rs. 0.5 million)

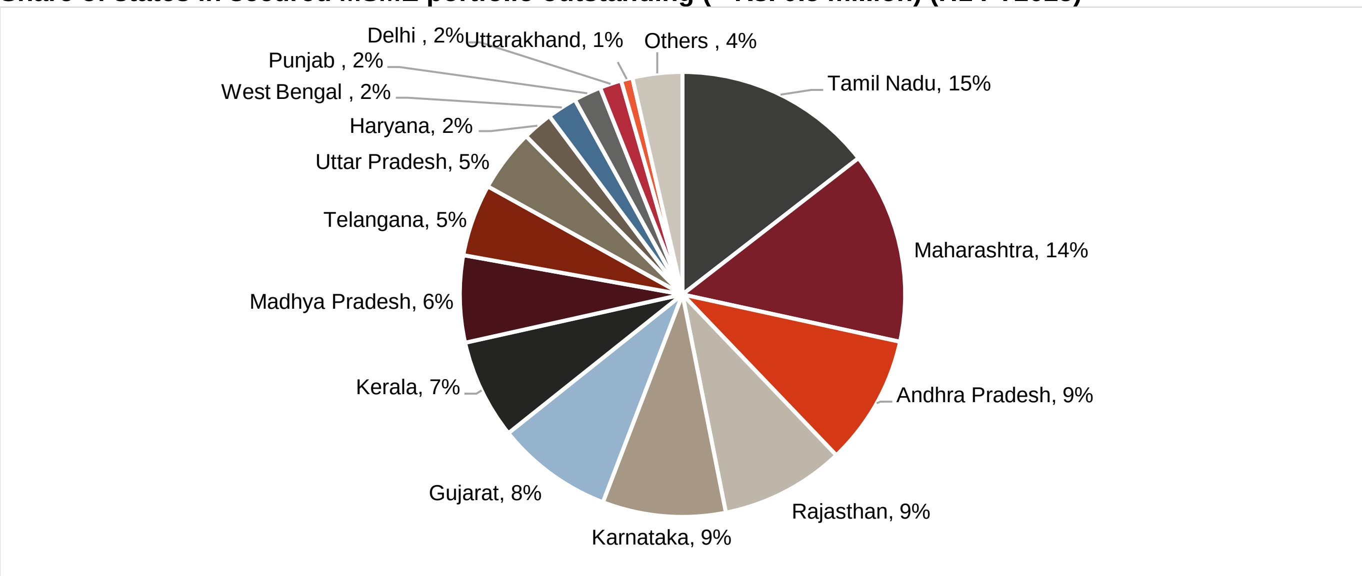


Note: Others include unclassified areas, Source: CRIF Highmark, CRISIL MI&A

Tamil Nadu has the highest share of Secured MSME portfolio outstanding (< Rs. 0.5 million) as of H1 FY2025

As of H1 FY2025, Tamil Nadu reported the highest portfolio outstanding of secured MSME portfolio outstanding (< Rs. 0.5 million) at 15% followed by Maharashtra (14%), Andhra Pradesh (9%) and Rajasthan (9%).

Share of states in secured MSME portfolio outstanding (< Rs. 0.5 million) (H1 FY2025)



Note: Others include Bihar, Uttarakhand, Odisha, Assam, Jharkhand, Chandigarh, Himachal Pradesh, Goa, Pondicherry, Jammu & Kashmir, Tripura, Dadra & Nagar Haveli, Meghalaya, Sikkim, Manipur, Mizoram, Nagaland, Daman & Diu, Arunachal Pradesh, Andaman and Nicobar, Lakshadweep and other unclassified loans outstanding
Source: CRIF Highmark, CRISIL MI&A

State wise analysis of secured MSME portfolio outstanding < Rs. 0.5 million

State	Portfolio Outstanding < Rs. 0.5 Mn. H1 FY25 (in Rs. billion)	Portfolio CAGR FY19-FY H125	Disbursement < Rs. 0.5 Mn. - FY24 (in Rs. billion)	Disbursement CAGR FY19-24	ATS < Rs. 0.5 million (Rs. 000's)	GNPA H1 FY25
Tamil Nadu	91	19%	30	11%	260	6.1%
Maharashtra	87	21%	23	13%	186	6.3%
Andhra Pradesh	59	25%	23	22%	312	3.7%
Rajasthan	56	26%	20	22%	258	5.6%
Karnataka	56	15%	18	13%	226	12.7%
Gujarat	53	23%	15	17%	180	4.0%
Kerala	45	29%	11	10%	266	21.2%
Madhya Pradesh	39	32%	15	32%	249	5.1%
Telangana	33	33%	12	30%	263	1.9%
Uttar Pradesh	28	21%	9	23%	208	5.0%
Haryana	14	22%	5	28%	206	4.0%
West Bengal	14	23%	4	11%	208	8.3%
Punjab	12	16%	4	18%	202	4.0%
Delhi	10	25%	3	18%	169	4.6%
Uttarakhand	5	17%	1	10%	165	2.0%
Chattisgarh	5	15%	2	19%	136	3.5%
Odisha	5	26%	2	22%	221	5.4%
Bihar	4	24%	1	33%	198	3.2%
Jharkhand	2	30%	1	35%	231	5.1%
Assam	2	20%	1	29%	152	5.7%
Himachal Pradesh	1	2%	0.2	-5%	181	8.2%
Pondicherry	1	15%	0.2	5%	241	7.2%
Goa	1	6%	0.1	-9%	201	2.0%
Chandigarh	1	14%	0.2	14%	165	3.1%
Dadra & Nagar Haveli	0.4	25%	0.1	18%	149	1.0%
Jammu & Kashmir	0.3	11%	0.1	-1%	182	18.8%
Tripura	0.2	25%	0.1	34%	126	4.6%
Daman & Diu	0.2	21%	0.03	7%	117	1.0%
Manipur	0.1	29%	0.04	38%	269	8.0%
Meghalaya	0.1	12%	0.03	10%	97	1.7%
Mizoram	0.1	-3%	0.02	1%	304	9.2%
Sikkim	0.05	21%	0.01	34%	171	8.5%
Nagaland	0.04	-5%	0.02	-3%	264	2.8%
Andaman and Nicobar	0.02	12%	0.004	10%	141	18.3%
Arunachal Pradesh	0.02	17%	0.004	15%	178	3.9%

Note: GNPA calculated as sum of portfolio with > 90 DPD, Source: CRIF Highmark, CRISIL MI&A

Asset Quality Metrics

Private banks had the best asset quality among major lenders with 90+ DPD at 1.3% as of H1 FY2025

Asset quality for all lenders deteriorated in FY2021 due to the pandemic where income of the borrowers was impacted which led to rise in GNPA numbers. With continued improvement in economic activity, better collection efficiency and strong credit growth, GNPA level started improving. As of FY2024, the GNPA ratio for overall secured MSME loans stood at 4.1%. Private Banks and NBFCs exhibited better asset quality compared to the industry level as of H1 FY25.

Lender wise asset quality of overall secured MSME portfolio

Lender	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25
Public Banks	6.5%	8.2%	8.3%	8.7%	7.6%	5.5%	4.8%
Private Banks	1.8%	1.5%	2.2%	1.8%	1.5%	1.4%	1.3%
NBFCs	5.3%	6.1%	7.5%	7.7%	5.8%	3.8%	3.7%
HFCs	2.0%	4.5%	5.1%	5.8%	5.8%	6.3%	4.4%
Others	7.7%	10.4%	13.3%	12.4%	11.8%	9.3%	13.1%
Industry	**3.9%**	**5.1%**	**6.0%**	**6.0%**	**5.2%**	**4.1%**	**4.0%**

Note: Others include foreign banks, SFBs. Source: CRIF Highmark, CRISIL MI&A

Ticket wise asset quality

As of H1 FY25, ticket size less than Rs. 0.5 million has reported the highest GNPA level at 6.9%, However, this high level of NPA gets offset to some extend by charging higher interest rates compared to other ticket sized loans. ticket size 0.5 million - 1.0 million and >10 million reported GNPA level of 4.7% each during the same time period.

Asset quality: 90+ Days Past Due ("DPD") across various ticket sizes

Ticket size	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25
< Rs. 0.5 million	6.8%	7.2%	8.4%	8.4%	6.7%	5.9%	6.9%
0.5 million - 1.0 million	4.3%	5.4%	6.1%	5.9%	5.0%	4.3%	4.7%
1.0 million – 2.5 million	3.3%	4.4%	5.2%	4.9%	4.0%	3.7%	3.6%
2.5 million – 5.0 million	3.4%	4.3%	5.1%	4.9%	4.0%	3.5%	3.4%
5.0 million – 10 million	3.4%	4.4%	5.3%	5.3%	4.6%	3.5%	3.4%
>10 million	3.9%	5.4%	6.5%	6.6%	6.1%	4.3%	4.0%
Overall (90+ DPD)	**3.9%**	**5.1%**	**6.0%**	**6.0%**	**5.2%**	**4.1%**	**4.0%**

Source: CRIF Highmark, CRISIL MI&A

Threats and challenges in MSME loan segment

MSME lending segment is expected to witness a rapid growth in the upcoming fiscals, however, there are a few risks associated with lending to this segment.

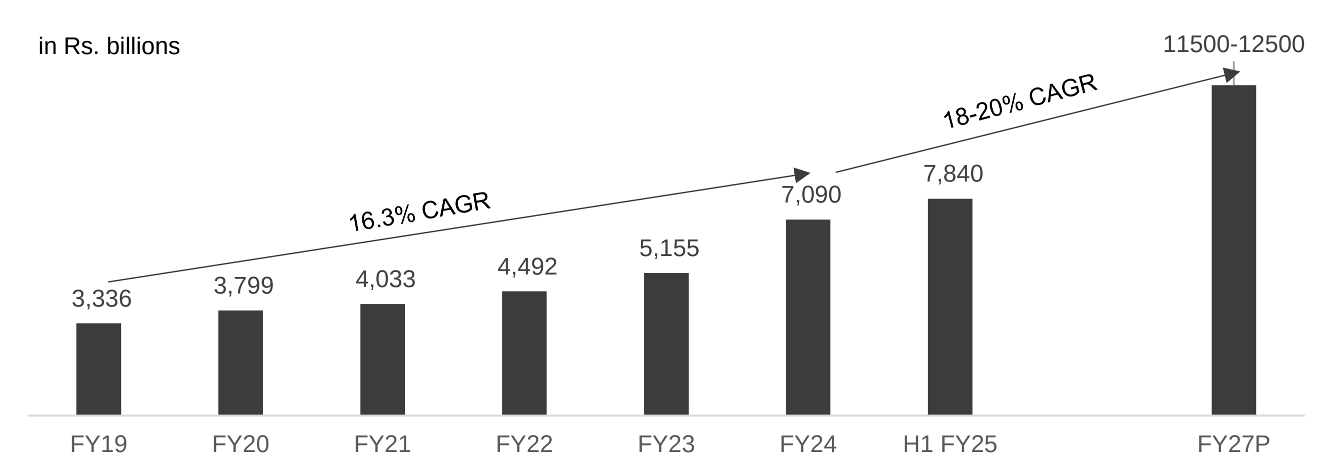
- **Inadequate credit history of borrowers:** Generally, small borrowers often lack credit history which is necessary for underwriting. Additionally, they do not have the financial capabilities to invest in maintaining proper accounts due to which it becomes difficult for lenders to assess their creditworthiness.
- **Borrowers susceptible to policy and regulatory changes:** Owing to the highly dynamic industry environment, MSMEs are vulnerable to policy and regulatory changes to which they might not have a capability to cope with.
- **Borrowers lack liquidity and are vulnerable to cash flow challenges:** MSMEs often face delays in payments which significantly impact their cash flow cycle and in-turn impact their repayment behaviour.
- **Borrowers are unable or unwilling to share all information:** Borrowers usually do not have all the required information available because of which lenders cannot assess the borrowers in a better manner.
- **MSMEs lack of adaptability to technological changes:** As technological environment is dynamic in nature and keeps on changing, it is tough for MSMEs to keep up with changes owing to lack of capital and hence face the risk of getting outdated.

- **Inadequate financial literacy:** MSME owners often lack financial expertise. The lack of financial literacy may lead to poor financial planning.

6. Unsecured Business Loans

In this section, CRISIL MI&A has considered unsecured business loans as reported in the consumer bureau for analysis.

Unsecured Business Loan Portfolio witnessed a CAGR of ~16.3% from FY19-24



Note: Unsecured Business loan portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Source: CRIF Highmark, CRISIL MI&A

Overall Unsecured Business Loans sector in India, stood at Rs. 7,840 billion as of H1FY25, and Rs. 7,090 billion as of FY24, witnessing a CAGR of ~16.3% from FY19-24. The segment has witnessed continuous growth across fiscals, with the fastest year-on-year growth in outstanding witnessed in FY23 and FY24, growing at 15% and 38% year-on-year respectively. Going forward, as per CRISIL MI&A estimates, Unsecured Business Loans sector is expected to grow at a CAGR of 18-20% till FY27, driven by the increasing number of business enterprises and increasing financial penetration in both rural and urban areas aided by multiple government initiatives in the segment. In the upcoming fiscals, as financiers are moving to more advance methods of customer underwriting and not just taking credit bureau scores in consideration, lenders would be able to lend more, significantly helping the segment to grow at a faster pace.

Loans less than Rs. 0.2 million witnessed the fastest growth in Unsecured Business Loans Segment

Among ticket brackets, loans less than Rs. 0.2 Mn. witnessed the fastest growth among ticket brackets growing at a CAGR of ~26%, accounting for ~6% share in overall unsecured business loan segment, this was followed by loans between Rs. 0.5 to 1.0 Mn growing at a CAGR of ~17.2%, accounting for ~8% share. Loans more than Rs. 2.5 million accounted for the highest share in unsecured business portfolio outstanding, with a share of ~63% growing at a CAGR of ~16%.

Ticket Bracket	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25	CAGR (FY19-H1FY25)
Less than Rs.0.2 Mn.	139.2	166.5	179.1	203.2	264.7	438.4	502.3	26.3%
Rs. 0.2 Mn to Rs. 0.5 Mn.	181.0	225.6	255.1	263.8	308.5	382.3	429.4	17.0%
Rs. 0.5 Mn. to Rs. 1 Mn.	248.2	314.6	363.1	404.1	498.1	558.5	595.5	17.2%
Rs. 1 Mn. to Rs. 2.5 Mn.	482.0	566.9	579.2	623.5	811.2	985.8	1105.8	16.3%
More than Rs. 2.5 Mn.	2,149.4	2,399.7	2,536.6	2,891.8	3,166.5	4,570.5	4,914.2	16.2%

Others	135.8	125.8	119.6	105.1	106.5	154.4	292.8	15.0%

Note: Others include customer portfolio data in which no information on ticket size was available with the bureau,
Unsecured Business loan portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Source: CRIF Highmark, CRISIL MI&A

NBFCs witnessed the fastest growth among lenders from FY19-H1 FY25, while public sector banks accounted for the highest share

Among lenders, NBFCs witnessed the fasted growth during FY19-H1 FY25, growing at a CAGR of ~18.7% in the Unsecured Business Loan segment followed by Public Sector Banks witnessing a CAGR of ~17.9% and Private Banks growing at a CAGR of ~17.5% from FY19-H1 FY25. Among lenders, Public Sector banks accounted for the highest share in credit outstanding with a share of ~47% followed by NBFCs accounting for ~23% share and private banks with 16% share.

Portfolio Outstanding (in Rs. billion)	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25	CAGR (FY19-H1 FY25)
NBFCs	716.7	908.7	956.1	1,068.3	1,460.1	1,436.8	1,837.7	18.7%
Private Banks	511.1	602.5	623.5	732.2	880.4	1,135.8	1,238.5	17.5%
Public Sector Banks	1,485.7	1,610.2	1,632.5	1,813.6	1,808.6	3,440.1	3,675.4	17.9%
Others	622.1	677.6	820.8	877.5	1,006.3	1,077.2	1,088.4	10.7%

Note: Unsecured Business loan portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Others includes SFBs, foreign banks and other small players
Source: CRIF Highmark, CRISIL MI&A

Among major lenders, Public Sector Banks had the highest average ticket size at 0.82 Mn

Among major lenders present in the Unsecured Business Loan segment, Public Sector Banks had the highest loan average ticket size at ~Rs. 0.82 Mn. which was followed by private banks with their average ticket size at ~Rs. 0.44 Mn. as of H1 FY25. Average ticket size for NBFCs stood at Rs. 0.31 million as of H1 FY25.

Lender wise average ticket

Lender (in Rs.)	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25
NBFCs	849,850	456,803	475,525	489,578	512,029	466,795	306,765
Private Banks	1,143,342	1,115,488	973,897	799,323	414,561	380,575	442,058
PSU Banks	1,170,016	1,204,186	566,424	1,592,672	1,206,068	420,296	816,638
Others	432,825	470,671	425,787	317,749	340,287	227,736	313,346

Note: Unsecured Business loan portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Others includes SFBs, foreign banks and other small players
Source: CRIF Highmark, CRISIL MI&A

Among lenders, Private Banks and NBFCs had best asset quality in Unsecured Business Loan Segment as of H1 FY25

Among lenders, NBFCs had the best asset quality in the Unsecured Business Loan segment with 90+ DPD at ~6% as of H1 FY25, this was followed by Private Banks with 90+ DPD at ~7% and Public Sector banks with 90+ DPD at ~17.9% as of H1 FY25.

Lender wise asset quality

Lender	GNPA FY19	GNPA FY20	GNPA FY21	GNPA FY22	GNPA FY23	GNPA FY24	GNPA H1 FY25

NBFCs	4.3%	6.3%	8.7%	9.0%	7.8%	7.3%	6.1%
Private Banks	3.9%	4.2%	5.8%	6.0%	5.3%	6.9%	7.0%
Public Sector Banks	32.7%	37.5%	38.3%	40.5%	38.1%	19.6%	17.9%
Others	9.3%	11.0%	13.8%	14.1%	13.8%	15.1%	17.2%

Note: Unsecured Business loan portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau. Others includes SFBs, foreign banks and other small players

Source: CRIF Highmark, CRISIL MI&A

Urban Regions accounted for the highest share in Unsecured Business Loan Segment, accounting for ~64% share

Urban regions accounted for the highest share in Unsecured Business Loan Segment, accounting for ~64% market share followed by rural regions accounting for ~23% share and semi-urban regions accounting for ~9.3% market share. While the fastest growth was witnessed in rural regions during the fiscals growing at a CAGR of ~22.9% followed by semi-urban regions which grew at ~21% CAGR from FY19- H1 FY25.

