Market Intelligence
& Analytics

CRISIL
An S&P Global Company

Industry Report on NBFC Sector in India

For Manba Finance Limited

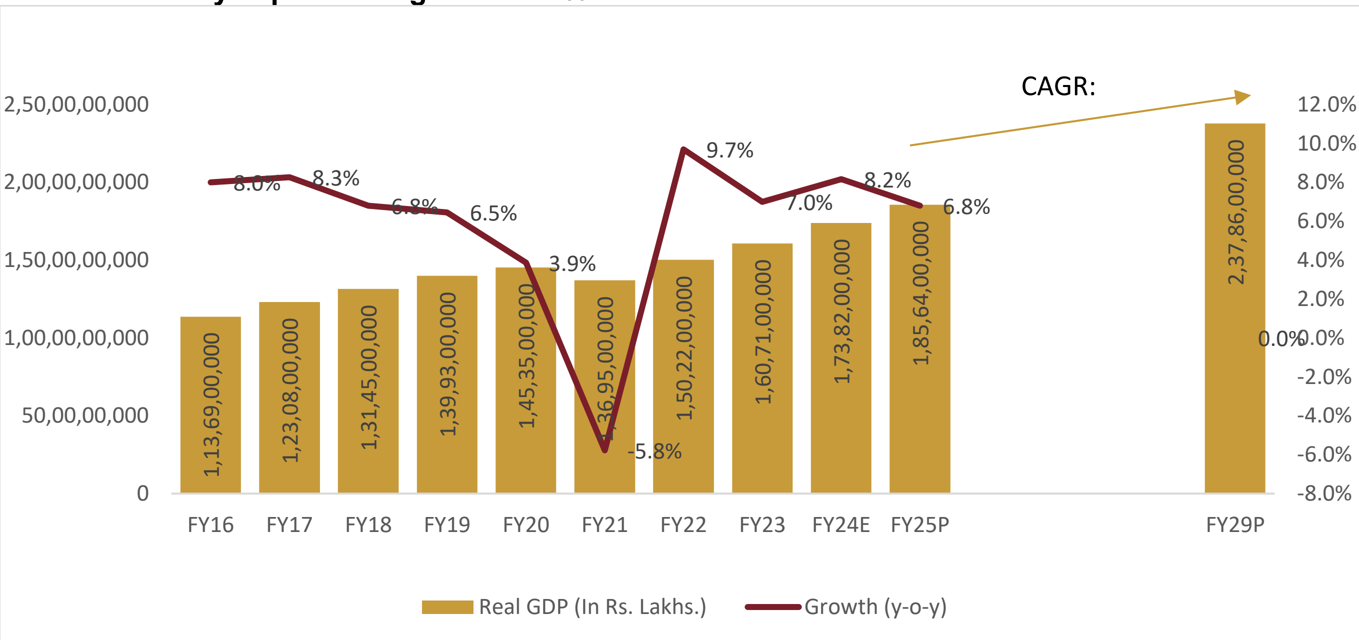
August 2024

Macroeconomic Scenario

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

The Indian economy was among the fastest-growing in the world prior to onset of the Covid-19 pandemic. In the years leading up to the global health crisis which disrupted economic activities, the country's economic indicators posted gradual improvements owing to strong local consumption and lower reliance on global demand. Despite global geopolitical instability, India continues to maintain its position as one of the fastest-growing economies globally. 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 fiscal 2024, while in Q4 FY24, growth was much stronger at 7.8% than 5.9% factored in in the second advance estimates in February 2024. Going forward, CRISIL MI&A expects a moderation in GDP growth rate to 6.8% in Fiscal 2025, largely due to various factors like Government's focus on fiscal consolidation, which is likely to lead to moderation in investments, which is a key factor for economic growth. Additionally, the incomplete transmission of past rate hikes to lending rates and regulatory measures by the RBI to control risky lending could further affect credit support for consumption. Slower global growth and possible spikes in commodity price, especially crude oil may also contribute to moderation in economic growth of India. However, the prediction of an above normal monsoon offers hope for the rural economy, potentially reducing food inflation and enhancing purchasing power.

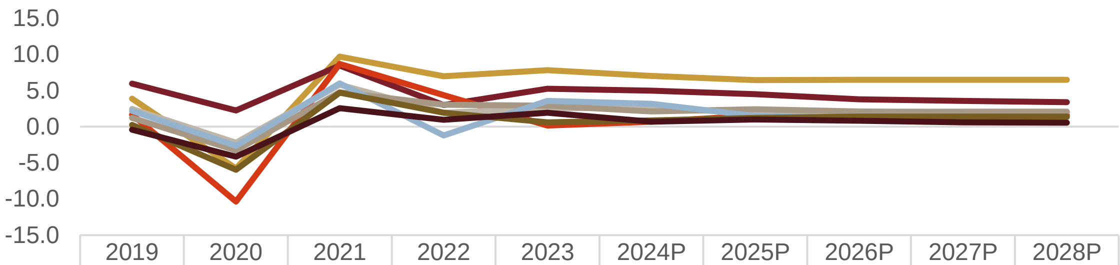
India's economy expected to grow at 6.8% in Fiscal 2025