Region wise share of unsecured business loan segment

Tier	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25	CAGR (FY19-H1 FY25)
Rural	581.4	691.2	780.9	899.0	1,126.1	1,595.7	1,805.1	22.9%
Semi-Urban	258.1	300.2	315.2	363.1	441.9	668.3	732.7	20.9%
Urban	2,387.7	2,680.0	2,799.9	3,063.8	3,396.7	4,547.1	4,981.0	14.3%
Others	108.3	127.6	136.8	165.8	190.7	278.9	321.3	21.9%

Note: Unsecured Business loan portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.

Source: CRIF Highmark, CRISIL MI&A

Maharashtra accounted for the highest share in Unsecured Business Loan Segment as of H1 FY25

Among states, Maharashtra accounted for highest share in unsecured business loan outstanding accounting for ~17% share as of H1 FY25, which was followed by Tamil Nadu accounting for ~11% share and Gujarat accounting for ~9% credit share. Among top 15 states, Bihar witnessed the fastest growth in credit outstanding growing at a CAGR of ~36.3%, followed by Andhra Pradesh witnessing a CAGR of ~25% from FY19-H1 FY25. As of H1 FY25, Top 5 states accounted for ~50% share, while top 10 states accounted for ~76% share.

State wise share of unsecured business loan market

State	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25	CAGR FY19-H1 FY25
Maharashtra	652.5	737.3	781.4	859.4	1,010.9	1,216.6	1,299.0	13.3%
Tamil Nadu	412.6	460.5	510.2	553.0	602.5	757.4	836.0	13.7%
Gujarat	253.7	286.1	302.7	332.3	419.3	613.2	691.5	20.0%
Karnataka	251.6	288.8	304.0	332.2	386.4	513.8	583.7	16.5%
Uttar Pradesh	182.6	206.1	207.3	233.3	282.3	485.9	536.5	21.7%
Delhi	303.3	324.0	317.7	335.3	345.9	407.3	453.2	7.6%
Telangana	161.7	196.0	202.4	238.3	251.0	400.8	448.3	20.4%
West Bengal	160.5	193.5	206.7	217.8	241.0	343.9	378.7	16.9%
Kerela	113.0	132.3	193.5	239.7	263.3	336.9	355.4	23.2%
Andhra Pradesh	102.3	113.2	115.1	151.0	156.2	310.5	350.7	25.1%
Rajasthan	146.2	177.0	185.2	209.7	247.1	300.0	331.4	16.0%
Madhya Pradesh	105.5	132.9	145.3	169.1	214.5	266.0	288.3	20.1%

Haryana	122.2	134.7	126.7	131.0	152.4	193.5	226.7	11.9%
Bihar	32.8	43.2	47.5	53.6	70.3	155.2	179.9	36.3%
Punjab	101.0	108.7	106.2	116.2	136.3	160.4	170.2	10.0%
Others	234.2	264.8	280.9	319.8	376.2	628.7	710.5	22.4%

Note: Unsecured Business loan portfolio includes business loan general, business loan unsecured, and loans to professional as per bureau.
Source: CRIF Highmark, CRISIL MI&A

Profitability of NBFC Players present in the Unsecured Business Loan Segment

NBFCs in the Unsecured Business Loan segment operate with yield in the range of 23-25%, on average. With average cost of funds being in the range of 12-13%, net interest margins (NIMs) for this segment are in the range of 12-14%. CRISIL MI&A estimates the profitability in this segment to have increased in FY2024 owing to improving credit costs and increase in interest yields. Going forward, profitability to improve on the back of growth in loan book and increasing operating efficiency.

Competitive Scenario in the Unsecured Business Loan Segment

Parameter	FY22	FY23	FY24
Yield on advances	25.7%	24.4%	24.6%
Cost of Borrowings	12.4%	12.2%	12.2%
Net Interest Margins	12.5%	14.2%	16.9%
Return on Assets	-3.2%	2.4%	2.9%
ROE	-11.8%	9.5%	11.7%

Sources: Company Reports, CRISIL MI&A

NBFCs operating in the Unsecured Business Loan Segment have been able to command higher margins (~16.9%) due to higher yield on advances (24.6%), with cost of borrowings at ~12.2%. leading to return on assets at 2.9% for FY24, rising from 2.4% in FY23, their return on equity stood at 11.7% in FY24, rising from 9.5% in FY23.

Key Growth Factors in the Unsecured Business Loan Landscape

Higher Interest Rate Margins: Unsecured Business Loans typically carry higher interest rates compared to secured loans. The higher yield on unsecured loans compensates for the additional risk involved, making it an attractive option for lenders seeking higher returns.

Technology Adoption: Leveraging technology in credit assessment, loan processing, and monitoring can streamline operations, reduce costs, and enhance efficiency in Unsecured Business Loan lending. Automated credit scoring models and digital platforms enable lenders to make faster decisions and serve a larger number of borrowers

Regulatory Support: Government initiatives such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provide support to lenders to offer unsecured credit to MSMEs. These schemes help mitigate risks for lenders and promote increased lending to small businesses

Promoting Financial Inclusion: Providing Unsecured credit to micro and small enterprises plays a crucial role in promoting financial inclusion. Many small businesses lack requisite collateral to avail formal credit. By offering unsecured credit lenders can reach underserved businesses and support their growth and development.

Customised solutions: By understanding the challenges and aspirations of small businesses, lenders can provide tailored solutions, Lenders can customize financial products to suit the unique needs and cash flow patterns of Business loan borrowers, fostering long-term relationships and loyalty.

Key Risks in the Unsecured Business Loan Landscape

Inadequate credit history of borrowers: Generally, small borrowers often lack credit history which is necessary for underwriting. Additionally, they do not have the financial capabilities to invest in maintaining proper accounts due to which it becomes difficult for lenders to assess their creditworthiness.

Borrowers susceptible to policy and regulatory changes: Owing to the highly dynamic industry environment, small businesses are vulnerable to policy and regulatory changes to which they might not have a capability to cope with.

Borrowers lack liquidity and are vulnerable to cash flow challenges: Small Businesses often face delays in payments which significantly impact their cash flow cycle and in-turn impact their repayment behaviour.

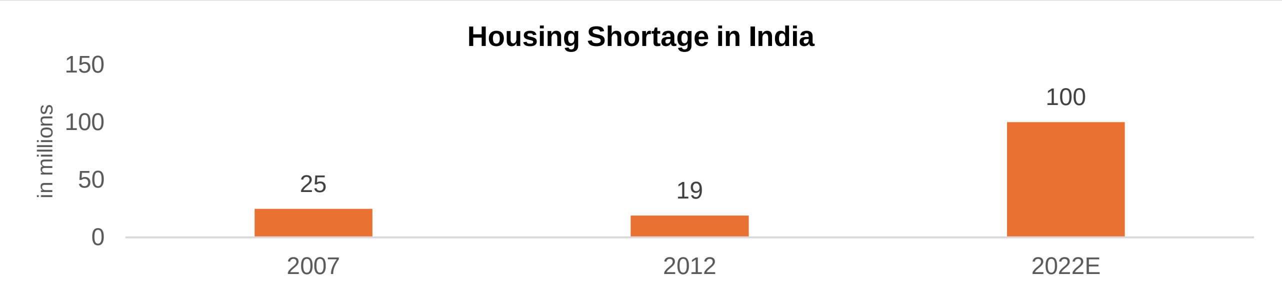
Borrowers are unable or unwilling to share all information: Borrowers usually do not have all the required information available because of which lenders cannot assess the borrowers in a better manner.

Vulnerable customer segment: The target customer segment for unsecured business loans is vulnerable to economic vagaries and the associated credit risk is relatively higher as compared to the secured business loans

7. Housing Finance Industry in India

Estimated shortage and requirement of ~100 million houses in 2022

The housing shortage in India has only increased since the estimates at the time of the Twelfth Five-year plan. As per the report of RBI-appointed Committee on the Development of housing finance securitisation market (September 2019), the housing shortage in India was estimated to increase to 100 million units by 2022. Majority of the household shortage is for Lower income group (LIG) and Economic weaker section (EWS) with a small proportion (5-7%) of the shortage coming from middle income group or above. Total incremental housing loans demand, if this entire shortage is to be addressed, is estimated to be in the region of Rs 50 trillion to Rs 60 trillion, as per the Committee report, indicating the immense latent potential of the market.

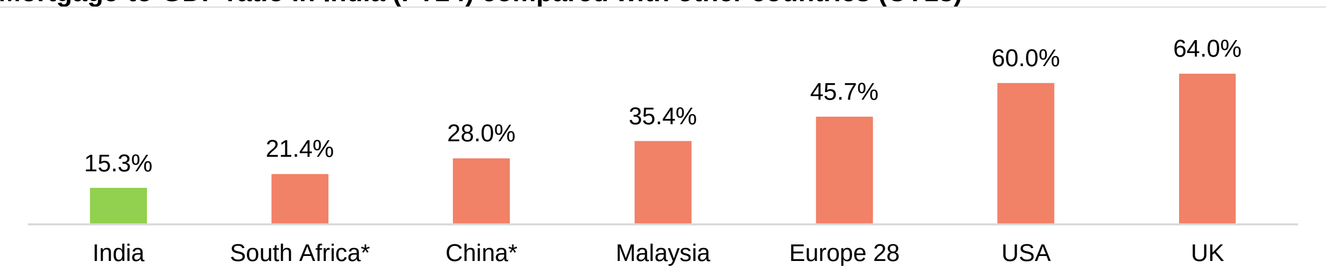


Note: E: Estimated; Source: RBI, Planning Commission, CRISIL MI&A

India's mortgage penetration is lower than other economies

India has very low penetration in terms of housing finance as compared to its rising peers which shows a high potential for expansion of Indian housing finance companies. The housing finance market continues to face supply constraints from Banks and NBFCs, particularly for the lower income.

Mortgage-to-GDP ratio in India (FY24) compared with other countries (CY18)

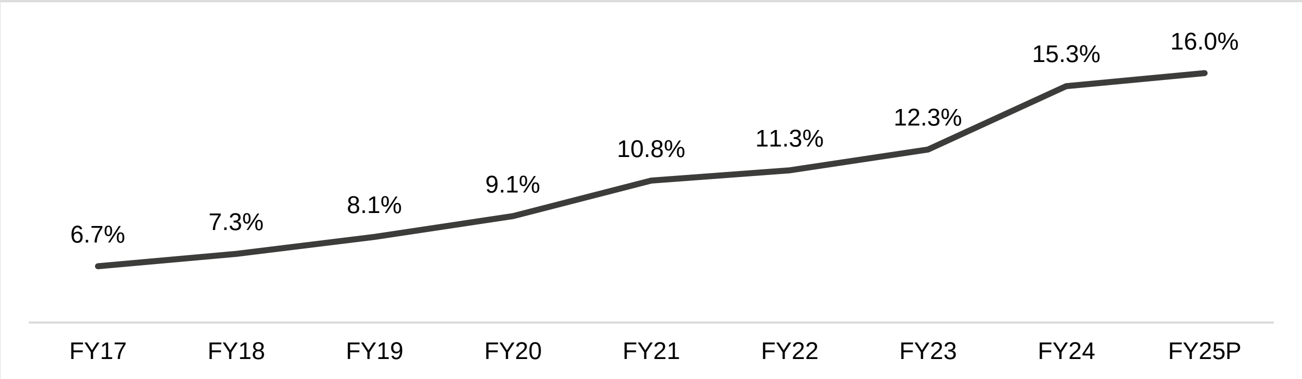


Note: (*) – As of CY17, Indian mortgage to GDP is for FY2024 – 15.3%; Europe 28 includes the 28 European Union Member states as of December 2018; Source: HOFINET, European Mortgage Federation, NHB, CRISIL MI&A

Mortgage-to-GDP ratio in India to grow to 16% by FY2025

In FY2023, India's mortgage-to-GDP ratio stood at 12.3%. Though low compared with other developing countries, it has significantly improved from 6.5% in FY2009. The factors that contributed to the improvement are rising incomes, improving affordability, growing urbanisation and nuclearization of families, emergence of tier-II and tier-III cities, ease of financing, tax incentives, and widening reach of financiers. Given the expected steady growth from FY2023, CRISIL MI&A projects the ratio at around 16% by FY2025.

Trend in mortgage-to-GDP ratio in India

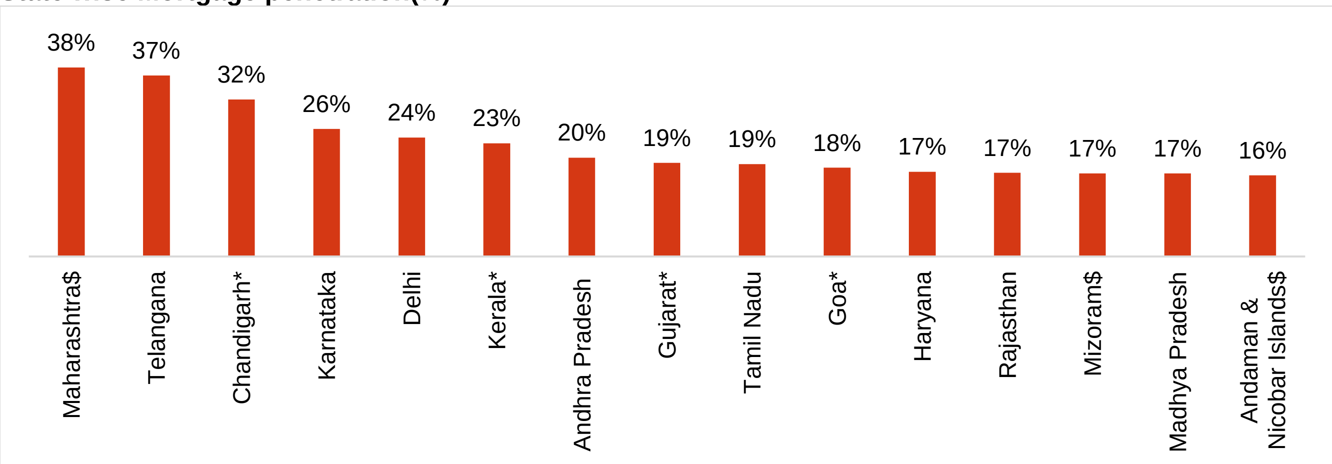


Note: P – Projected, Data for mortgage to GDP for India includes both Housing loans outstanding over constant GDP for India; Source – NHB, World Bank, CRISIL MI&A

State-wise mortgage penetration in India

The mortgage-to-GDP ratio varies widely based on home loan market size, ranges between ~3% and ~38% in FY2023. Maharashtra has the highest housing loan penetration with ~38% of GDP followed by Telangana (~37%) and Chandigarh (~32%) at second and third position respectively as of FY2024.

State wise Mortgage penetration(%)



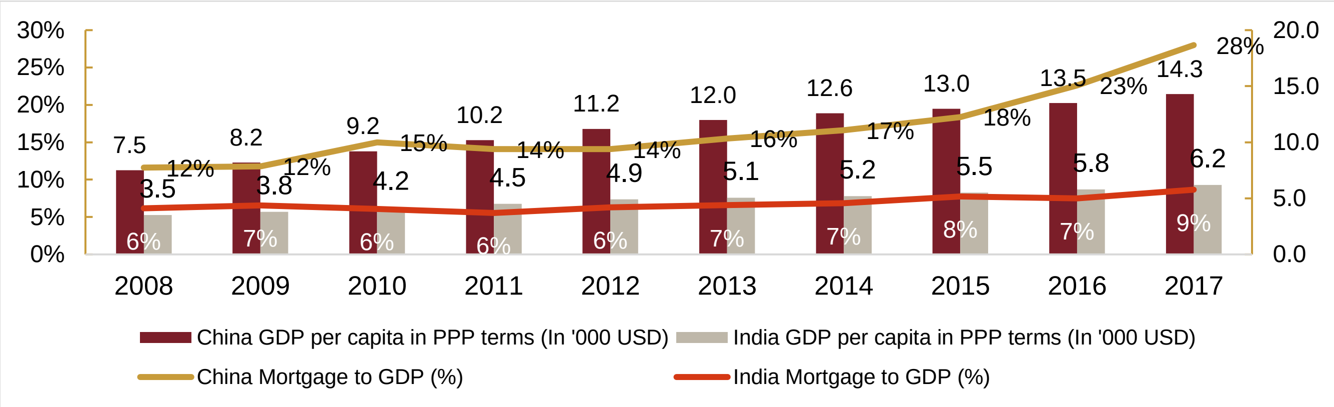
*Note: Housing loan penetration calculated as Housing loan outstanding over state GSDP (at constant prices) as of FY2024; GDP taken as GSDP at constant prices, Base Year: 2011-12., * GDSP taken for FY2022, $GDSP taken for FY2023, Source: CIBIL, RBI, MOSPI, CRISIL MI&A*

Factors affecting mortgage-to-GDP ratio in India

Mortgage penetration in India is far lower than other emerging economies (South Africa, China, Malaysia etc.) owing to lower per capita income and higher proportion of informal employment in the country. However, CRISIL MI&A believes rising urbanisation, growing disposable income, favourable demographics and government measures will lead to higher mortgage penetration going forward. Following are the growth drivers to boost mortgage penetration in India:

Rise in per capita income to drive the growth of mortgage penetration in India

The mortgage penetration in China is correlated to the GDP per capita of the country and the mortgage to GDP ratio of China has grown from 12% in 2008 to 28% in 2017. The per capita income of the country has increased from USD 7,500 in 2008 to USD 14,300 in 2017. India has gone through a similar trajectory with mortgage penetration in the country increasing from 6% in 2008 to 9% in 2017 which is correlated to the increase in per capita income of the country from USD 3,500 in 2008 to USD 6,200 in 2017. India's GDP per capita income stood at USD 8,400 at end of 2022 witnessing significant growth in the past five fiscals.

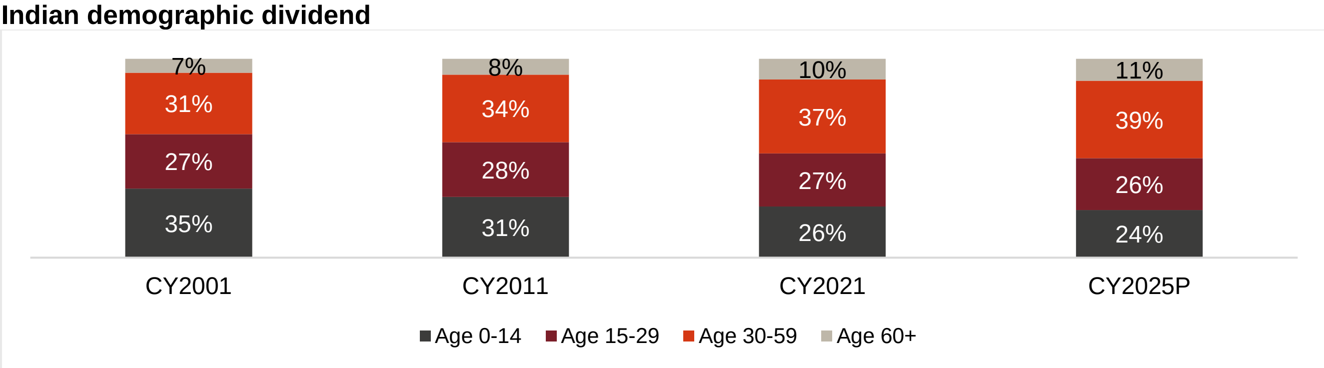


Source – HOFINET, Peoples Bank of China, World Bank, CRISIL MI&A

India's demographic dividend: India has one of the largest young populations in the world

As per United Nations DESA estimates, as of July 2023, India has one of the largest young populations in the world, with a median age of 28.2 years. As of CY2021, 64% of India's population was between 15 and 59 years, with 26% of the nation's population under the age of 14. In comparison, in 2020, the United States (US), China and Brazil had 74%, 62% and 78%, respectively, of their population below the age of 60.

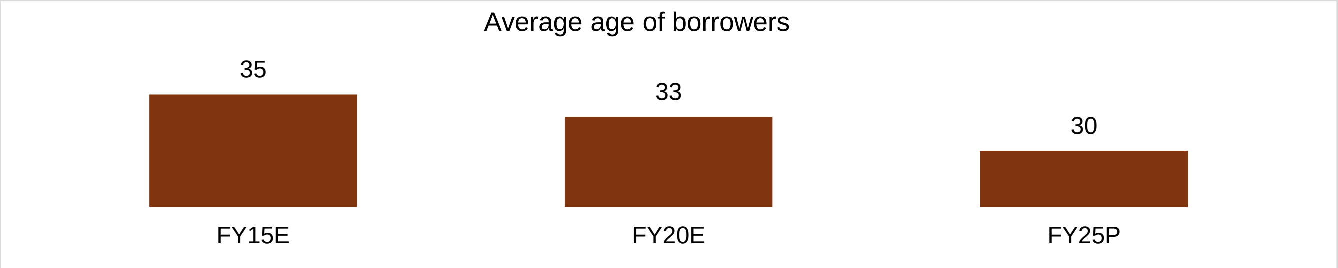
Indian demographic dividend



Note: E: Estimated, P: Projected; Source: United Nations Department of Economic and Social affairs, CRISIL MI&A

Shift towards younger age profile for home loan borrowings

Average age of borrowers has been declining over the years and was estimated at 33 years in FY2020. We expect this figure to decline further with growth in salaries and people's strengthening preference for accumulating assets, both for investment purpose and tax benefits, coupled with increased access to formal credit India's demographic profile is expected to favour the Housing industry, leading to growth in the housing finance market.

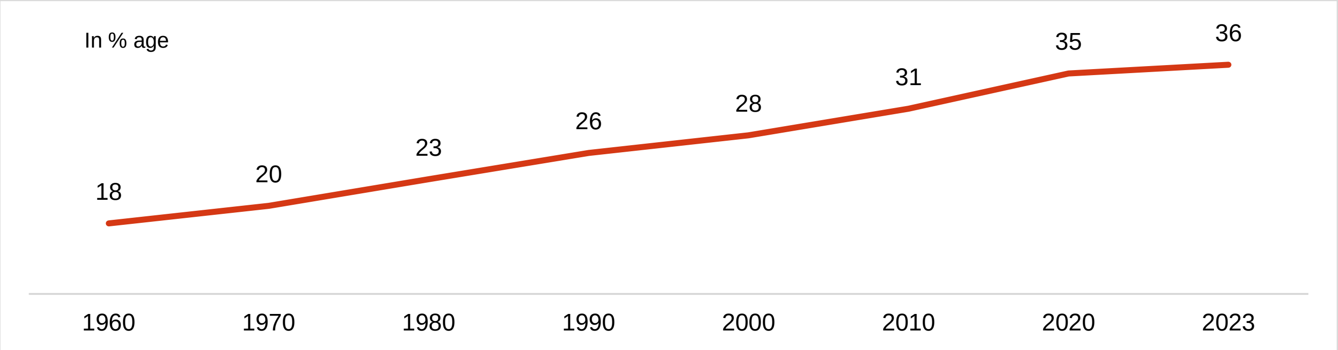


Note: E – Estimated, P – Projected, Source: CRISIL MI&A

Continuous increase in share of urban population to boost demand for housing in urban areas

The share of urban population in relation to the total population has been consistently rising over the years. People from rural areas move to cities for better job opportunities, education, better life, etc. Entire families or only a few people (generally earning member or students) may migrate, while a part of the family continues to hold on to the native house. Urbanisation levels estimated to have rose from 31% in 2010 to 36% in 2023 This percentage is expected to increase further in the years to come, thereby translating into higher demand for housing and related amenities in the urban areas.

Urban population as a percentage of total population

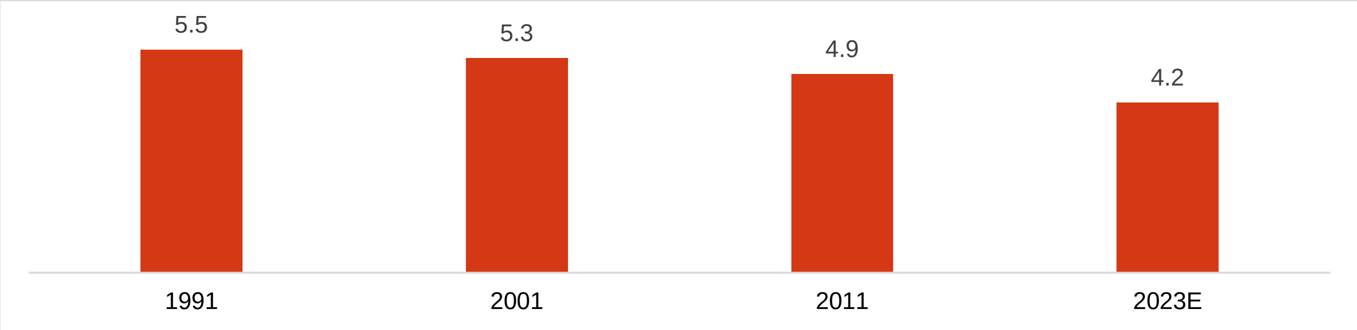


Source: United Nations Population Division's world urbanization prospects, World Bank, CRISIL MI&A

Rise in number of nuclear families leads to formation of new houses

Nuclearization refers to formation of multiple single families out of one large joint family. Each family lives in a separate house, while the ancestral house may be retained or partitioned to buy new houses. Nuclearization in urban areas is primarily driven by changing lifestyle of people, individualism, changing social/cultural attitudes, and increased mobility of labour in search of better employment opportunities. These trends are expected to continue in future.

Trend in average persons per household (In numbers)



Note: 2023E data is as per Periodic Labour Survey Report, Source: Census 2011, MOSPI, CRISIL MI&A

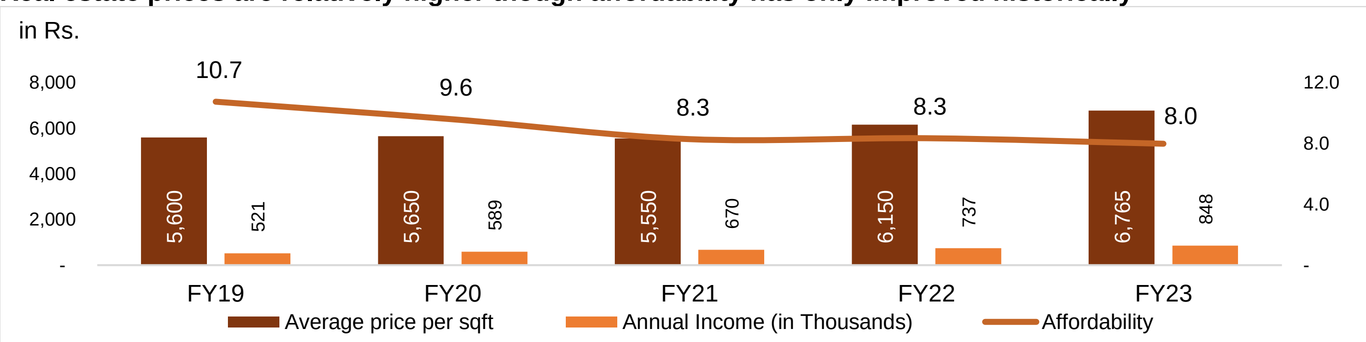
Rising demand for independent houses

According to the 2011 Census Data, Indians show a preference for residing in independent housing. The rise in population density, particularly in urban regions, has resulted in a higher need for apartments. This trend is anticipated to persist, fuelling the demand for self-constructed homes, particularly in smaller cities.

Higher affordability

CRISIL MI&A forecasts that the per capita income will gradually improve with a pick-up in GDP growth and sustained low inflation. This is expected to be an enabler for domestic consumption leading to rise in demand for housing. Further, increase in household savings over the last decade coupled with availability of underwriting and providing credit to the vulnerable or informal segment owing to advancement in technology has also led to higher demand for housing.

Real estate prices are relatively higher though affordability has only improved historically



Note: The charts indicate the price per sqft based on top 10 markets -Delhi NCR, Mumbai, Pune, Ahmedabad, Chennai, Kolkata, Bangalore, Chandigarh, Hyderabad, and Kochi, at a Pan India level, the overall prices could be way lower than estimates, Affordability is computed as average price per sqft / annual income; Source: CRISIL MI&A

Government and Regulatory Initiatives in the Housing Finance segment

- **Pradhan Mantri Aawas Yojana -Urban:**

The Ministry of Housing and Urban Affairs launched PMAY Urban (PMAY-U) on June 25, 2015 to address urban housing shortage among the EWS/LIG and MIG categories, including slum dwellers, and provide a pucca house to all eligible urban households by 2022. The scheme aims to fill the supply-demand gap in the housing sector. On supply side, the scheme offers incentives for beneficiary-led housing, public private partnerships (PPP) in building homes for economically weaker sections (EWS) and low income group (LIG) by offering incentives such as allowing higher floor space index and announcing grants and subsidies for slum redevelopment. On the demand side, PMAY provides credit-linked subsidies to stimulate demand. 10 million additional houses with planned allocation of Rs. 2.2 lakh crore to be taken up over the next five fiscals.

- **Pradhan Mantri Aawas Yojana -Grameen:**

The erstwhile Indra Gandhi Awas Yojana was restructured into the PMAY Gramin (PMAY-G) from April 1, 2016 to address gaps in the rural housing programme and fulfil the government's commitment to provide a pucca house with basic amenities by 2022 to all houseless individuals and those households living in kutcha and dilapidated dwellings. The scheme is for the rural population who don't have their own houses. It provides financial assistance and interest rate subsidy. Under PMAY, 20 million more projects are to be taken up in the next 5 years to meet the requirements arising from the increase in no. of families.

- **Reintroduction of Credit-Linked Subsidy Scheme-** The re-introduction of Credit-Linked Subsidy Scheme after a gap of two years is expected to support housing loan growth as well. The scheme provides subsidised home loans to buyers of affordable homes under PMAY and support to housing loan growth as well.

- **Relaxation of ECB guidelines:** The relaxed external commercial borrowing (ECB) guidelines will enable easier access to overseas funds and stimulate the sector

- **EPF corpus withdrawal:** Permission to withdraw 90% of employee's provident fund (EPF) corpus enables prospective home buyers to make the down payment and pay their home loan EMIs. The recent amendment will enable employees with less than six months of service to avail withdrawal benefits.
- **PSL eligibility increased in Housing**

The RBI has increased (under the notification released in June 2018) eligibility for priority sector lending (PSL) in housing loans with a view to converge PSL guidelines with Pradhan Mantri Awas Yojana (PMAY). The eligibility has increased from Rs 2.8 million to Rs 3.5 million for metropolitan centers and from Rs 2 million to Rs 2.5 million for other centers. The cost of dwelling units has been capped at Rs 4.5 million in metropolitan centers and at Rs 3 million in other centers. The on-lending limits given to NBFC/HFCs from Banks were also raised from Rs. 1 million to Rs. 2 million.

Under the eligibility criteria prescribed by the National Housing Bank under The Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 ("Refinance Scheme") read with paragraph 12.1(i) of the Master Directions – Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2020 ("PSL Master Directions"), individual housing loans with a ticket size lower than Rs.2.5 million in non-metropolitan areas are considered as affordable housing loans. Furthermore, paragraph 12.1(i) of the PSL Master Directions sets out that loans up to Rs. 3.5 million to individuals in metropolitan centers (with population of one million and above); and up to Rs. 2.5 million to individuals in other centers, for the purchase or construction of a dwelling unit, per family, will be eligible for priority sector classification, provided the overall cost of the dwelling unit in the metropolitan center and at other centers does not exceed Rs. 4.5 million and Rs. 3.0 million, respectively.

- **Implementation of the Real Estate (Regulation and Development) Act (RERA)**

Implementation of the Real Estate (Regulation and Development) Act (RERA) in 2017 had a direct impact on the supply-demand dynamics in the sector. RERA is expected to improve transparency, timely delivery, and organized operations over time. It does not permit developers to launch new projects before registering them with the real estate authority.

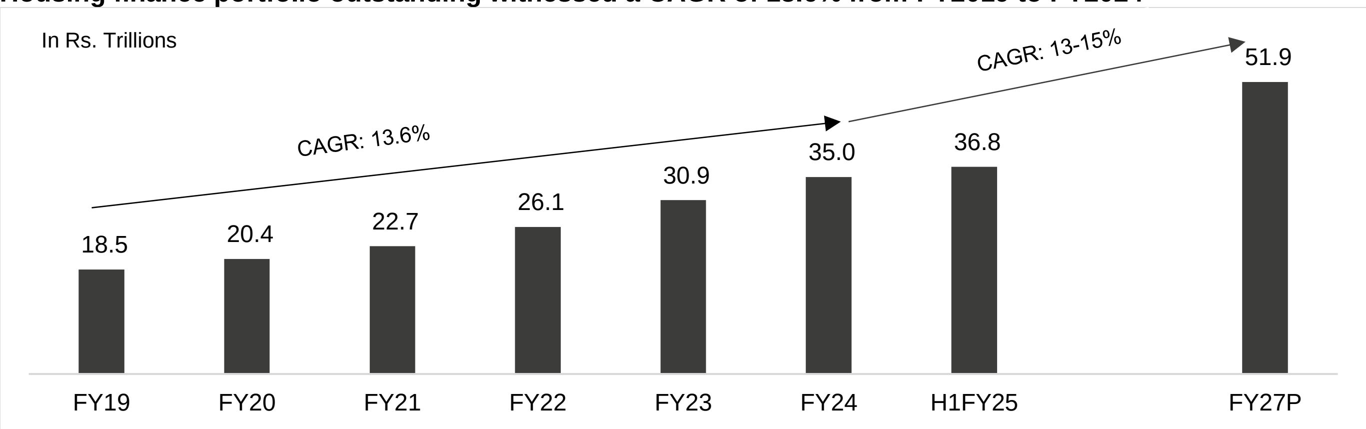
This is a major shift from the practices followed earlier by developers, wherein they managed to sell part of the project through soft/pre-launch activities. RERA puts an end to fund diversion across projects as it mandates 70% of the funds collected from customers for a specific project should be maintained in a separate escrow account and used only for the same project. Besides, developers have to disclose project-related information, such as project plan, layout, government approvals, carpet area of units, construction status and delivery schedule.

Housing finance market in India grew at a CAGR of 13.6% from FY2019 to 2024

The housing finance market has demonstrated strong growth, with credit outstanding rising at a CAGR of 13.6% from FY2019 to FY2024, reaching approximately Rs. 35.0 trillion as of FY24. The growth has been fuelled by increased demand in Tier 2 and Tier 3 cities. A growing young population with rising disposable income migrating to metro cities are some of other structural factors leading to the growth in the sector. Demand for home loans has remained resilient despite a sudden rise in repo rates. Additionally, the salaried class experienced minimal income disruption during the economic slowdown caused by the Covid-19 pandemic and rising inflation, addressing lenders' concerns about asset quality deterioration.

Going forward, CRISIL MI&A expects overall housing segment to grow at a CAGR of 13-15% from FY24-27. The Government of India has been pursuing various social welfare schemes and initiatives to enhance the flow of credit to the housing sector and increase home ownership in India like Pradhan Mantri Awas Yojana (PMAY), interest subsidies, tax benefits and relaxed regulations.