Note: E = Estimated, P = Projected; GDP growth till fiscal 2023 is actuals. GDP Estimates for fiscals 2023- 2024 is based on NSO Estimates and 2024-2025 is projected based on CRISIL MI&A estimates and that for fiscals 2025-2029 based on IMF estimates; Source: NSO, CRISIL MI&A, IMF (World Economic Outlook – April 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	2024P	2025P	2026P	2027P	2028P
India	3.9	-5.8	9.7	7.0	7.8	7.0	6.5	6.5	6.5	6.5
China	6.0	2.2	8.5	3.0	5.2	5.0	4.5	3.8	3.6	3.4
United Kingdom	1.6	-10.4	8.7	4.3	0.1	0.7	1.5	1.7	1.7	1.6
United States	2.5	-2.2	5.8	1.9	2.5	2.6	1.9	2.0	2.1	2.1
Brazil	1.2	-3.3	4.8	3.0	2.9	2.1	2.4	2.1	2.0	2.0
Russia	2.2	-2.7	6.0	-1.2	3.6	3.2	1.5	1.3	1.3	1.3
South Africa	0.3	-6.0	4.7	1.9	0.6	0.9	1.2	1.4	1.4	1.4
Japan	-0.4	-4.1	2.6	1.0	1.9	0.7	1.0	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, For India, data and forecasts are presented on a fiscal year basis. Figures for CY 2024 & 2025 as per WEO -July 2024, P: Projected; Source: IMF (World Economic Outlook – April 2024), CRISIL MI&A

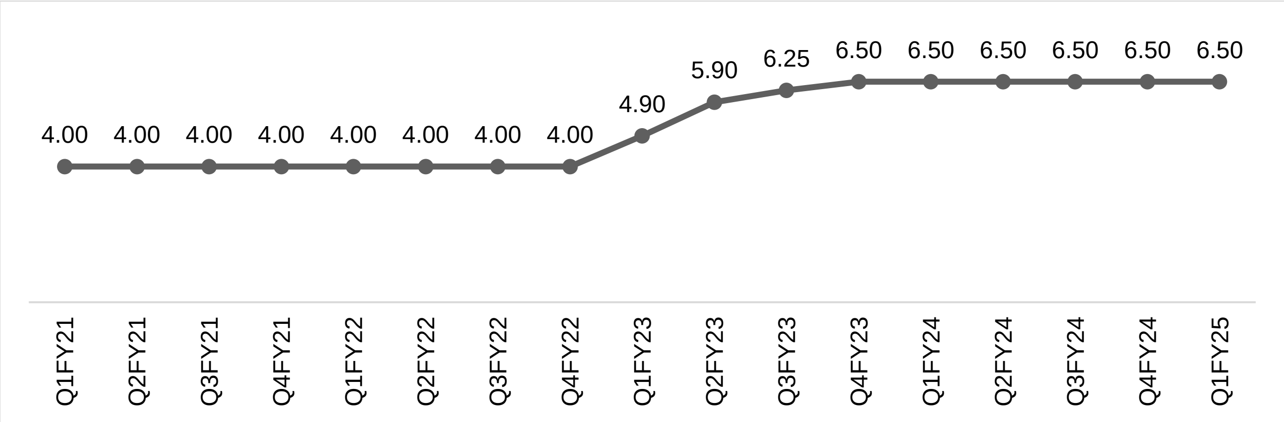
Indian Economy to be a major part of the world trade

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

The current fiscal begins with unchanged repo rates by the RBI. Globally, major central banks are currently cautious about cutting rates, amid slower disinflation and strong growth. 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 June 2024 meeting voted to keep the policy rates unchanged. The repo rates have increased by 250 basis points from Q4FY22 to Q4FY23 and remained at 6.50% in Q1FY25, standing deposit facility (SDF) at 6.25%, and marginal standing facility (MSF) at 6.75%. SBI MCLR has increased by 145 basis point from Q4FY22 to Q1FY25. MPC maintained status quo on the 'withdrawal of accommodation' stance.

Repo rate in India (%)

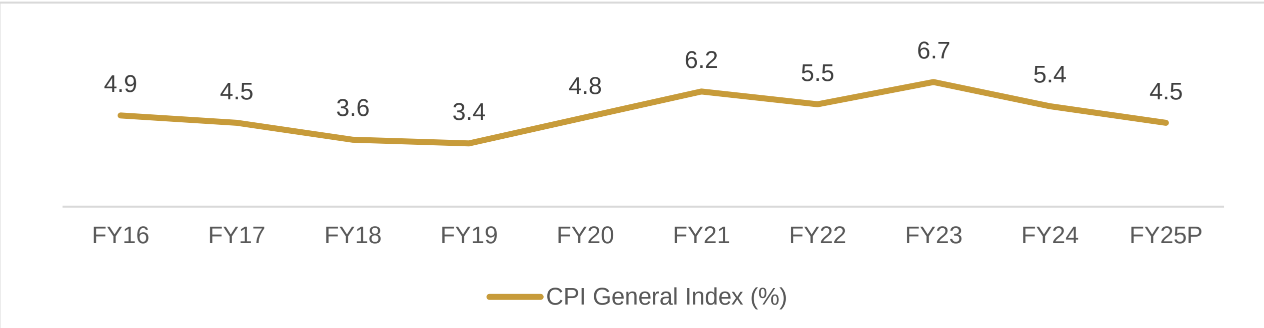


Source: RBI, CRISIL MI&A

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

Consumer price index (CPI) inflation moderated slightly to 4.75% in May from 4.8% in April. Food inflation has remained unchanged from April at 8.7% due to seasonal pressure. Core inflation continued to trend downwards, to 3% from 3.2% and fuel inflation also deflated to 3.8% in May. The worry, though, remains on persistently high food inflation, at 8.7%. Higher cereals inflation, erratic vegetable inflation and elevated pulses inflation are a cause of concern. CRISIL MI&A expects CPI inflation to continue to soften in FY25 to 4.5% from 5.4% in FY24, supported by the assumption of a normal monsoon, softer domestic demand, and benign global oil prices.

Inflation to moderate to 4.5% in Fiscal 2025



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 Fiscal 2025 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*

Positive government measures to aid economic growth for India

- The Union Budget of 2024-25 announced a 17.1% rise in capital expenditure in FY25 at Rs.11.1 lakh crore from Rs. 9.5 lakh crore in fiscal 2024, with infrastructure sectors continued to get the highest allocation (24.5% of total budgetary capex). In a year where the Indian economy is expected to see a cyclical slowdown owing to global slowdown and impact of interest rates and tightening financial conditions on domestic demand, higher capex would support growth in the economy.

- MSMEs have received special focus, with initiatives such as the new credit guarantee scheme, offering coverage of up to 100 crore per applicant, increases in the limit for the Tarun category under Mudra loans from Rs 10 lakhs to Rs 20 lakhs. Moreover, Public Banks have taken steps to develop an in-house technology-based underwriting model to assess MSMEs, which will improve credit facilities for these enterprises.

- Budgetary support towards rural areas through higher allocation under PM Awas Yojana – Rural (up 70.3% on year) and PM Gram Sadak Yojana (up 11.8% on year), aggregate allocation on major rural schemes like Pradhan Mantri Kisan Samman Nidhi (PM KISAN), Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), PM Gram Sadak Yojana, PM Awas Yojana- Rural to Rs. 2.2 lakh crore, a 12.6% on year increase will support rural employment, income and consumption.

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. The number of GST returns filed saw a ~38% jump from FY19 (~169 million) to FY23 (~232 million), with 92.31% (GSTR-1) of filings completed as of May 31, 2024.

- PMAY was introduced in 2015 to provide affordable housing for all by the end of 2022. The timelines were revised to fiscals 2024 and 2025 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 second phase of PMAY -U (PMAY-U 2.0) is anticipated to be introduced in Union Budget of FY25, in which one crore houses will be constructed in urban areas and is likely to have three categories- Economically Weaker Section, Low Income Group and Middle-Income Group. 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 1,984 e-Services as of March 2024 and over 4 billion transactions have taken place on UMANG as of March 2024.
    - Unified Payment Interface (UPI) is the leading digital payment mechanism, it has onboarded 550+ banks and has facilitated more than 13,440 million transactions (by volume) worth Rs 19.7 trillion in March 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 March 2024, 0.58 million CSCs are functional (including urban & rural areas) across the country, out of which, 0.47 million CSCs are functional at Gram Panchayat level.

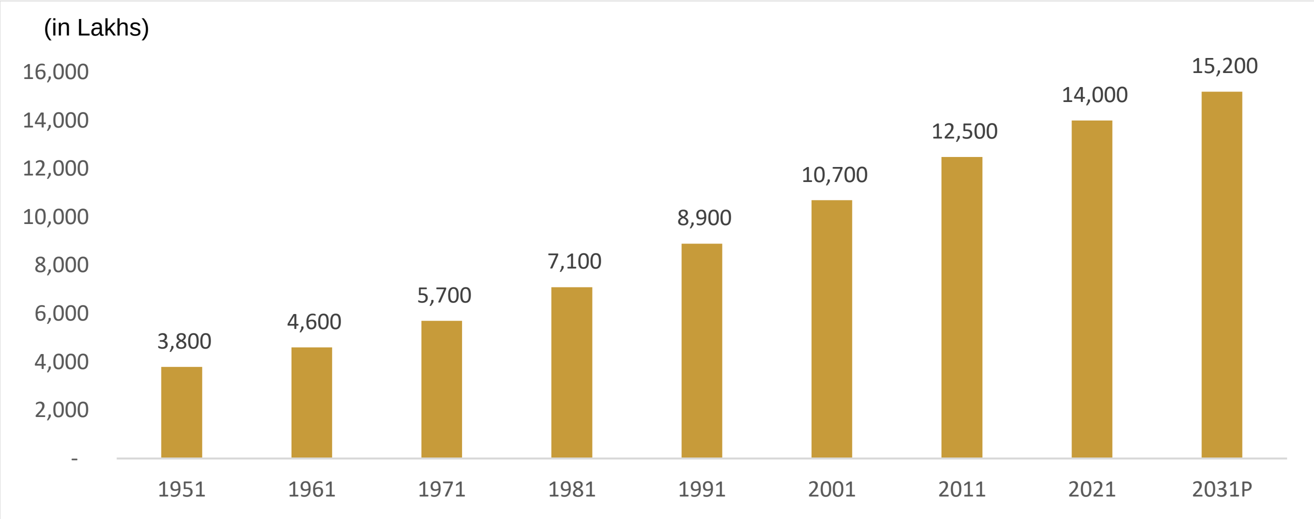
Overall, these initiatives will improve the digital connectivity of Indians along with boosting business sentiment, thereby creating new opportunities.