Housing finance portfolio outstanding witnessed a CAGR of 13.6% from FY2019 to FY2024

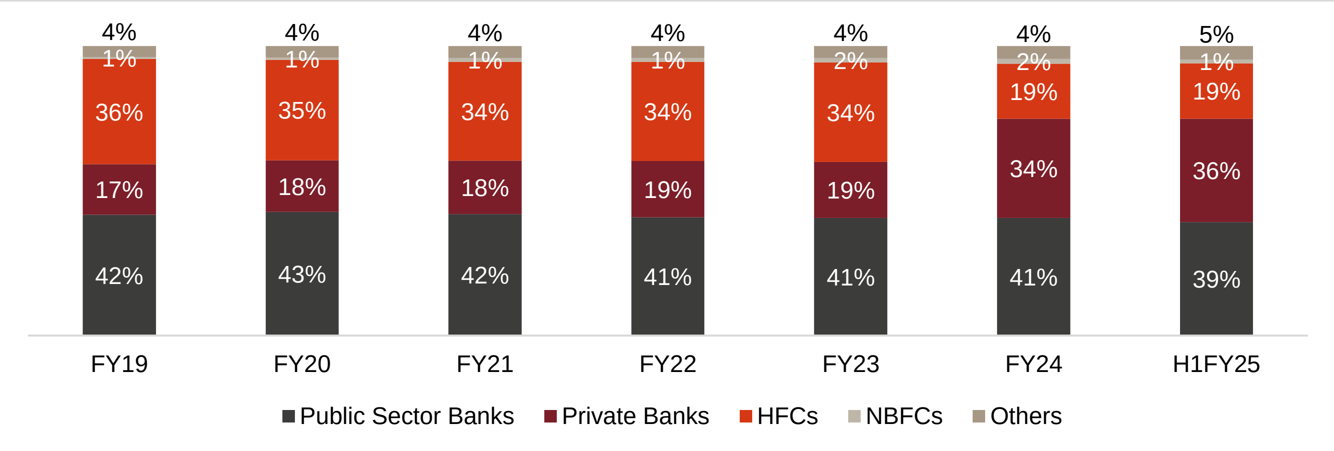


Source: CRIF Highmark, CRISIL MI&A

Public sector banks account for highest share among lenders in overall housing finance credit

As of H1 FY2025, public sector banks account for the highest share in overall housing credit (39%), which was followed by private banks with 36% share and Housing Finance companies with 19% share. On account of merger of HDFC Bank with HDFC Limited in July 2023, share of HFCs have decreased to 19% each in FY2024 and in H1 FY2025 from 34% in FY2023.

Lender wise share of overall Housing Finance portfolio outstanding from FY2019 to FY2024



Note: On account of merger of HDFC Bank with HDFC Limited, share of private banks has shown a sudden increase in FY2024.
Source: CRIF Highmark, CRISIL MI&A

Private Banks had the best asset quality among major lenders with 90+ DPD at 1.1% as of H1 FY2025

In FY2020, GNPAs of the overall housing loan portfolio increased sharply from 1.8% to 2.5% due to slippages as consumer perception of the general economic situation, employment scenario, and household income had plunged. Continuing consumer pessimism and lockdowns in FY2021 further impacted self-employed customers and micro, small, and medium enterprises.

Asset quality of the overall housing finance improved to 2.3% in FY2024, and 2.2% in H1 FY2025, led by economic recovery, pent-up credit demand, and government schemes such as the Liquidity Infusion Facility Scheme, the Affordable Housing Fund and other measures announced under the ambit of the Atma Nirbhar Bharat Package.

Lender wise GNPA

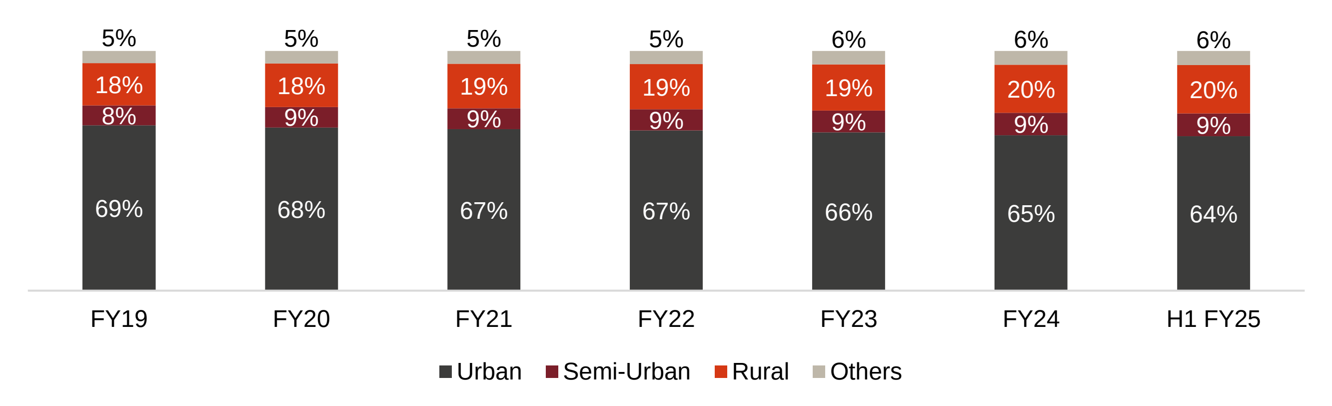
Lender	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25
Public Sector Banks	2.0%	2.5%	2.1%	2.1%	2.0%	1.6%	1.6%
Private Banks	1.1%	1.3%	2.0%	1.7%	1.5%	1.1%	1.1%
HFCs	1.5%	2.5%	3.0%	2.9%	3.1%	5.0%	3.4%
NBFCs	4.4%	4.6%	2.7%	4.9%	4.0%	1.9%	4.3%
Others	5.8%	7.3%	8.3%	7.1%	6.6%	7.1%	9.7%
Industry	**1.8%**	**2.5%**	**2.7%**	**2.5%**	**2.5%**	**2.3%**	**2.2%**

Note: Others include foreign banks, SFBs, Self, and other small players, Source: CRIF Highmark, CRISIL MI&A

Urban regions account for highest share (~64%) in Housing finance outstanding as of H1 FY2025, followed by Rural regions with ~20% share

As of H1 FY2025, urban regions accounted for the highest share in overall housing finance credit with 64% share which was followed by rural regions which accounted for 20% share, Semi-urban regions accounted for 9% share in credit outstanding.

Region wise portfolio share



Source: CRIF Highmark, CRISIL MI&A

Housing loans have the lowest annual credit costs across major asset segments

Housing finance as an asset class has the lowest annual credit costs after gold loans amongst all large financial asset classes mainly on account of the collateral and the secured nature of the funding.

In FY2024, credit costs as a percentage of average annual total assets for NBFCs are projected to be 0.6% for housing loans and 0.4% for affordable housing, compared to 2.0% for microfinance loans and 1.7% for auto loans. Therefore, credit losses for mortgage loans are among the lowest across the various key asset classes. CRISL MI&A expects credit cost for housing finance and affordable housing to decline by 20 bps and 10 bps respectively in FY2025.

Average credit costs as a % of average total assets for NBFCs/HFCs across major asset classes

Asset Class	FY23	FY24	FY25P
Housing Finance	0.5%	0.6%	0.4%
Affordable Housing	0.4%	0.4%	0.3%
Auto Finance	1.8%	1.7%	1.7%
Micro Finance	2.4%	2.0%	1.8%
Gold Loans	0.1%	0.2%	0.2%

Note: E – Estimated, P- Projected, Source: Company Reports, CRISIL MI&A

Co lending partnerships between banks and NBFC/HFCs

Co-lending arrangement between Bank and NBFC / HFCs is to extend credit by joint contribution of funds at the facility level by both the lenders and sharing of risks and rewards. The revised Co-lending Model (CLM) put in place by RBI vide notification RBI/2020-21/63 dated 05 November 2020, with intention to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs / HFCs.

Under the co-lending model banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books. Additionally, banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

Shift in housing finance landscape post-merger of HDFC Bank and HDFC

Merger of HDFC Bank and HDFC took place in the first half of FY2024 which has led to changes in the dynamics of the retail housing finance market. In fact, growth of HFCs between FY19 and FY21 was supported by high growth of HDFC due to its wide geographic reach and market penetration. At end-FY2023 of the Rs 28.7 trillion housing finance market, the share of banks was ~79%, with the balance with HFCs/NBFCs. Some of the key players after HDFC are LIC Housing Finance, Bajaj Housing Finance, Indiabulls Housing Finance, PNB Housing Finance and CanFin Homes.

Following the merger of the two entities, in first half of FY2024 the market share of banks vis-à-vis NBFC/HFC has shifted 80:20 from 66:34, with banks having majority market share. Further, in terms of HFCs/NBFCs, other large players with favourable funding profile, strong parentage, and capability to invest and expand into newer geographies would gain market share from smaller players. Further this would also open up funding limits for HFCs from banks to lend to the end consumers.

Overview of Affordable Housing Finance Market in India (< Rs.2.5 million)

As per Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 issued by the National Housing Bank, read with the Master Directions–Reserve Bank of India (Priority Sector Lending–Targets and Classification) Directions, 2020, housing loans with a ticket size of less than Rs. 2.5 million are considered as Affordable Housing Loans.

Encouraging and favourable trends in affordable housing finance market (loans up to Rs. 2.5 million); market to bounce back strongly in the long term

The overall size of the affordable housing finance market in terms of loan outstanding was Rs 12.1 trillion as of H1 FY2025, constituting around 33% of the overall housing finance market. In H1 FY2025, Public Sector Banks had the highest market share of ~39% in the Affordable Housing finance segment. Housing Finance Companies accounted for 27% of the market (Outstanding loans of Rs 3.3 trillion as of H1 FY2025) followed by Private banks with market share of 25% (outstanding loans of Rs 3.0 trillion as of H1 FY2025).

Between FY19 and FY24, the growth in the affordable housing loans has remained subdued, with the segment having witnessed a CAGR of 6.8% as compared to overall housing loans, which has grown by ~13.6% during the same time. This can be primarily attributed to a slowdown in economic activity, funding challenges due to NBFC crisis and the Covid-19 pandemic. Further, rise of hybrid work model and working from home along with rising propensity to spend merged with rising standard of living due to rising incomes of individuals has led to an increase in demand for bigger residential homes. As a result, the sale in affordable housing took a beating whereas high-end and mid-segment housing gained the maximum in the last couple of years.

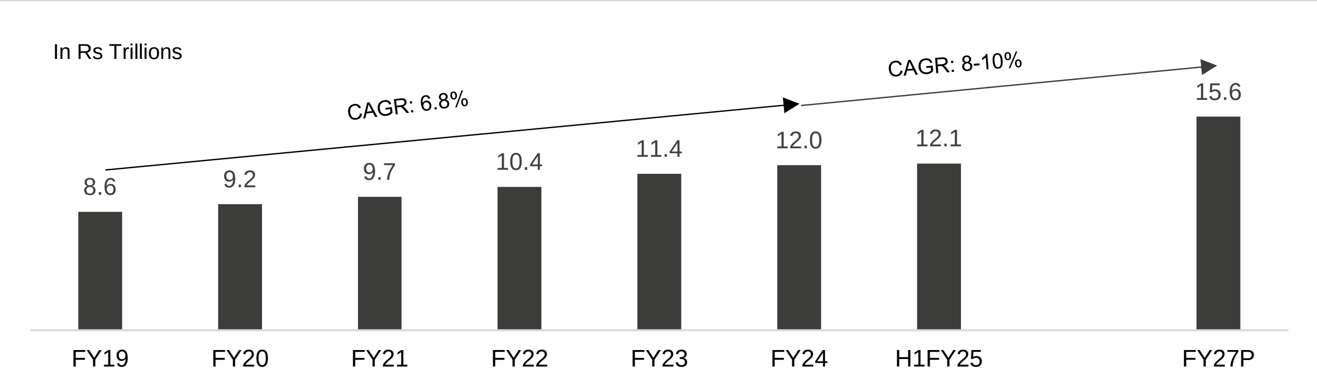
While the market has grown at a tepid pace in the past 2-3 years, CRISIL MI&A is sanguine on future growth due to the following reasons:

- Government's increased focus on housing and incentives being given by some state governments such as lowering stamp duties to aid housing demand

- Rising demand for affordable homes as consumers increasingly work out of Tier 3/4 cities in a post-Covid world
- Preference for owning homes seems to be on the rise in the post-Covid world

CRISIL MI&A expects the industry to pick up steam gradually and the affordable housing segment to touch Rs 15.6 trillion by FY27, translating into an 8-10% CAGR between FY2024-2027.

Affordable Housing finance market to grow at 8-10% between FY24-FY27P



Source: CRIF Highmark, CRISIL MI&A

Top 15 states account for ~91% of total affordable housing credit outstanding as of H1 FY2025

There are wide variations in size and growth in the Affordable Housing finance segment across states and within various districts in the same state as well, which indicate latent opportunity for offering loans to unserved or underserved customers. Based on loans outstanding in the affordable housing finance market, among states, as of H1 FY2025, Maharashtra accounted for the highest share in the affordable housing finance segment, accounting for ~18% share, which was followed by Gujarat, Tamil Nadu, and Uttar Pradesh accounting for ~11%, ~9% and ~7% respectively.

State-wise share of affordable housing credit outstanding

State (Rs. Billions)	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25	Share (H1 FY25)	CAGR (FY19-24)
Maharashtra	1,635	1,724	1,818	1,939	2,115	2,189	2,194	18%	6%
Gujarat	858	944	1,043	1,170	1,251	1,336	1,356	11%	9%
Tamil Nadu	844	881	931	979	1,051	1,077	1,084	9%	5%
Uttar Pradesh	582	614	654	709	793	831	839	7%	7%
Karnataka	622	630	637	655	722	760	758	6%	4%
Rajasthan	405	450	493	563	643	728	753	6%	12%
Kerala	513	551	583	613	645	666	663	5%	5%
Madhya Pradesh	393	426	464	507	570	636	654	5%	10%
Andhra Pradesh	444	476	495	522	568	599	616	5%	6%
Telangana	476	497	513	535	573	591	593	5%	4%

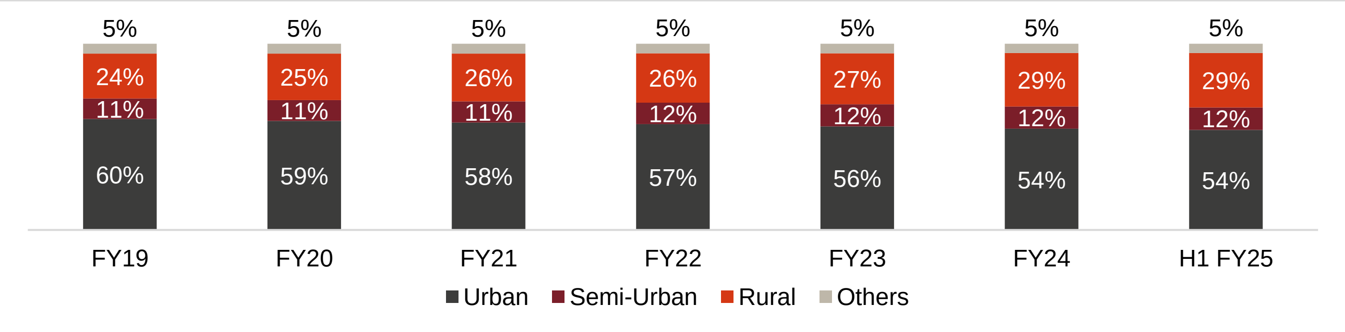
West Bengal	359	384	407	445	496	525	540	4%	8%
Delhi	248	255	267	280	301	305	303	2%	4%
Punjab	204	214	226	245	273	286	291	2%	7%
Haryana	197	206	216	230	252	257	255	2%	5%
Bihar	117	129	138	153	175	195	202	2%	11%
Others	734	792	840	896	974	1026	1039	9%	6.9%

Source: CRIF Highmark, CRISIL MI&A

Share of Rural region increased by 5% from FY2019 to H1 FY2025

As of H1 FY2025, urban regions accounted for the highest share in affordable housing finance credit with 54% share which was followed by Rural regions which accounted for 29% share, Semi Urban regions accounted for 12% share in credit outstanding.

Region wise share of portfolio outstanding



Source: CRIF Highmark, CRISIL MI&A

Urban regions had the lowest asset quality as of H1 FY2025

Tier	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25
Urban	2.0%	2.7%	3.0%	3.2%	3.3%	3.7%	3.6%
Semi-Urban	2.2%	2.9%	3.0%	2.9%	3.1%	3.1%	2.9%
Rural	2.8%	3.6%	3.6%	3.4%	3.5%	3.6%	3.3%
Others	1.8%	2.3%	2.5%	2.6%	2.9%	3.3%	3.2%

Source: CRIF Highmark, CRISIL MI&A

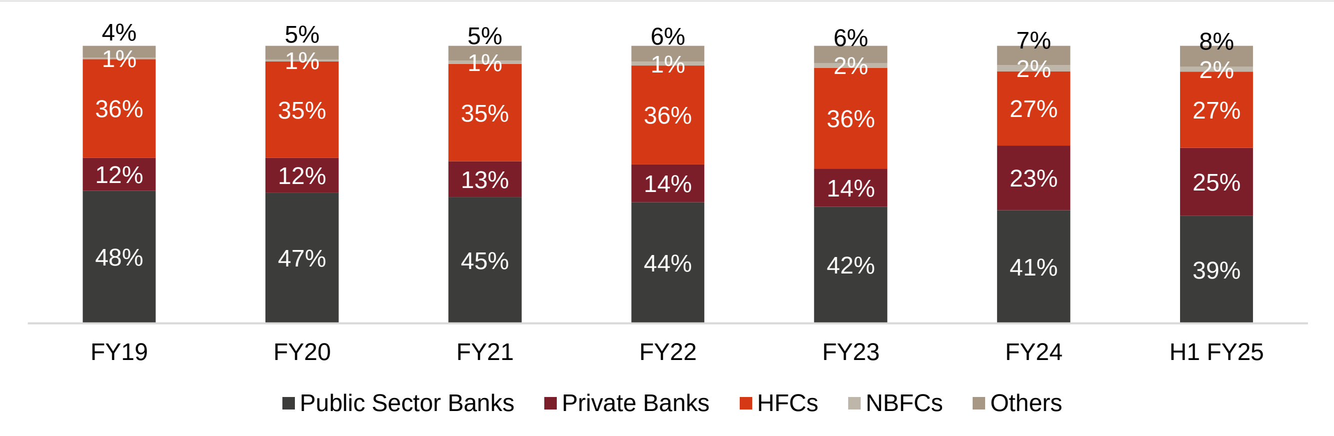
Public Sector Banks accounted for highest share among lenders in the affordable housing segment as of H1 FY2025

NBFCs and HFCs have certain advantages over traditional banks in the housing loan segment. They are able to create niches in catering to particular categories of customers, offering a strong understanding of their target segment, excellent customer service, and diverse channels of business sourcing. They are also skilled at assessing and underwriting non-salaried individuals, who may not have traditional income documentation. Furthermore, NBFCs and HFCs often have a strong focus and presence in smaller cities, allowing them to tap into markets that may be underserved by traditional banks.