Key growth drivers

India has the world's largest population

As per Census 2011, India's population was ~12,500 lakh, and comprised nearly 2,450 lakh households, is expected by CRISIL MI&A to increase at 1.1% CAGR between 2011 and 2021, to 14,000 lakh and 15,200 lakh by 2031, and the number of households are expected to reach ~3,760 lakh over the same period.

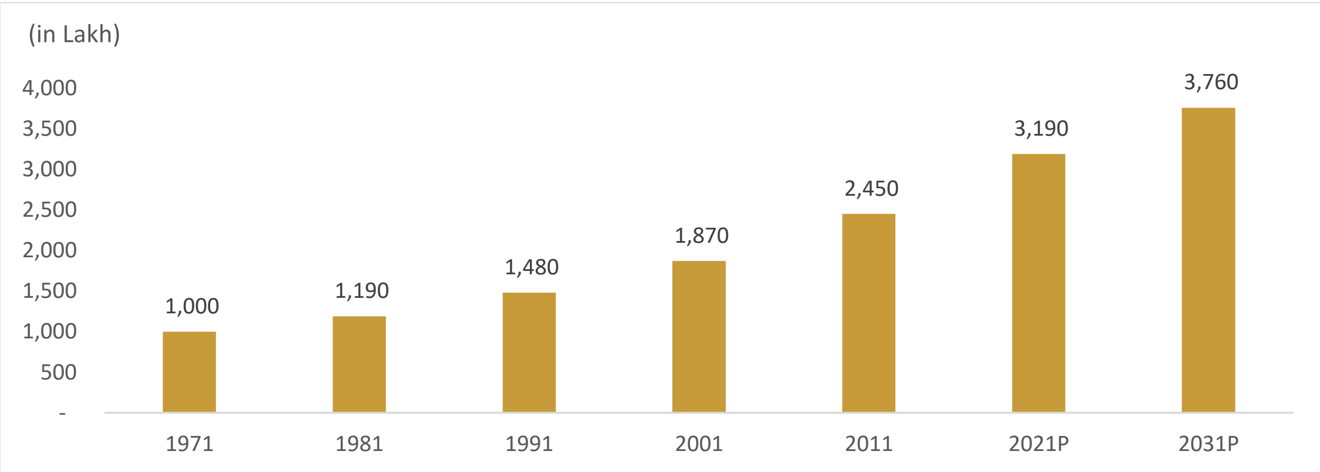
India's population growth trajectory



Note: As at the end of each Fiscal. P: Projected,

Source: United Nations Department of Economic and Social Affairs, (https://population.un.org/wpp/), CRISIL MI&A

Number of households in India



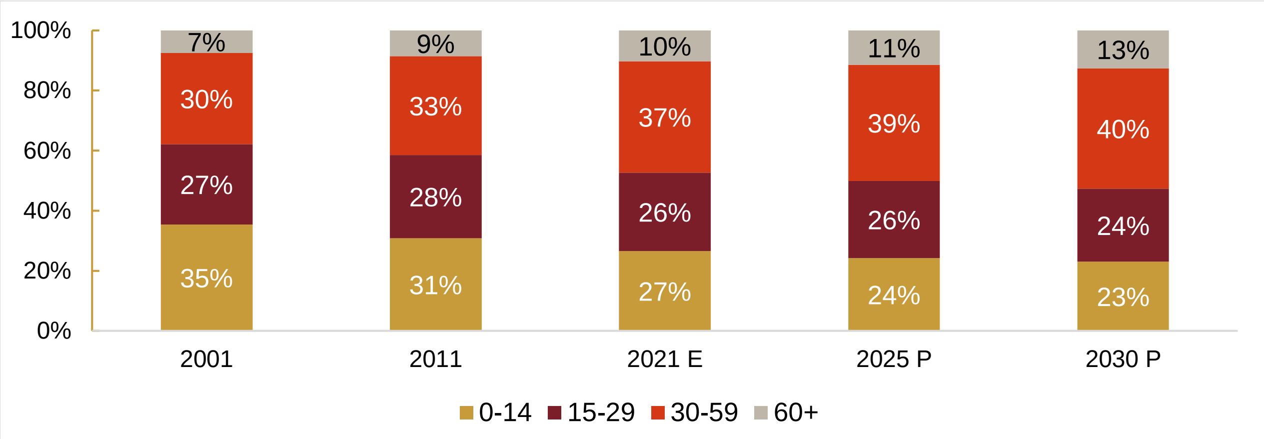
Note: *As at the end of each* Fiscal. P: Projected

Source: Census India, CRISIL MI&A

Favourable demographics

As of calendar year 2022, India has one of the largest young populations in the world, with a median age of 28 years. CRISIL MI&A estimates that approximately 90% of Indians are still below the age of 60 in calendar year 2021 and that 63% of them are between 15 and 59 years. In comparison, in calendar year 2020, the United States (US), China and Brazil had 77%, 83% and 86%, respectively, of their population below the age of 60.

India's demographic dividend

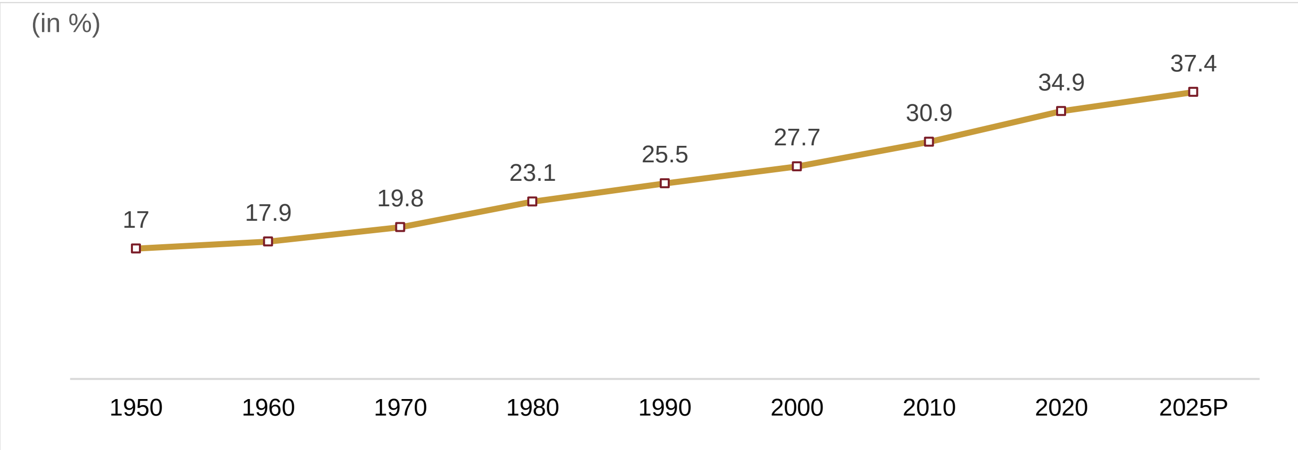


Note: E: Estimated, P: Projected; Source: United Nations Department of Economic and Social affairs, CRISIL MI&A

Urbanization

Urbanization is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development. India's urban population has been rising consistently over the decades. (Source: Word Urbanization Prospects). As per the 2018 revision of World Urbanization Prospects, it was estimated at 34.9% for India. According to the World Urbanization Prospects, the percentage of 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: P – Projected; Source: Census 2011 and World Urbanization Prospects: The 2018 Revision (UN) (https://population.un.org/wup/)

Increasing per capita GDP

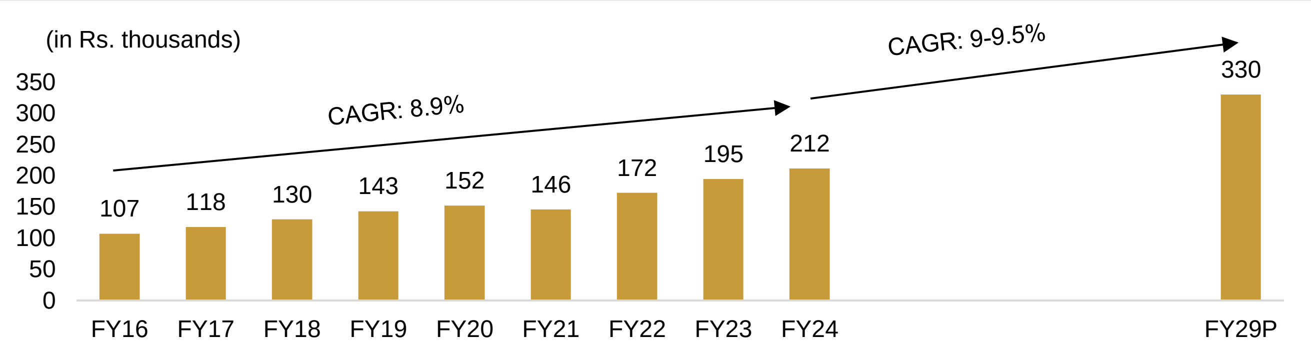
India's per capita net national income at constant price expanded 7.4% in fiscal 2024, reflecting robust economic growth and the government's continued endeavour to make the country an upper middle-income economy. As per