These factors are expected to help NBFCs and HFCs maintain market share in the future as banks have become risk averse and are focusing on high ticket customers with good credit profiles. By virtue of being largely focused on metros and urban areas, ticket sizes of banks and large HFCs have followed rising property prices. A focus on the urban salaried segment by banks and large HFCs has left non-salaried as well as Tier III, and rural market open to anyone with the capability to operate in that segment.

Among lenders, as of H1 FY25, Public sector banks accounted for the highest share (39%), which was followed by HFCs accounting for ~27% share and Private Banks which accounted for 25% share.

Public Sector Banks accounted for highest share among lenders in the affordable housing credit outstanding at 39% in H1 FY25



Note: On account of merger of HDFC Bank with HDFC Limited, share of private banks has shown a sudden increase in FY2024.
Source: CRIF Highmark, CRISIL MI&A

Private Banks players had the best asset quality among lenders as of H1 FY25

Lender	FY19	FY20	FY21	FY22	FY23	FY24	H1 FY25
Public Sector Banks	2.2%	2.9%	2.5%	2.7%	2.6%	2.2%	2.3%
Private Banks	1.4%	1.4%	2.3%	2.0%	2.1%	1.7%	1.8%
HFCs	1.7%	2.5%	3.0%	3.2%	3.6%	5.9%	3.9%
NBFCs	4.7%	4.9%	3.3%	4.0%	3.5%	2.5%	4.7%
Others	8.1%	9.5%	10.7%	9.2%	8.2%	8.8%	12.3%
Industry	**2.2%**	**2.9%**	**3.1%**	**3.2%**	**3.3%**	**3.6%**	**3.4%**

Source: CRIF Highmark, CRISIL MI&A

Profitability comparison of Housing and Affordable Housing

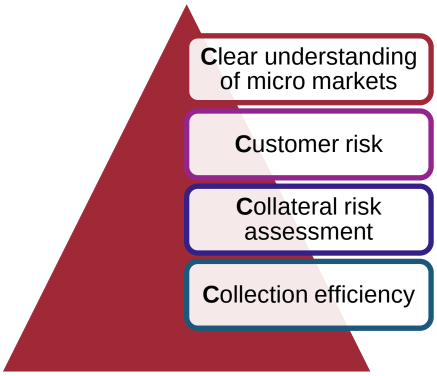
The Affordable Housing Finance Segment exhibits stronger financial performance metrics, with higher Net Interest Margins (NIMs) ranging from 6-8% compared to the Housing Finance Segment's 2.5-3%, along with a significantly higher Return on Assets (ROA) of 3-4% versus 1-2%.

Parameter	Housing Finance Segment	Affordable Housing Finance Segment
Average Ticket Size (In Rs. Mn.)	2.8	1.1
LTV	~70%	~55%
NIMs	2.5-3%	6-8%
Opex	0.7-0.9%	3-4%
Credit Cost	0.5-0.7%	0.3-0.5%

ROA	1-2%	3-4%

Source: CRIF Highmark, Company reports, CRISIL MI&A

4C's to succeed in affordable housing finance segment



Source: CRISIL MI&A

Clear understanding of micro markets

Given the target borrower's profile, companies need to have a clear and deeper understanding of micro markets and develop a strong local network. The strong network helps companies to source business from niche customer category by having references from their existing customers. It is observed that successful companies in the segment generally focus on a few geographies where they have a good understanding and scale up gradually to manage costs and asset quality better.

Customer risk

Affordable housing segment customers are generally in formal sector jobs with low incomes, or are self-employed (carpenter, plumber, vegetable vendor, driver, etc.), people who may not have income proofs. Due to lack of income proofs, the underwriting process requires detailed personal discussion with the borrower as well as friends and neighbors in order to assess the source of income and cash flow patterns as well as the stability and habits of the customer. Given the nature of the process, operating costs are typically very high; therefore, companies who are, able to achieve a fair degree of standardization in the process by building models revolving around specific customer profiles and/or geographies are likely to better manage operating costs.

Customer credit risk assessment procedure

Understanding customer's stability

- Visit borrower's home to understand current situtaion, stability and duration of stay
- Interview neighbours to verify duration, understanding habits
- Check credit and banking history (if applicable)

Understanding customer's source of income

- Visit applicant's business to observe business flows, estimate revenue and costs, etc.
- Understand the business model and its key strength and weakness, fluctations in cash flows, etc.
- Interview business acquaintances, competitors, etc., to benchmark estimates

Standardisation

- Build a database of informal sector customers' income by profession in different localities to increase assessment reliability

Source: CRISIL MI&A

Collateral risk assessment

Properties under the low-income segment sometimes lack proper property titles, especially in the outskirts of large cities, semi-urban and rural areas. With better availability of information and due diligence by the technical team, companies can mitigate the risk. While lenders do take appropriate due diligence measures to safeguard against this risk while sanctioning the loan, there have been instances of borrowers mortgaging the same property with multiple lenders.

For instance, A CERSAI Search is conducted to enumerate the details of a property and if it has been mortgaged against a loan. The field investigation team visits the property to look at the land and the construction status regularly. The financier also conducts a title search, which provides detail such as a size, location, boundaries, and ownership information. As of now, registration of charge on underlying property is undertaken by lenders on selective basis (high-ticket loans/in case of corporate borrowers) only.

Collection efficiency

Given that companies in the segment typically cater to the lower income customer segment, many of whom may not be financially literate, a strong focus on collections and monitoring risk of default at customer level is vital to manage asset quality. It is observed that events that impact the economy as a whole (such as demonetization) and local factors (natural calamities or other events in the place of employment/work of the borrower) have a disproportionate impact on asset quality in the segment. Therefore, companies are increasingly using analytical and monitoring tools enabled by technology to better predict default risk. In addition, there is an increasing focus on pushing customers to make EMI payments through ECS.

Key Risks in the Housing Finance Industry

Economic Scenario: Any trends or events that have a significant impact on India's economy, including a rise in interest rates, could impact the financial standing and growth plans of HFCs. A decline in the interest rate with strong growth in the economy will boost the purchasing power of people, thus boosting demand for houses and housing loans. When the government introduces rules and regulations such as the Benami Transactions Act, establishes bodies such as the Real Estate Regulatory Authority, or takes decisions such as demonetisation, all to control illegal activities and curb black money, demand for housing and housing loans takes a hit.

Insufficiency of data for credit appraisal: Credit-score availability in India is still at a nascent stage despite the presence of credit bureaus. In several cases, borrowers lack a formal proof of income documents. This makes it difficult to judge the ability of the borrower to repay.

Liquidity Risk: The apartment culture has still not developed in many of the semi-urban and rural areas, leading to financing of individual properties. This makes it harder to sell a property that is built according to the needs of the borrower. Also, in rural areas, it may become difficult to find a buyer for a repossessed property due to cultural issues. All this leads to liquidity risk.

Collateral Fraud: The rising number of collateral frauds in the sector is becoming a serious issue. As a result, lending institutions are being forced to implement additional control measures, which increase their underwriting expenses.

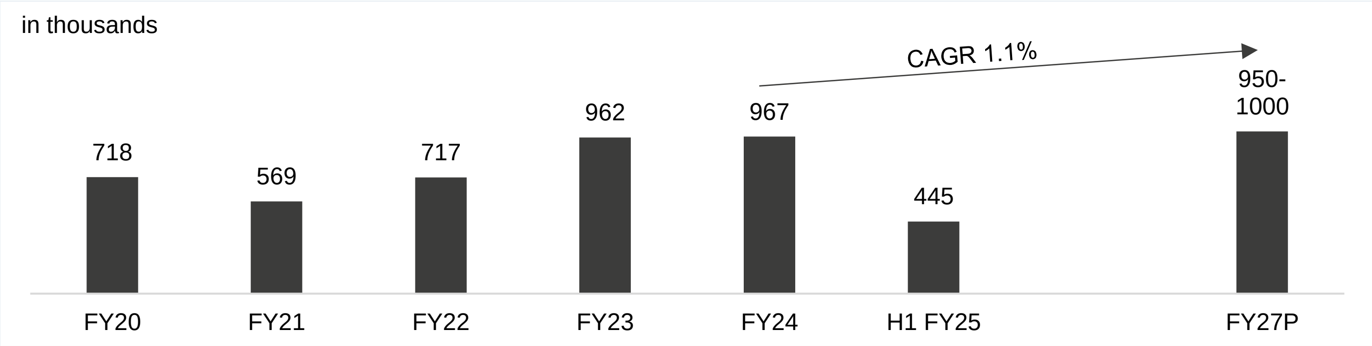
Delay in project approvals and construction: The cash flows of HFCs are largely dependent on the timely completion of projects in which their customers have bought housing. If the project gets delayed, the borrower may start defaulting on loans. Additionally, project delays also tend to impact growth in the loan book.

Thin spreads in Housing Finance: HFCs face a risk of thin net interest margins due to lower interest rates in the segment as compared to other asset classes like MSME loans, vehicle financing etc. This is further aggravated due to intense competition in the segment among HFCs, banks and NBFCs.

Asset Liability Mismatch: Housing finance faces significant ALM challenges, arising due to inherent mismatch between the long-term nature of housing loans and the shorter-term funding sources used by housing finance companies (HFCs). This creates a maturity mismatch, where assets have longer durations than liabilities.

8. Commercial Vehicle Financing in India

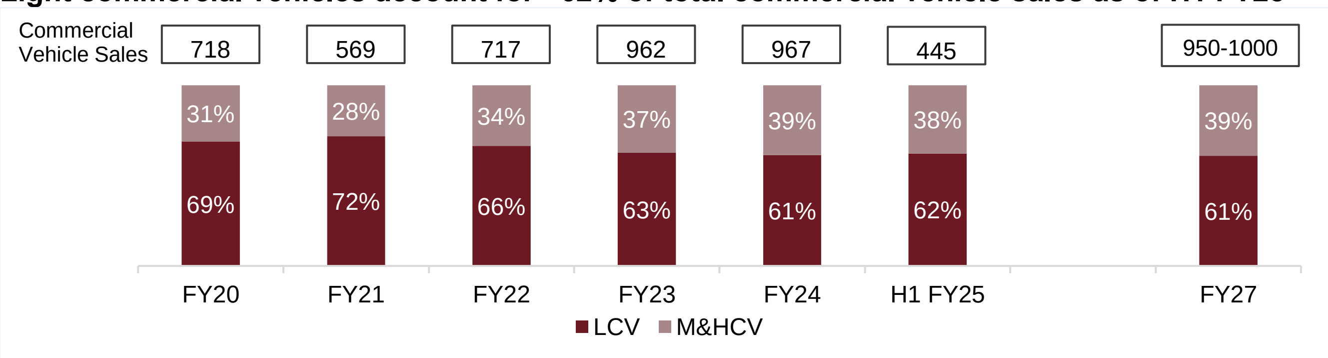
New Commercial vehicle sales to experience flat volumes but healthy rise in tonnage going forward



Note: CV sales include LCV & MHCV goods carrying vehicles.
Source: SIAM, CRISIL MI&A

The new commercial vehicle (CV) industry exhibited noteworthy recovery in FY 2023, achieving a remarkable growth rate of ~34% year-on-year, albeit on a low base. This resurgence can be attributed to pent-up replacement demand, improved transporter profitability, pick up in capex which was hampered during the preceding 2-3 years due to economic stagnation and the disruptive impact of the pandemic. Commercial vehicle sales witnessed muted growth in FY24, LCV sales in FY24 witnessed a degrowth of 3% while M&HCV sales witnessed minimal growth rate of 4% primarily due to high base of FY2023. While as of H1FY25, LCV and M&HCV sales stood at ~277,000 and ~168,000 respectively.

Light commercial vehicles account for ~62% of total commercial vehicle sales as of H1 FY25



Note: CV sales include LCV & MHCV goods carrying vehicles, Source: SIAM, CRISIL MI&A

Light commercial vehicle (LCV) sales stood at ~594,000 as of FY24, while medium & heavy commercial vehicle (M&HCV) sales stood at ~373,000. In FY23, LCV sales recorded a growth of 26%, rebounding to pre-COVID heights. The surge in sales was attributed to robust replacement demand, particularly in the sub-one-ton category, which was deferred due to economic challenges and the pandemic. In FY24, LCV sales witnessed a 3% degrowth in sales after an all-time high sale in the previous fiscal. The lower utilization of vehicles coupled with the increase in asset costs led to the degrowth in sales. LCV segment is also considered to be less cyclical than the M&HCV segment due to its usage in e-commerce delivery fleets and other essential economic activities, providing better last mile connectivity.

M&HCV segment sales are expected to decline in the near term, due to decline in volume up for replacement and the oversupply of tonnage in the system will hinder the volume growth. The higher tonnage available in the system is restricting volume growth in the current fiscal as the trend towards higher tonnage vehicles is expected to continue implying tonnage growth will be in line with GDP but volumes will be limited.

Top 10 states account for ~70% of total commercial vehicle sales as of FY24

Top 10 states account for ~70% of total commercial vehicle sales as of FY24, with top 5 states accounting for 46% of total commercial vehicle sales. Among states Maharashtra had the highest share in CV sales as of FY24 at ~12% followed by Uttar Pradesh (~10%) and Gujarat (~8%).

State wise sale of total commercial vehicle sales

State (in 000's)	FY20	FY21	FY22	FY23	FY24
Maharashtra	83.7	68.0	89.7	116.0	115.2
Uttar Pradesh	57.0	47.9	58.7	81.2	87.4
Gujarat	52.4	38.5	58.9	72.7	77.4
Tamil Nadu	48.9	46.9	54.5	70.8	72.6
Karnataka	40.8	36.3	46.6	64.0	66.3
Rajasthan	36.7	28.3	41.6	58.6	59.7
Haryana	31.9	28.6	41.7	53.2	54.5
Assam	27.2	25.0	29.1	35.0	35.3
Madhya Pradesh	24.0	19.9	22.0	31.9	34.9
Andhra Pradesh	26.9	32.7	29.1	35.5	34.4
West Bengal	33.5	28.1	31.3	62.4	34.1
Orissa	21.9	18.3	17.5	25.5	32.1
Delhi	18.8	17.7	26.4	31.4	28.0
Telangana	17.8	19.3	22.6	27.7	27.9
Chhattisgarh	13.8	11.3	14.6	24.1	26.6
Kerala	18.5	20.4	20.8	22.7	23.8
Punjab	13.4	10.7	14.8	16.6	18.3
Jharkhand	10.5	8.3	9.9	15.0	17.3
Bihar	17.3	15.1	13.7	16.8	17.1
Himachal Pradesh	8.9	6.4	9.4	10.3	11.4
Others	26.6	21.1	31.0	35.1	35.8

Source: SIAM, CRISIL MI&A

Key Growth drivers of Commercial Vehicle Sales in India

Healthy industrial growth in FY24

The Indian industry's gross value added (GVA) had been growing rapidly, in line with the GDP averaging ~7% between FY18 and FY23. After consecutive weak fiscals of 2020 and 2021 due to the COVID-19 outbreak, industrial GVA is estimated to have grown by ~7% on-year in FY 2023 and ~7.4 % in FY 2024.

Over the next five-year period (FY2024-2029), industry GVA is expected to be robust driven by the government's focus on 'Make in India' with the stated aim of the government to push up the share of Manufacturing in India's GDP from 17% to 25%. Moreover, improvement in infrastructure and higher expected corporate expenditure is likely to support the capex cycle going forward post-FY2024.

Scrappage policy

In August 2018, MoRTH considered incentivising the scrapping of vehicles sold before April 2005 (15 years old). After deliberations on the modalities of implementation of the norm, the government aims to promote vehicle scrapping by exempting registration charges for truck purchases made after scrapping older trucks. To incentivise scrappage of older vehicles, the government has increased the registration charges for older vehicles and increased stringency of fitness tests. CRISIL MI&A expects the impact of the norms to be limited on additional scrappage (apart from vehicles scrapped in the normal course of business).

Increasing freight rates to aid in materialization of deferred demand

In FY24, fuel prices constituted approximately 55% of transporter costs, exerting a considerable influence on their overall profitability. During this period, diesel prices experienced a modest increase of around 2%. Concurrently, freight rates also rose by an estimated 6%, signalling improved transporter profitability and heightened demand for freight services. These favourable factors are expected to boost CV sales, as the industry capitalizes on the increased demand in the transportation sector. A rise in utilisation translates into better cash flow for transporters and, hence, augurs well for CV sales.

Capacity utilisation and profitability of transporters

Utilisation of transporters depends on

- Availability of freight, driven by growth in industrial and agricultural production and port traffic,
- Regulations on vehicle age, weight, permit and tax norms,
- Improvements in road infrastructure, which improves the turnaround time.

Some of the factors influencing transporter profitability are

- Freight rates and capacity utilisation,
- Bargaining power,
- Fuel cost and efficiency,
- Capital cost,
- Agency commission along with wage cost and operating and maintenance costs, such as tyre prices and toll rates.

Rise in Private Final Consumption Expenditure (PFCE)

LCVs are primarily used for last-mile transport and redistribution of commodities. PFCE is a good indicator of domestic consumption demand, and accounts for over 90% of LCV goods tonnage capacity. Apart from the usual freight demand, an increase in rural consumption and a rise in urban expenditure boosts demand for smaller vehicles to transport consumer goods. Moreover, a rise in consumption of non-food items, consumer durables and FMCG products fuels demand for LCVs.

Increasing adoption of hub-and-spoke network

The road transport industry is gradually moving towards the hub-and-spoke distribution model, wherein industries have large hubs in major regions. Goods are consolidated at these hubs and sent to several touch points (spokes) in the hinterland. Freight is distributed over the last mile via LCVs, such as sub-one-tonne CVs and pick-ups, with rising adoption of the network, sales for LCVs is expected to rise.