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

Trend in nominal GDP per capita at current prices



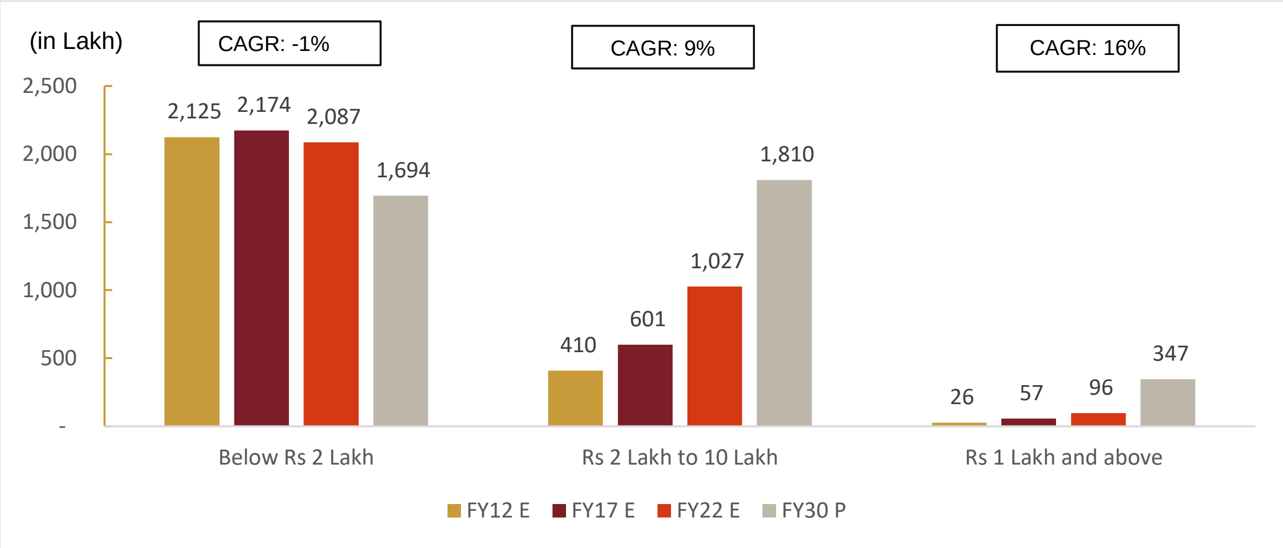
Note: P - Projected. FY24 estimates are based on provisional estimates by MoSPI; FY29 projections are based on IMF – World Economic Outlook (April 2024 update)
Source: MoSPI, IMF, CRISIL MI&A

Rising Middle India population to help sustain growth for the country

Proportion of Middle India (defined as households with annual income of between Rs. 2 to 10 Lakh) has been on a rise over the last decade and is expected to grow further with continuous increase in the GDP and household incomes. CRISIL MI&A estimates that there were 410 Lakh middle income households in India as of Fiscal 2012, and by Fiscal 2030, they are projected to increase to 1,810 Lakh households. Many these households, which have entered the Middle-Income bracket in the last few years, are likely to be from semi-urban and rural areas.

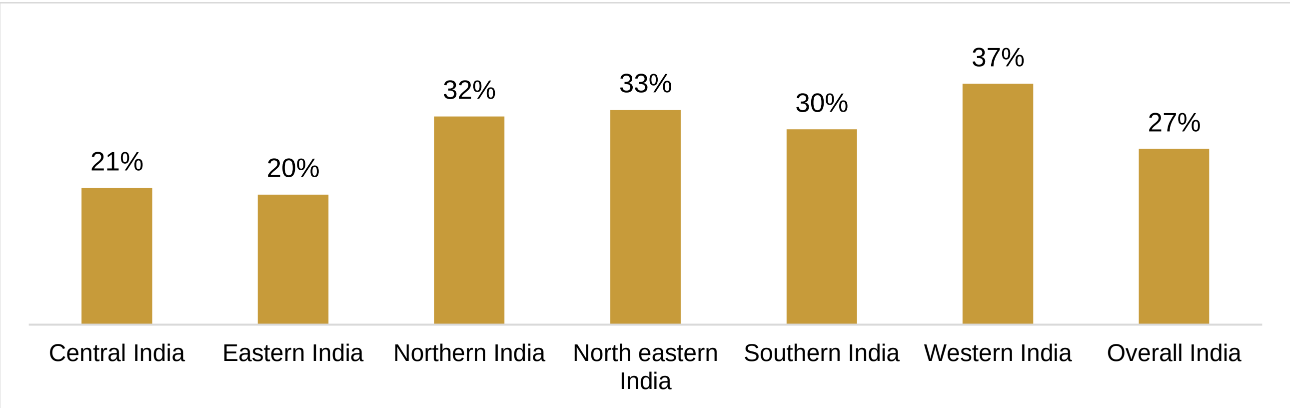
CRISIL MI&A believes that the improvement in the literacy levels, increasing access to information and awareness, increases in the availability of necessities, and the improvement in road infrastructure has led to an increase in aspirations of Middle India, which is likely to translate into increased opportunities for financial service providers.