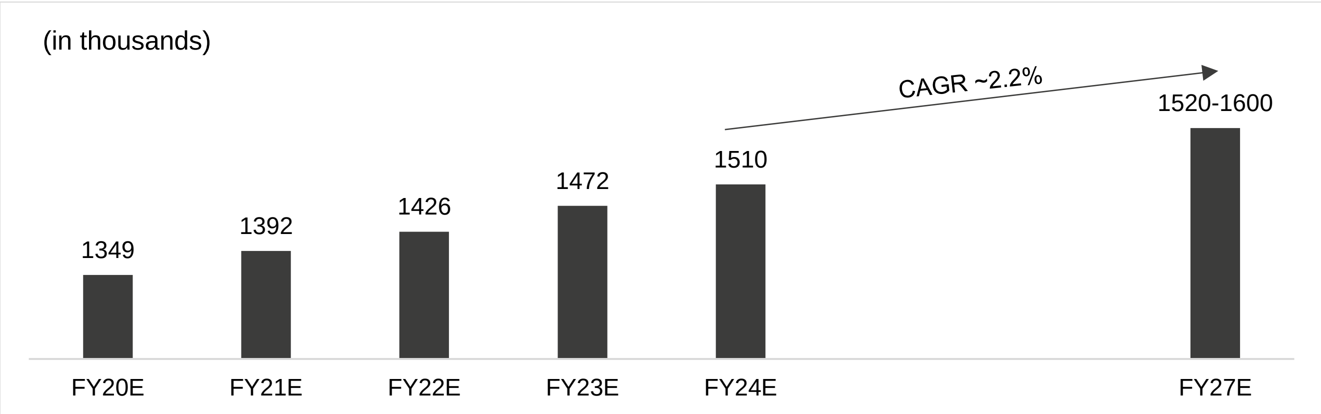
Substitution of three wheelers

Small commercial vehicles (SCVs), especially sub-one-tonne models (0.75-tonne payload), can substitute large three-wheelers of similar payload capacity, given the SCVs' ability to carry loads beyond payload capacity, run on longer routes, maintain better balance, and be more cost-efficient. The pace of substitution, which is tapering off, remains a key parameter that impacts LCV sales

Used commercial vehicles on road are estimated at ~1.51 million as of FY24

As per CRISIL MI&A estimates, there are approximately 1.51 million used commercial vehicles on road currently with the ratio of used to new commercial vehicles at 1.6 times. Sales of used commercial vehicles in India has witnessed a CAGR of ~3% from FY20 to FY24. Sale of used commercial vehicles has witnessed continuous growth due to the rising prices of new commercial vehicles, making purchasing of used commercial vehicles a viable choice for Small and Medium sized fleet operators due to their lower acquisition costs.

Number of Used Commercial Vehicles



Source: SIAM, CRISIL MI&A estimates

Key Growth drivers of Used Commercial Vehicle Sales in India

Higher affordability as compared to new vehicles

Used commercial vehicles are generally more affordable as compared to new vehicles, making them accessible to small and medium sized businesses. The lower upfront cost of used vehicles makes them accessible to a wider range of customers who may not have the financial capacity to invest in a brand-new commercial vehicle.

Cost effectiveness

Depreciation rate of new commercial vehicles is usually higher, resulting in a more significant loss in value over time. Used commercial vehicles on the other hand, have already undergone their initial depreciation making them a more cost-effective solution to businesses.

Improved quality and reliability

Advancement in technology and manufacturing processes has led to improvement in quality and reliability of used commercial vehicles, customers now have a higher confidence in the performance and durability of used commercial vehicles.

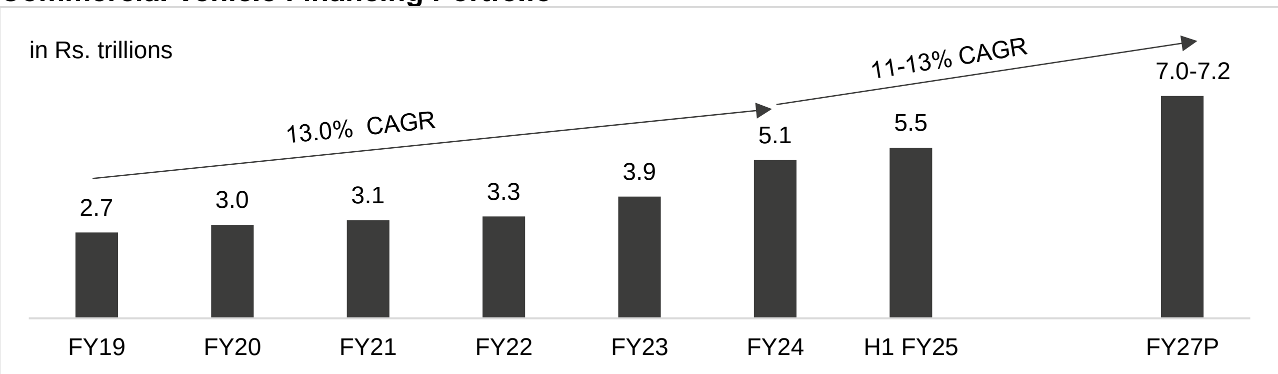
Rise in micro, small and medium enterprises in India

There has been a significant rise in micro, small and medium enterprises in India due to favourable government policies and economic scenario, used commercial vehicles act as a sustainable option to fulfil their logistics and transportation needs due to their lower cost of acquisition.

Commercial Vehicle Financing is expected to witness a CAGR of 11-13% from FY24- FY27

Commercial vehicle financing witnessed a growth of ~13% CAGR from FY19 to FY24. The segment witnessed a very slow growth during FY21 and FY22, primarily due to Covid-19 pandemic and nation-wide lockdowns. Post that, the growth has been higher at ~19% in FY23 and ~30% in FY24. The growth was primarily due to increase in private consumption and freight demand. Going forward, growth in the segment is expected to be supported by rising demand for LCVs due to increased private consumption, greater availability of redistribution freight and improved finance while demand for M&HCVs is expected to grow due to improvement in economic activity across the country, along with steady agricultural output and government's focus on infrastructural development. Commercial vehicle financing segment is expected to grow at a CAGR of 11-13% from FY 2024 to FY2027 and to reach approximately Rs. 7.0- 7.2 trillion by FY27.

Commercial Vehicle Financing Portfolio



Source: CRIF Highmark, CRISIL MI&A

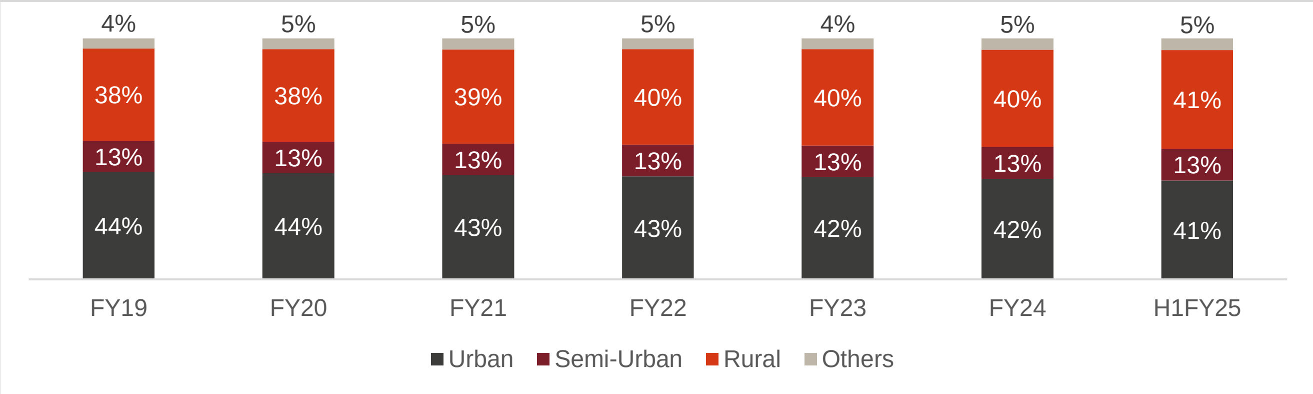
Potential market for used Commercial Vehicles excluding Medium and Heavy Commercial Vehicles ("CVs (excl. M&HCVs)")

As per CRISIL MI&A estimates, potential financing market size for used CVs (excl. M&HCVs) would be in the range of Rs 800 billion to Rs 1,000 billion by FY27. The estimates are based on various assumptions such as lifetime of CVs (excl. M&HCVs) is 15 years and first cycle of financing for used CVs (excl. M&HCVs) would start when the vehicle completes the 5th year. The average price of CVs (excl. M&HCVs) is estimated in the range of Rs 6.5 lakhs to Rs 7 lakhs by FY27. It is assumed that vehicle's value depreciates by 50% within first 5 years. Further, it is estimated that there would be around 3.3 to 3.5 million used CVs (excl. M&HCVs) available for financing by FY27 and LTV for these vehicles would vary from 55% to 65%.

Urban areas account for the highest share among tiers across FY 2019 - H1 FY25

Urban regions account for the highest share as of H1 FY25, accounting for ~41% share in overall commercial vehicle financing, this was followed by rural regions accounting for ~41% share and semi-urban regions accounting for ~13% market share, from FY19- H1 FY25, rural regions witnessed a growth in market share of 3%, witnessing a growth of ~15% CAGR from FY19-H1 FY25, while urban regions grew at 12% CAGR from FY19 – H1 FY25, witnessed an ~3% fall in market share.

Share of rural and semi-urban areas is increasing in commercial vehicle financing



Note: Others include non-classified areas. Source: CRIF Highmark, CRISIL MI&A

Maharashtra accounts for the highest share in commercial vehicle financing outstanding as of H1 FY25

Among states, Maharashtra accounts for the highest share in overall commercial vehicle financing outstanding as of H1 FY25 accounting for ~13% market share, followed by Tamil Nadu accounting for ~10% share and Uttar Pradesh accounting for ~9% share. Among top 15 states, Chhattisgarh witnessed the fastest growth, growing at a CAGR of 16.1% followed by Madhya Pradesh and Gujarat growing at a CAGR of 16% and ~14.8% respectively from FY19-H1FY25.

State wise share of commercial vehicle financing

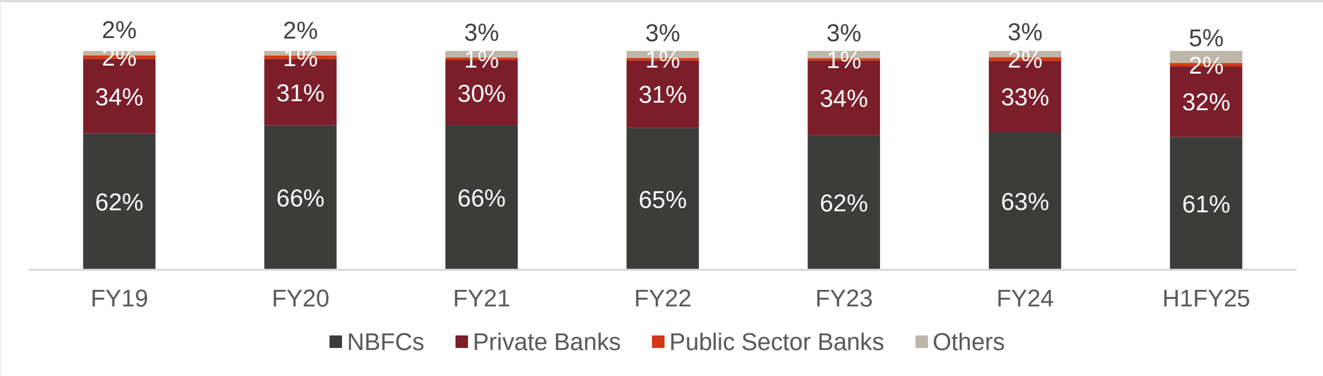
State (in Rs. Billion)	FY19	FY20	FY21	FY22	FY23	FY24	H1FY25	CAGR (FY19-H1FY25)
Maharashtra	365.5	421.6	442.8	453.4	532.2	644.7	687.1	12.2%
Tamil Nadu	256.2	277.5	294.3	296.6	349.9	520.7	545.9	14.7%
Uttar Pradesh	237.8	242.6	247.3	261.6	329.1	454.8	484.1	13.8%
Rajasthan	222.9	235.4	245.2	261.3	325.7	417.1	457.8	14.0%
Gujarat	170.6	190.7	201.0	218.3	269.8	342.2	364.7	14.8%
Karnataka	167.5	184.6	195.5	203.0	245.2	319.2	350.2	14.4%
Madhya Pradesh	120.9	145.0	154.1	162.4	196.7	255.2	273.4	16.0%
Haryana	121.6	123.6	129.0	143.7	186.3	239.4	257.9	14.6%
Telangana	120.6	141.2	150.7	149.3	172.5	231.6	251.4	14.3%
Andhra Pradesh	160.7	160.0	161.4	153.2	175.2	229.6	245.8	8.0%
West Bengal	120.0	127.6	131.9	140.0	164.4	197.3	215.2	11.2%
Orissa	90.8	106.1	116.6	129.0	140.5	166.1	181.6	13.4%
Chattisgarh	76.4	76.8	79.2	85.4	115.8	160.4	173.8	16.1%
Bihar	86.7	96.8	104.3	100.6	108.2	145.2	159.2	11.7%
Kerla	87.4	93.3	100.5	99.1	109.5	135.8	143.6	9.4%
Others	340.6	369.2	382.8	402.1	471.0	602.4	664.7	12.9%

Source: CRIF Highmark, CRISIL MI&A

NBFCs account for majority share in Commercial Vehicle Finance Outstanding across years

Among lenders, NBFCs accounted for the highest share in commercial vehicle finance outstanding (~61%) as of H1 FY25, followed by private banks with ~32% market share and public sector banks accounting for 2% market share. From FY21 to H1 FY25, NBFCs have lost ~5% market share which has gone to private banks with them witnessing a growth of 3% in their share.

Share of lenders in commercial vehicle finance



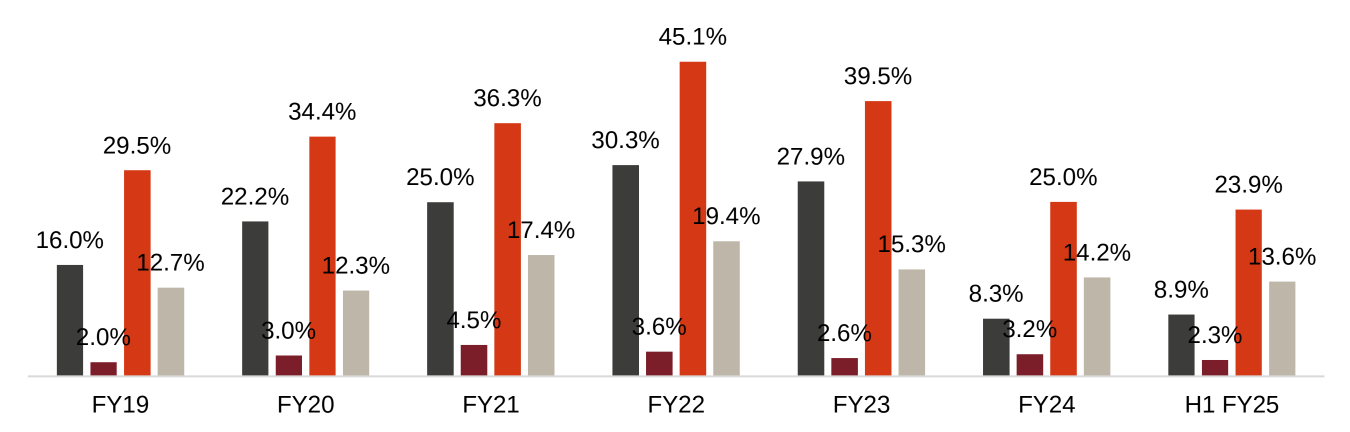
Note: Others includes other financial institutions, Small Finance Banks and foreign banks, Source: CRIF Highmark, CRISIL MI&A

Right to win for NBFCs

NBFCs held lion's share in overall commercial vehicle financing on account of relatively superior customer connect in small fleet operators ("SFOs") and first-time buyers customer segment, strong and deep understanding of local economy, ease of loan processing, relatively higher loan-to-value ("LTV"), and higher risk-taking ability of NBFCs. Banks have sharper focus on financing LFOs based on their superior credit profiles. They also prefer big ticket financing, like that for MHCVs. While the sector has been under stress and delinquencies over past two years, the quality of the portfolio improved in FY2023 as economic activity picked up thus increasing repayment capabilities. This has enabled banks to capture market share in both LFOs and SFOs as they can offer better loan rates and higher ticket size than NBFCs. However, as banks are more cautious in lending to riskier CV asset classes, NBFCs can maintain their strong hold and build better customer profiles. NBFCs can cater to LFOs that are more volatile and riskier than SFOs during adversities. As some NBFCs are mainly focused on CV financing, they have built a strong customer base that will support them going forward.

Among lenders, Private Banks had the lowest GNPAs across years with 90+ DPD for H1 FY25 at 2.3% followed by NBFCs & HFCs with 8.9% and Public Sector Banks with ~24%. From FY22-24, NBFCs and HFCs have witnessed a significant improvement in their NPA levels falling from 30.3% in FY22 to 8.3%, followed by Public Sector banks witnessing an improvement in NPA levels from 45.1% in FY22 to 25% in FY24.

Lender-wise asset quality trend in Commercial Vehicle Financing



Note: Others includes other financial institutions, Small Finance Banks and foreign banks, Source: CRIF Highmark, CRISIL MI&A

With respect of asset quality, for most NBFCs, it is observed that the used CV segment tends to perform better than the new CV segment over a cycle due to lower purchase cost and consequently lower monthly repayment burden on the borrower. Furthermore, the depreciation rate of a used CV is also lower relative to a new CV, which provides enhanced downside protection to financiers.

Among lenders, Private Banks had the highest average ticket size as of H1 FY25

As of H1 FY25, Private Banks had the highest average ticket size in commercial vehicle financing at 1.50 million which was followed by Public Sector banks with an average ticket size of 0.84 million and NBFCs with their average ticket size at 0.79 million. Average ticket size for NBFCs witnessed a decline during FY20 and FY21, falling from 0.67 million in FY19 to 0.47 million in FY21, post which it rose to 0.61 million in FY22 and to 0.67 million in FY23, as of H1 FY25 their average ticket size stood at 0.79 million.

Among lenders, Private Banks had the highest average ticket size as of FY24

Average Ticket Size among Lenders (Rs. Mn.)							
Lender	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**H1 FY25**
NBFCs	0.67	0.55	0.47	0.61	0.67	0.60	0.79
Private Banks	1.06	0.98	1.07	1.37	1.52	1.58	1.50
Public Sector Banks	0.48	0.45	0.50	0.53	0.73	0.72	0.84
Others	0.52	0.52	0.45	0.51	0.60	0.64	0.67

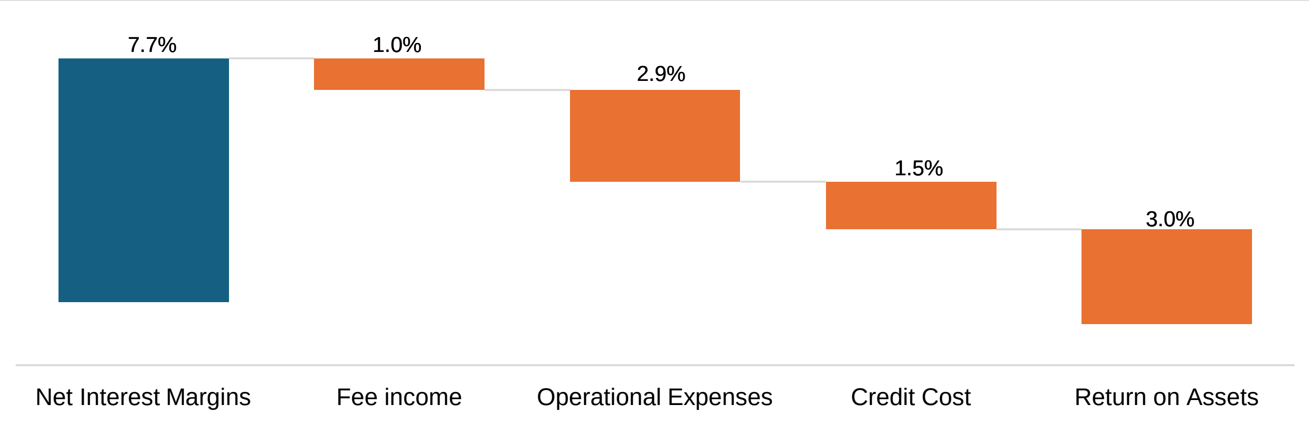
Note: Others includes other financial institutions, Small Finance Banks and foreign banks, Source: CRIF Highmark, CRISIL MI&A

NBFCs operating in commercial vehicle financing had return on assets at 3.0%

NBFCs have a strong presence in the commercial vehicle financing space with a dominant share in used commercial vehicle financing. Primarily, small fleet operators and drivers turned owners, and first-time buyers are the core customer segment for majority of the NBFCs in this segment. As this customer segment is comparatively riskier than those catered by banks (Large & medium sized fleet operators), NBFCs which are operating in both used and new commercial vehicle financing are able to charge higher yields (~16%), which in-turn translates to higher net interest margins for the players which usually range between 7-8%. Operational expenses are approximately ~3% for NBFCs due to their extensive on-ground presence and underwriting mechanisms, while credit costs usually range between 1.5-2% with return on assets estimates at ~3%.

Among NBFCs in the commercial vehicle financing space, NBFCs which cater to customers in the used commercial vehicle space usually have a loan tenure of 3-5 years while NBFCs focused on new commercial vehicles have an average loan tenure of 4-7 years. Used commercial vehicle NBFC financiers are also able to attract 3-5% higher yields as compared to new commercial vehicle financiers.

RoA tree for NBFCs operating in commercial vehicle loan segment



Source: Company reports, CRISIL MI&A

Key Risks in the vehicle financing industry:

1. **Economic Scenario:** The financial performance of auto-finance companies depends on the offtake of vehicles, which depends on the overall macroeconomic factors, such as GDP growth and the economic cycle. The commercial vehicles (CV) industry transports over half of the total freight handled in the country. As transportation is linked to all sectors, demand for CVs is closely linked to overall economic growth. CV demand is also driven by growth in industrial and agricultural production, freight movement, rising share of roadways in freight movement, and changes in freight rates. Any economic slowdown directly impacts CV sales.
2. **Regulatory Environment:** Changing regulatory framework for auto-finance companies has been crucial in determining growth path of NBFCs. Over years, regulations of NBFCs have been converging with those of banks; this could lead to keener competition in the future. Also, higher provisioning requirements will impact the profitability of these companies.
3. **Insufficiency of data for credit appraisal:** Credit-score availability in India is still at a nascent stage, despite the presence of credit bureaus. In several cases, borrowers lack formal income-proof documents. This makes it difficult to judge the ability of borrowers to repay.
4. **Asset Quality and Recovery Risk:** The absence of an established and transparent secondary market makes it difficult to recover the value in many cases.

9. Peer Comparison

Veritas Finance is a provider of retail credit to borrowers lacking access to formal financing channels and formal documentation. In this section, CRISIL MI&A has benchmarked Veritas Finance with the financial and operating performance of NBFCs operating in MSME and small business financing market, affordable housing finance business, vehicle finance business and diversified segments in India based on the latest available data for FY22, FY23, FY24 and half year ended FY25.

Within the MSME and small business financing market, competitors include Five-Star Business Finance Limited and SBFC Finance Limited. Affordable home loans and used vehicle finance businesses for Veritas are of a relatively newer vintage, and competitors include estabilished players such as Aavas Financiers Limited and Aptus Value Housing Finance India Limited for affordable home loans and SK Finance Limited and Kogta Financial for used vehicle finance.

For analysis, CRISIL has considered the following peers: Cholamandalam Investment and Finance Company Limited (Chola), Sundaram Finance Limited (Sundaram), Five-Star Business Finance Limited (Five-Star), SBFC Finance Limited (SBFC), Veritas Finance (Veritas), Aavas Financiers Limited (Aavas), Aptus Value Housing Finance (Aptus), SK Finance Limited (SK) and Kogta Financial (Kogta).

Consolidated financials of the companies have been taken into consideration wherever applicable, except Aptus Value Housing Finance for which standalone figures are considered. Players have been arranged in order of decreasing AUM in each category.

Veritas Finance's AUM has grown the fastest from FY2022 to FY2024 amongst the peer set

Veritas Finance is the fastest-growing NBFC in terms of AUM growth among compared peers for the period between FY22 to FY24, with a compounded annual growth rate ("CAGR") of 62%.

Assets under management

Assets under Management (in Rs. million)		FY22	FY23	FY24	H1FY24	H1FY25	CAGR (FY22-FY24)
Diversified NBFCs	Chola	769,070	1,064,980	1,455,720	1,242,460	1,646,420	38%
	Sundaram	390,270	457,330	577,990	524,380	634,630	22%
MSME focussed NBFCs	Five-Star	50,671	69,148	96,406	82,644	109,272	38%
	SBFC	31,922	49,428	68,219	58,030	77,150	46%
	Veritas	**21,874**	**35,337**	**57,238**	**44,833**	**65,172**	**62%**
Affordable Housing focussed HFCs	Aavas	113,502	141,667	173,126	153,195	183,956	24%
	Aptus	44,920	57,610	67,590	60,920	73,090	23%
Used Commercial Vehicle focussed NBFCs	SK	47,143	73,783	104,760	86,810	118,500	49%
	Kogta	21,833	33,956	47,933	40,090	52,411	48%

Note: 1) For Sundaram Finance consolidated AUM includes individual AUM of Sundaram Finance and Sundaram Home Finance.
Source: Company reports, CRISIL MI&A

Veritas Finance has the highest disbursement CAGR of 77% from FY2022 to FY2024 amongst the peer set

Veritas Finance has the highest disbursement growth rate of 77% from FY2022 to FY2024 amongst the peer set. Five-Star Business Finance has the second highest growth rate at 67% during the same time period.

Disbursements

Disbursements (in Rs. million)		FY22	FY23	FY24	H1FY24	H1FY25	CAGR (FY22-24)	Y-o-Y growth H1FY24-H1FY25
Diversified NBFCs	Chola	354,900	665,320	887,250	415,570	486,460	58%	17%
	Sundaram	155,860	248,670	311,920	157,370	166,640	41%	6%
MSME focussed NBFCs	Five-Star	17,562	33,914	48,814	23,361	25,689	67%	10%
	SBFC**	13,328	22,768	27,930	13,560	12,060	45%	-11%
	Veritas	**11,883**	**22,447**	**37,024**	**16,086**	**18,379**	**77%**	**14%**
Affordable Housing focussed HFCs	Aavas	36,022	50,245	55,822	23,267	25,046	24%	8%
	Aptus	16,410	23,950	31,270	13,910	16,100	38%	16%
Used Commercial Vehicle focussed NBFCs	SK	32,260	56,229	72,360	NA	NA	50%	NA
	Kogta	13,893	23,815	31,706	NA	NA	51%	NA

Note: 1) NA: Not Available, 2) (**) For secured MSME product, 3) For Sundaram Finance consolidated disbursements includes disbursements of Sundaram Finance and Sundaram Home Finance.
Source: Company reports, CRISIL MI&A

Veritas Finance portfolio is more diversified than MSME focussed NBFCs in the peer set

Veritas has the most diversified portfolio among MSME focussed peers, supporting diversification and expertise in the regions of their operation.

AUM Mix (H1 FY2025)

AUM Mix as of FY2024		Mortgage backed			MSME Unsecured	Vehicle Financing	Others
		Loan against property	Secured MSME	Housing Loan			
Diversified NBFCs	Chola	20%	-	10%	4%	56%	10% (Consumer & Small Enterprise loans, Secured Business & Personal Loan)
	Sundaram	9%	-	15%	-	66%	10% (Commercial Lending & Others)
MSME focussed NBFCs	Five-Star	-	100%	-	-	-	-
	SBFC	-	83%	-	-	-	17% (Others)
	Veritas	**-**	**72%**	**18%**	**9%**	**1%**	**-**
Affordable Housing focussed HFCs	Aavas	31%^^		69%	-	-	-
	Aptus	-	-	92%	-	-	8% (Insurance Loans & Top up loans)
Used Commercial Vehicle focussed NBFCs	SK*	-	21%	-	-	78%	
	Kogta*	-	20%	-	-	80%	0.1%

Note: 1) (^^) LAP and other mortgage loan, 2) (*) As of March 2024, 4) For Sundaram Finance consolidated AUM includes individual AUM of Sundaram Finance and Sundaram Home Finance.
Source: Company reports, CRISIL MI&A

Veritas Finance has the highest growth in number of employees and second highest growth rate in number of branches opened between FY22 and H1FY25

Five-Star Business Finance has the highest growth rate in terms of number of branches at 37% from FY2022 to H1 FY2025 amongst the peer set followed by Veritas Finance at 28%.

Number of branches and number of employees

Players		Branches					Employees				
		FY22	FY23	FY24	H1 FY25	CAGR (FY22-H1FY25)	FY22	FY23	FY24	H1 FY25	CAGR (FY22-H1FY25)
Diversified NBFCs	Chola	1,145	1,191	1,387	1,508	12%	33,077	44,922	54,098	61,291	28%
	Sundaram	723	788	848	855	7%	5,085	8,498	9,007	9,152	26%
MSME focussed NBFCs	Five-Star	300	373	520	660	37%	5,675	7,347	9,327	10,366	27%
	SBFC	135	152	183	192	15%	2,048	2,822	3,758	4,062	32%
	Veritas	**229**	**287**	**382**	**424**	**28%**	**2,727**	**4,432**	**6,299**	**7,704**	**51%**
Affordable Housing focussed HFCs	Aavas	314	346	367	372	7%	5,222	6,034	6,075	NA	8%*
	Aptus	208	231	262	291	14%	2,271	2,405	2,883	3,046	12%
Used Commercial Vehicle focussed NBFCs	SK	423	447	579	NA	17%*	6,703	8,469	11,401	NA	30%*
	Kogta	179	202	216	NA	10%*	3,181	3,989	4,729	NA	22%*

Note: 1) (*) CAGR calculated from FY22 -FY24, 2) For Sundaram Finance consolidated branches and employees includes branches and employees of Sundaram Finance and Sundaram Home Finance. Source: Company reports, CRISIL MI&A

Cost to Income for players

Players		Cost to Income (%)			
		FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	21.1%	22.2%	22.1%	NA
	Sundaram	21.7%	22.6%	21.5%	NA
MSME focussed NBFCs	Five-Star	24.5%	28.8%	25.4%	NA
	SBFC	33.6%	31.3%	30.1%	27.5%
	Veritas	**35.4%**	**34.7%**	**35.2%**	**35.5%**
Affordable Housing focussed HFCs	Aavas	27.3%	28.7%	27.2%	NA
	Aptus	14.0%	14.8%	14.4%	NA
Used Commercial Vehicle focussed NBFCs	SK	34.8%	29.7%	30.0%	NA
	Kogta	35.3%	35.6%	31.4%	35.2%

Note: 1) Cost to Income ratio calculated as operating expenses for the relevant Fiscal year divided by total income. Operating expenses represent the aggregate of Employee benefit expense, Fee and commission expense, Depreciation & amortization, Interest expense on lease liabilities & Other expenses for the relevant Fiscal. 2) NA: Not Available

Source: Company reports, CRISIL MI&A

AUM per branch and AUM per employee

Players		AUM per branch (in Rs. million)					AUM per employee (in Rs. million)				
		FY22	FY23	FY24	H1 FY25	CAGR FY22-H1FY25	FY22	FY23	FY24	H1 FY25	CAGR FY22-H1FY25
Diversified NBFCs	Chola	672	894	1,050	1,092	21%	23	24	27	27	6%
	Sundaram	540	580	682	742	14%	77	54	64	69	-4%
MSME focussed NBFCs	Five-Star	169	185	185	166	-1%	9	9	10	11	7%
	SBFC	236	325	373	402	24%	16	18	18	19	8%
	Veritas	**96**	**123**	**150**	**154**	**21%**	**8**	**8**	**9**	**8**	**2%**

Players		AUM per branch (in Rs. million)					AUM per employee (in Rs. million)				
		FY22	FY23	FY24	H1 FY25	CAGR FY22-H1FY25	FY22	FY23	FY24	H1 FY25	CAGR FY22-H1FY25
Affordable Housing focussed HFCs	Aavas	361	409	472	495	13%	22	23	28	NA	15%*
	Aptus	216	249	258	251	6%	20	24	23	24	8%
Used Commercial Vehicle focussed NBFCs	SK	111	165	181	193	27%	7	9	9	NA	14%*
	Kogta	122	168	222	208	24%	7	9	10	NA	22%*

Note: 1) (*) CAGR calculated from FY22 – FY24, 2) AUM per branch calculated as AUM for the relevant Fiscal year divided by numbers of branches for the relevant Fiscal year, 3) AUM per employee calculated as AUM for the relevant Fiscal year divided by numbers of employees for the relevant Fiscal year, 4) For Sundaram Finance consolidated AUM, branches and employees includes those of Sundaram Finance and Sundaram Home Finance.

Source: Company reports, CRISIL MI&A

Disbursement per branch and Disbursement per employee

Players		Disbursement per branch (in Rs. million)					Disbursement per employee (in Rs. million)				
		FY22	FY23	FY24	H1 FY25	CAGR FY22-FY24	FY22	FY23	FY24	H1 FY25	CAGR FY22-FY24
Diversified NBFCs	Chola	310	559	640	323	44%	11	15	16	8	24%
	Sundaram	216	316	368	195	31%	31	29	35	18	6%
MSME focussed NBFCs	Five-Star	59	91	94	39	27%	3	5	5	2	30%
	SBFC**	99	150	153	63	24%	7	8	7	3	7%
	Veritas	**52**	**78**	**97**	**43**	**37%**	**4**	**5**	**6**	**2**	**16%**
Affordable Housing focussed HFCs	Aavas	115	145	152	67	15%	7	8	9	NA	15%
	Aptus	79	104	119	55	23%	7	10	11	5	23%
Used Commercial Vehicle focussed NBFCs	SK	76	126	125	NA	28%	5	7	6	NA	15%
	Kogta	78	118	147	NA	38%	4	6	7	NA	24%

Note: 1) NA: Not Available, 2) (**) Disbursements for secured MSME product, 3) Disbursements per branch calculated as Disbursement for the relevant Fiscal year divided by numbers of branches for the relevant Fiscal year, 4) Disbursement per employee calculated as Disbursements for the relevant Fiscal year divided by numbers of employees for the relevant Fiscal year, 5) For Sundaram Finance consolidated numbers includes that of Sundaram Finance and Sundaram Home Finance.
Source: Company reports, CRISIL MI&A

Average Ticket Size and State wise share in AUM

Players		Average Ticket Size (in Rs. million)	Top 3 states (AUM)
Diversified NBFCs	Chola	NA	South (29%), North (23%), West (23%), East (25%)
	Sundaram	NA	South (55%), North (28%), West (13%), East (4%)
MSME focussed NBFCs	Five-Star	0.35	Andhra Pradesh (38%), Tamil Nadu (30%), Telangana (19%)
	SBFC	0.94*	South (38%), East (12%), North (33%), West (16%)
	Veritas	**0.4**	**Tamil Nadu (42%), Andhra Pradesh (18%), Telangana (11%)**
Affordable Housing focussed HFCs	Aavas	0.80	Rajasthan (34%) **
	Aptus	~ 1.0	Andhra Pradesh (42%), Tamil Nadu (34%), Telangana (16%)
Used Commercial Vehicle	SK	0.42^^	Rajasthan (52%), Madhya Pradesh (14%), Gujarat (10%) ^
	Kogta	NA	Rajasthan (42%), Maharashtra (18%), Gujarat (16%) ^

focussed NBFCs			

Note:1) (*) For Secured MSME Portfolio 2) (^^) Average ticket size for vehicles (excluding two-wheelers) 4) (^) As of March 2024
Source: Company reports, CRISIL MI&A

Veritas Finance' yield on advances stood at 22.7% as of FY2024

Five-Star Business Finance's yield on advances was highest amongst MSME focussed NBFCs at 25.0%, followed by Veritas Finance's yield on advances at 22.7% as of FY2024.

As of H1 FY2025, Veritas annualized yield on advances was around 22.0%, second only to Five-Star at 24.2%.