Middle India households to witness high growth over Fiscal 2012 to Fiscal 2030



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

Financial Literacy across India as of 2019



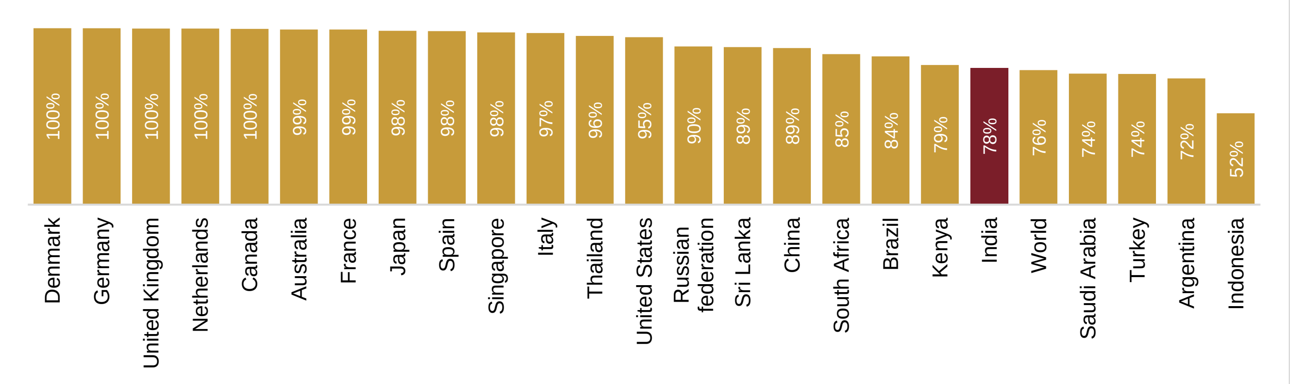
Source: National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019 Report, National Centre for Financial Education

Financial Inclusion on a fast path in India

Overall literacy in India is at 77.7% as per the results of recent NSO survey conducted from July 2017 to June 2018, which is still 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. 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.

With increasing financial literacy, mobile penetration, awareness, and the Prime Minister's Jan Dhan Yojana bank accounts, there has been a rise in the participation of individuals from non-metro cities in banking. With more people attached to the formal banking sector, the demand for financial products in smaller cities has seen a major increase in recent years. Going forward, CRISIL MI&A expects financial penetration to increase on account of increasing financial literacy.

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



Note: 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

Rural economy is becoming structurally far more resilient

According to Census 2011, there are about 6.4 lakh villages in India, which are inhabited by about 8,930 lakh people, comprising about 65% of the country's population as of CY2021. About 47% of India's GDP comes from rural areas.

The rural economy is far more resilient today due to increased spends under MGNREGA and irrigation programmes, direct benefit transfer (DBT), the PM-Kisan scheme, PM Ujwala Yojana for cooking gas, PM Awas Yojana for housing, and Ayushman Bharat scheme for healthcare. To supplement this, there has been a continuous improvement in rural infrastructure such as electricity and roads. These government initiatives have led to lesser leakages and higher incomes in the hands of the rural populace, thereby enhancing their ability and willingness to spend on discretionary products and services. The structural changes, combined with a positive macro environment, will improve rural business prospects, provide business opportunities for the banking and financial services sector, and drive the long-term growth of the economy.

Account aggregators framework to build a financial data ecosystem in India

On 2nd September 2021, the RBI launched the Account Aggregators scheme, which is a framework to allow accessibility to financial data by creating intermediaries called account aggregators. These intermediaries will collect and share financial information to various entities. It is a big step towards creating a financial ecosystem which will save transaction costs and ensure a person's credit worthiness.

Government regulations for the digital finance economy

Implementation of data privacy law and potential impact in India

Financial access allows firms to invest and households to smooth their consumption and build capital over time, fostering the creation of businesses and helping to improve people's livelihoods. It also helps households and firms protect themselves against shocks and better manage risk. This has been further bolstered by the emergence of Digital technology, which is transforming the financial services landscape. The new age financial services providers have a multidimensional impact in emerging markets, which include the development of mobile financial services, which are reaching appropriate scale with the help of third-party agent networks. The rise of new players active use of digital platforms has allowed countries to accelerate financial inclusion and penetration; however, this requires support for appropriate financial consumer protection frameworks such as:

1. **The Digital Personal Data Protection Act (DPDPA) 2023** is expected to exert substantial influence on India's financial landscape as it brings forth a comprehensive plan to safeguard personal data, including the sensitive information amassed or processed by Financial Institutions. The Act is likely to impact risk management practices as regulations mandate firms to assess data collection on a legal basis and obtain customer consent, potentially affecting risk assessment and product pricing.
2. **The Proposed Digital India Act (2023)** aims to address challenges & issues in the digital landscape and replace the existing Information Technology Act (IT Act), 2000, which was formulated over two decades ago. The Indian digital landscape has transformed, and contemporary challenges of cybercrimes, competition among internet platforms, safety of online users, and others have changed and require regulatory adoption.

Regulations on credit by fintech

In June 2023, The Reserve Bank of India (RBI) recently issued comprehensive guidelines governing First Loss Default Guarantee (FLDG) arrangements in digital lending. FLDG is essentially an agreement between two entities, often both regulated entities (REs) or digital lending, between a regulated entity and fintech lending service providers (LSPs). This framework ensures that the LSP is responsible for compensating the RE for any losses incurred due to defaults up to a specified threshold of the loan portfolio. Previously, the RBI had imposed constraints on FLDG lending models, especially those where fintech companies provided loans financed by either finance companies or banks but shouldered the default risk by offering guarantees to the lenders. However, with these new guidelines, it now appears that fintech companies are granted the opportunity to employ First Loss Default Guarantee on loans.