Key Financial Ratios (Annualized Figures for H1 FY2025)

H1FY25		Yield on avg AUM	Average Cost of Borrowing	Net Interest Margin	Opex % of avg AUM	Credit Cost % of avg AUM	Return on avg AUM	Return on avg Equity
Diversified NBFCs	Chola	14.4%*	NA	NA	NA	1.6%	1.2%	NA
	Sundaram	11.1%*	NA	NA	NA	0.3%	1.3%	NA
MSME focussed NBFCs	Five-Star	24.2%	NA	NA	NA	0.8%	5.0%	9.5%
	SBFC	15.0%	9.4%	9.7%	4.7%	0.9%	2.3%	5.7%
	Veritas	**22.0%**	**10.0%**	**14.7%**	**8.4%**	**2.1%**	**2.2%**	**5.4%**
Affordable Housing focussed HFCs	Aavas	NA	NA	NA	NA	NA	NA	NA
	Aptus	16.8%*	NA	NA	NA	0.3%	3.8%	7.6%
Used Commercial Vehicle focussed NBFCs	SK	18.3%*	NA	NA	NA	2.9%	1.3%	4.7%
	Kogta	NA	9.1%	NA	NA	NA	NA	3.1%

Note: 1) Average quarterly AUM is calculated based on quarterly average i.e. 3 point average for H1 Fiscal 2025.
2) Average quarterly borrowings is calculated based on quarterly average i.e. 3 point average for H1 Fiscal 2025.
3) Average quarterly equity is calculated based on quarterly average i.e. 3 point average for H1 Fiscal 2025.
4) Yield on avg AUM calculated as Interest earned on loans and advances divided by average quarterly AUM (1)
5) Average cost of borrowing calculated as finance costs excluding interest on lease liability divided by average quarterly borrowings (2). Borrowings include debt securities, borrowings other than debt securities, subordinated liabilities and deposits.
6) Net Interest Margin calculated as net interest income divided by average quarterly AUM (1). Net Interest Income represents Interest income on loans reduced by Finance cost excluding interest expense on lease liabilities for the relevant period/year.
7) Opex as % of avg AUM calculated as Operating expenses divided by average quarterly AUM (1) Operating Expenses include the aggregate of Employee benefit expense, Fee and commission expense, Depreciation & amortization, Interest expense on lease liabilities & Other expenses for the relevant period/year.
8) Credit Cost % of avg AUM calculated as credit cost for the relevant period/year divided by average quarterly AUM (1).
9) Return on avg AUM calculated as profit after tax divided by average quarterly AUM (1)
10) Return on avg Equity calculated as profit after tax divided by average quarterly equity (3).
11) (*) Yield calculated on total interest income
12) The ratios are annualized except Return on avg AUM and Return on avg Equity
Source: Company reports, CRISIL MI&A

Key Financial Ratios (FY2024)

FY24		Yield on avg AUM	Average Cost of Borrowing	Net Interest Margin	Opex % of avg AUM	Credit Cost % of avg AUM	Return on avg AUM	Return on avg Equity
Diversified NBFCs	Chola	13.7%	NA	6.4%	3.4%	1.1%	2.7%	NA
	Sundaram	10.8%	NA	4.3%	3.0%	0.6%	2.7%	NA
MSME focussed NBFCs	Five-Star	25.0%	9.1%	19.4%	6.8%	0.7%	10.1%	17.6%
	SBFC	14.8%	9.2%	8.9%	5.3%	0.8%	4.1%	10.1%
	Veritas	**22.7%**	**9.9%**	**15.8%**	**8.7%**	**2.0%**	**5.4%**	**12.3%**
Affordable Housing focussed HFCs	Aavas	10.3%	NA	5.0%	3.5%	0.2%	3.2%	14.0%
	Aptus	16.7%	NA	11.5%	2.6%	0.4%	7.8%	14.8%
	SK	17.0%	9.5%	8.6%	6.1%	1.4%	3.5%	12.8%

FY24		Yield on avg AUM	Average Cost of Borrowing	Net Interest Margin	Opex % of avg AUM	Credit Cost % of avg AUM	Return on avg AUM	Return on avg Equity
Used Commercial Vehicle focussed NBFCs	Kogta	NA	9.3%	NA	NA	NA	NA	11.8%

Note: 1) Average quarterly AUM is calculated based on quarterly average i.e. 5 point average for Fiscal 2024
2) Average quarterly borrowings is calculated based on quarterly average i.e. 5 point average for Fiscal 2024
3) Average quarterly equity is calculated based on quarterly average i.e. 5 point average for Fiscal 2024
4) Yield on avg AUM calculated as Interest earned on loans and advances divided by average quarterly AUM (1)
5) Average cost of borrowing calculated as finance costs excluding interest on lease liability divided by average quarterly borrowings (2). Borrowings include debt securities, borrowings other than debt securities, subordinated liabilities and deposits.
6) Net Interest Margin calculated as net interest income divided by average quarterly AUM (1). Net Interest Income represents Interest income on loans reduced by Finance cost excluding interest expense on lease liabilities for the relevant period/year.
7) Opex % of avg AUM calculated as Operating expenses divided by average quarterly AUM (1) Operating Expenses include the aggregate of Employee benefit expense, Fee and commission expense, Depreciation & amortization, Interest expense on lease liabilities & Other expenses for the relevant period/year.
8) Credit Cost % of avg AUM calculated as credit cost for the relevant period/year divided by average quarterly AUM (1).
9) Return on avg AUM calculated as profit after tax divided by average quarterly AUM (1)
10) Return on avg Equity calculated as profit after tax divided by average quarterly equity (3).
Source: Company reports, CRISIL MI&A

Veritas Finance return on assets is the third highest amongst the peer set as of FY2024

Five-Star Business Finance has the highest return on assets at 8.2% in FY2024 amongst the peer set, followed by Aptus Value Housing (6.8%) and Veritas Finance (4.7%).

As of H1 FY2025, Five-Star had the highest return on assets at 4.2%, followed by Aptus Value Housing (3.6%) and SBFC Finance (2.2%).

Return on assets and return on equity

Players		RoA (%)				RoE (%)			
		FY22	FY23	FY24	H1 FY25	FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	2.7%	2.7%	2.5%	1.1%	20.2%	20.5%	20.1%	9.3%
	Sundaram	2.3%	2.5%	2.4%	1.2%	10.4%	10.8%	12.0%	6.9%
MSME focussed NBFCs	Five-Star	7.5%	8.0%	8.2%	4.2%	15.0%	15.0%	17.5%	9.5%
	SBFC	1.5%	2.9%	3.7%	2.2%	5.2%	9.9%	10.5%	5.7%
	Veritas	**3.1%**	**5.2%**	**4.7%**	**1.9%**	**6.6%**	**11.8%**	**12.5%**	**5.4%**
Affordable Housing focussed HFCs	Aavas	3.6%	3.5%	3.3%	NA	13.6%	14.1%	13.9%	NA
	Aptus	6.7%	7.2%	6.8%	3.6%	13.2%	14.5%	14.7%	7.6%
Used Commercial Vehicle focussed NBFCs	SK	2.7%	2.9%	2.9%	1.2%	11.1%	13.0%	12.6%	4.7%
	Kogta	2.4%	2.7%	3.1%	0.9%	8.4%	9.6%	11.7%	3.3%

Note: 1) RoA calculated as profit after tax divided average of total assets on book of the company, 2) RoE calculated as profit after tax divided average of shareholder equity of the company,
Source: Company reports, CRISIL MI&A

Asset quality

Players		GNPA				NNPA			
		FY22	FY23	FY24	H1 FY25	FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	6.8%	4.6%	3.5%	3.8%	4.7%	3.1%	2.3%	2.5%
	Sundaram	2.2%	1.7%	1.3%	1.6%	1.1%	0.9%	0.6%	0.9%
MSME focussed NBFCs	Five-Star	1.1%	1.4%	1.4%	1.5%	0.7%	0.7%	0.6%	0.7%
	SBFC	2.7%	2.6%	2.4%	2.7%	1.6%	1.6%	1.4%	1.6%
	Veritas	**3.9%**	**2.2%**	**1.8%**	**2.0%**	**2.3%**	**1.3%**	**0.9%**	**1.0%**
	Aavas	1.0%	0.9%	0.9%	1.1%	0.8%	0.7%	0.7%	0.8%

Players		GNPA				NNPA			
		FY22	FY23	FY24	H1 FY25	FY22	FY23	FY24	H1 FY25
Affordable Housing focussed HFCs	Aptus	1.2%	1.2%	1.1%	1.3%	0.9%	0.9%	0.8%	0.9%
Used Commercial Vehicle focussed NBFCs	SK **	2.8%	3.1%	3.5%	4.7%	2.0%	2.4%	2.5%	3.3%
	Kogta	3.6%	3.3%	2.6%	3.8%	2.5%	1.8%	1.7%	2.5%

Note: 1) (**) After impact of RBI circular.
Source: Company reports, CRISIL MI&A

Asset quality

Players		1 DPD Portfolio (%)				30 DPD Portfolio (%)			
		FY22	FY23	FY24	H1 FY25	FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	NA	NA	NA	NA	12.0%	6.7%	4.7%	5.5%
	Sundaram	NA	NA	NA	NA	NA	NA	NA	NA
MSME focussed NBFCs	Five-Star	28.1%	16.5%	12.6%	14.0%	16.8%	10.5%	7.9%	8.4%
	SBFC	NA	5.1%*	5.6%*	6.3%*	8.5%	6.1%	6.8%	5.9%
	Veritas	**9.1%**	**4.5%**	**3.6%**	**4.9%**	**6.7%**	**3.7%**	**3.1%**	**3.5%**
Affordable Housing focussed HFCs	Aavas	4.5%	3.3%	3.1%	4.0%	4.0%	2.7%	2.4%	2.7%
	Aptus	NA	NA	NA	NA	9.5%	5.4%	6.1%	NA
Used Commercial Vehicle focussed NBFCs	SK	19.8%	13.9%	13.8%	NA	10.0%	5.8%	6.4%	8.0%
	Kogta	NA	NA	NA	NA	11.6%	6.5%	6.2%	NA

Note: 1) Ratios calculated on gross book, 2) (*) Only for secured MSME product.
Source: Company reports, CRISIL MI&A

Provisioning Coverage Ratio

Players		Provision Coverage Ratio			
		FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	39.7%	46.0%	46.5%	44.5%
	Sundaram	51.1%*	48.2%*	50.0%*	45.1%*
MSME focussed NBFCs	Five-Star	34.9%	49.3%	54.3%	51.7%*
	SBFC	40.5%	39.3%	44.7%	39.4%*
	Veritas	**41.5%**	**42.8%**	**53.1%**	**50.8%**
Affordable Housing focussed HFCs	Aavas	71.2%	67.1%	64.3%	59.1%
	Aptus	26.1%*	25.2%*	25.2%*	24.8%*
Used Commercial Vehicle focussed NBFCs	SK	28.6%	24.7%	30.2%	41.0%
	Kogta	30.2%*	45.5%*	35.0%*	33.9%*

Note: 1) (*) Provisioning Coverage Ratio calculated as GNPA subtracted by NNPA and divided by GNPA for the relevant Fiscal year
Source: Company reports, CRISIL MI&A

Veritas Finance' profit after tax has grown the second fastest amongst the peer set

Veritas Finance's profit after tax has grown at 80% between FY2022 and FY2024 which is the second highest amongst the peer set. SBFC Finance has the highest profit after tax growth rate at 92% during the same time period.

Profit after tax

Profit After Tax (in Rs. million)		FY22	FY23	FY24	H1 FY25	CAGR (FY22-FY24)
Diversified NBFCs	Chola	21,589	26,767	34,107	19,150	26%
	Sundaram	10,666	12,817	14,224	8,081	15%
MSME focussed NBFCs	Five-Star	4,535	6,035	8,359	5,195	36%
	SBFC	645	1,497	2,371	1,631	92%
	Veritas	**754**	**1,764**	**2,451**	**1,331**	**80%**
Affordable Housing focussed HFCs	Aavas	3,552	4,296	4,907	NA	18%
	Aptus	3,082	4,246	4,806	2,641	25%
Used Commercial Vehicle focussed NBFCs	SK	1,429	2,228	3,119	1,482	48%
	Kogta	521	855	1,409	533	64%

Source: Company reports, CRISIL MI&A

Net worth

Net worth (in Rs. million)		FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	117,690	143,461	195,932	214,109
	Sundaram	110,889	126,484	110,782	125,101
MSME focussed NBFCs	Five-Star	37,104	43,395	51,962	57,233
	SBFC	12,872	17,273	27,781	29,680
	Veritas	**14,080**	**15,913**	**23,296**	**26,107**
Affordable Housing focussed HFCs	Aavas	28,064	32,697	37,733	NA
	Aptus	27,659	31,106	34,080	35,645
Used Commercial Vehicle focussed NBFCs	SK	15,964	18,337	31,086	32,644
	Kogta	6,510	11,348	12,803	19,427

Note: 1) Net worth includes capital and reserves and surplus
Source: Company reports, CRISIL MI&A

MSME Finance NBFCs have low debt to equity ratio as compared to other categories

Five-Star Business Finance has debt to equity ratio at 1.2x followed by SBFC Finance at 1.5x followed by Veritas Finance at 1.9x as of H1 FY2025.

Debt to equity and total assets to equity ratio

Players		Debt to Equity				Total Assets to Equity			
		FY22	FY23	FY24	H1 FY25	FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	5.9x	6.8x	6.9x	7.4x	7.0x	7.9x	8.0x	8.5x
	Sundaram	2.7x	2.8x	4.0x	3.8x	4.3x	4.4x	5.8x	5.6x
MSME focussed NBFCs	Five-Star	0.7x	1.0x	1.2x	1.2x	1.7x	2.0x	2.2x	2.2x
	SBFC	2.3x	2.2x	1.4x	1.5x	3.5x	3.3x	2.5x	2.5x
	Veritas	**0.8x**	**1.5x**	**1.7x**	**1.9x**	**1.9x**	**2.6x**	**2.8x**	**2.9x**
Affordable Housing focussed HFCs	Aavas	2.8x	3.0x	3.3x	NA	3.9x	4.1x	4.4x	NA
	Aptus	0.8x	1.1x	1.2x	1.3x	1.9x	2.1x	2.2x	2.3x
Used Commercial Vehicle focussed NBFCs	SK	2.8x	3.8x	2.9x	3.0x	3.9x	4.9x	4.0x	4.1x
	Kogta	2.9x	2.3x	3.0x	2.0x	4.0x	3.4x	4.1x	3.1x

Note: 1) Debt to Equity ratio calculated as total borrowings divided by total shareholder equity of the company, 2) Total Assets to Equity ratio calculated as total assets divided by total shareholder equity of the company, 3) NA: Not Available
Source: Company reports, CRISIL MI&A

Veritas Finance had the third highest CAR ratio amongst the peer set as of FY2024

Veritas Finance' capital adequacy ratio stood at 41.5% as of FY2024 which was the fourth highest amongst the peer set.

Capital Adequacy ratio and Tier 1 ratio for players

Players		Capital Adequacy Ratio				Tier 1 Ratio			
		FY22	FY23	FY24	H1 FY25	FY22	FY23	FY24	H1 FY25
Diversified NBFCs	Chola	19.6%	17.1%	18.6%	19.5%	16.5%	14.8%	15.1%	15.0%
	Sundaram	24.4%	22.8%	20.5%	20.0%	17.5%	17.7%	16.8%	NA
MSME focussed NBFCs	Five-Star	75.2%	67.2%	50.5%	48.7%	75.2%	67.2%	50.5%	NA
	SBFC	26.2%	31.9%	40.5%	38.6%	25.9%	31.7%	40.5%	NA
	Veritas	**64.4%**	**45.0%**	**41.5%**	**40.9%**	**64.0%**	**44.7%**	**41.5%**	**40.9%**
Affordable Housing focussed HFCs	Aavas	51.4%	47.0%	44.0%	46.5%	50.7%	46.7%	43.8%	46.2%
	Aptus	85.6%	77.4%	73.0%	70.2%	85.6%	76.6%	72.4%	NA
Used Commercial Vehicle focussed NBFCs	SK	30.4%	26.1%	33.9%	31.6%	29.8%	25.5%	33.9%	NA
	Kogta	28.5%	34.1%	27.1%	38.2%	28.5%	33.9%	26.7%	NA

Note: NA: Not Available. Source: Company reports, CRISIL MI&A

Veritas Finance has the highest share of term loans from banks amongst the peers in the borrowing mix

Veritas Finance' borrowing mix constitute of term loans from banks (72%), securitisation (17%), NCD (8%) and term loan from others (3%) as of H1 FY2025.

Borrowing mix for companies (H1 FY2025)

Players		NCD	Term loans from banks	Term Loans from others	Securitisation	Subordinated Liabilities	Short Term Borrowings	ECB	CP	Deposits	Others
Diversified NBFCs	Chola	17%	45%	5%	18%	5%	4%	6%	-	-	-
	Sundaram	32%	39%	-	10%	-	-	-	4%	14%	-
MSME focussed NBFCs	Five-Star	12%	60%	10%	18%	-	-	1%	-	-	-
	SBFC	11%	42%	8%	4%	-	-	15%	-	-	19%**
	Veritas	**8%**	**72%**	**3%**	**17%**	**-**	**-**	**-**	**-**	**-**	**-**
Affordable Housing focussed HFCs	Aavas	6%	69%		25%^	-	-	-	-	-	-
	Aptus	11%	78%		11%	-	-	-	-	-	-
Used Commercial Vehicle focussed NBFCs	SK*	18%	60%	-	20%	-	-	3%	-	-	-
	Kogta^^	12%	66%	11%	3%	-	9%	-	-	-	-

Note: 1) (**) Co-origination, 2) NCD: Non-convertible debentures, ECB: Exchange commercial borrowings, CP: Commercial Papers, 3) Short term borrowings include cash credit and overdraft facilities, 4) (^) Assignment and co-lending, 5) (*) As of June 2024, 6) (^^) As of March 2024
Source: Company reports, CRISIL MI&A

Credit rating of companies (Latest Available Ratings)

Players		Long Term Credit Rating
Diversified NBFCs	Chola	IND AA/IND AA+, ICRA AA/ICRA AA+, CARE AA+/CARE AA
	Sundaram	ICRA AAA, CRISIL AAA
MSME focussed NBFCs	Five-Star	ICRA AA-, IND AA-, CARE AA-
	SBFC	ICRA AA-, CARE AA-, IND AA-
	Veritas	**CARE A+**
Affordable Housing focussed HFCs	Aavas	CARE AA, ICRA AA
	Aptus	ICRA AA-, CARE AA-
Used Commercial Vehicle focussed NBFCs	SK	CRISIL AA-/CRISIL PPMLD AA-, ACUITE AA-, ICRA AA-, CARE AA-, IND AA-
	Kogta	ICRA A+, CARE A+

Source: Company reports, CRISIL MI&A

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