Credit Through UPI

The RBI recently announced a proposal to broaden the United Payments Interface (UPI) scope by allowing transfer to and from per-sanctioned credit lines at banks. Previously to this announcement, only amounts held in bank deposits could be transferred through the UPI, and the information will allow savings accounts, 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.

This facility allows individuals to make payments through a pre-sanctioned credit line issued by a Scheduled Commercial Bank, provided they have obtained prior consent from the customer. Banks have the authority to set the terms and conditions for using these credit lines under their Board-approved policy. These terms may cover aspects such as credit limit, duration of credit, interest rates, and more. This move helps increase last-mile access to credit and, adding to UPI's cost-effectiveness, helps financial institutions reach out to customers where affordability and simplicity can help accept credit lines.

Digital Public infrastructure reforms by GoI

Digitization improves the transparency and efficiency of government processes, and widespread digital transformations help governments and institutions with policy implementation and broad policy outreach. However, digital platforms built too specific or narrowly for a particular context may not be the most effective or efficient as policies, governing objectives, and societal conditions change. 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.

Use of generative AI and new technologies increasing productivity

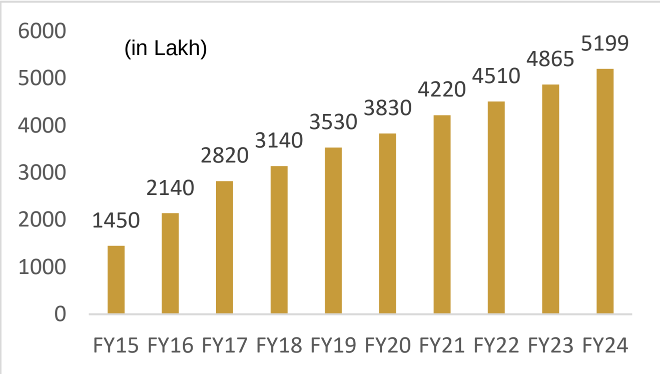
Generative AI, or Gen AI, leverages extensive training on large datasets to swiftly produce diverse content forms like text and multimedia in response to prompts. Gen AI, exemplified by ChatGPT in BFSI in banking and finance, enables efficient, conversational banking, delivering prompt and accurate responses,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

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

Financial inclusion

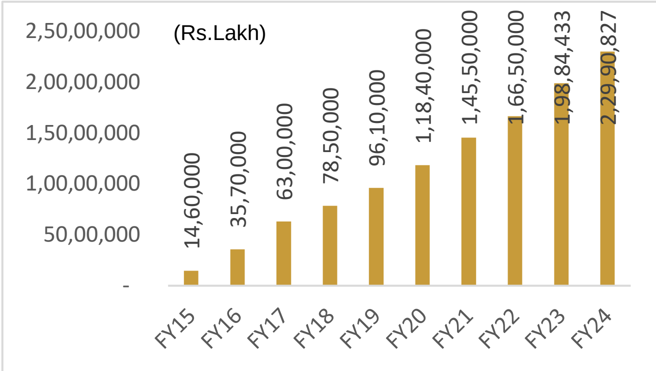
According to the World Bank's Global Findex Database 2021, the global average of adult population with a savings or current account (with a bank, financial institution, or mobile money providers) was ~76% in 2021. India's financial inclusion has improved significantly between 2014 and 2021, with the adult population with bank accounts rising from 53% (as per Global Findex Database 2014) to 78% in 2021 with concerted efforts by the government to promote financial inclusion and the proliferation of supporting institutions. As per the Global Findex Database 2021, ~54% of the world's 7,400 lakh unbanked adults live in only seven countries (India, Bangladesh, China, Indonesia, Egypt, Nigeria, and Pakistan), of which 2,300 lakh are in India. As of March 2024, 5,199 lakh PMJDY accounts had been opened, with total deposits of Rs. 22,990,827 Lakh. (*Source: Pradhan Mantri Jan-Dhan Yojana: Progress Report*).

Number of PMJDY accounts



Note: As at the end of each Fiscal; Source: PMJDY; CRISIL MI&A

Total balance in PMJDY accounts



Note: As at the end of each Fiscal; Source: PMJDY; CRISIL MI&A

PMJJBY is a one-year life insurance scheme that offers a life cover of Rs. 2 lakhs at a premium of ₹ 330 per annum per member, which can be renewed every year. The Government has also launched the Pradhan Mantri Suraksha Bima Yojana (PMSBY), which is an accident insurance policy and offers an accidental death and full disability cover of Rs. 2 lakhs at a premium of ₹ 12 annually. According to the Ministry of Finance, 1,620 lakh and 3,420 lakh cumulative enrolments have been done under PMJJBY and PMSBY, respectively, as of 26th April 2023. (*Source: Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Atal Pension Yojana (APY) complete 8 years of providing social security cover*)

Goods and Services Tax (GST) implementation

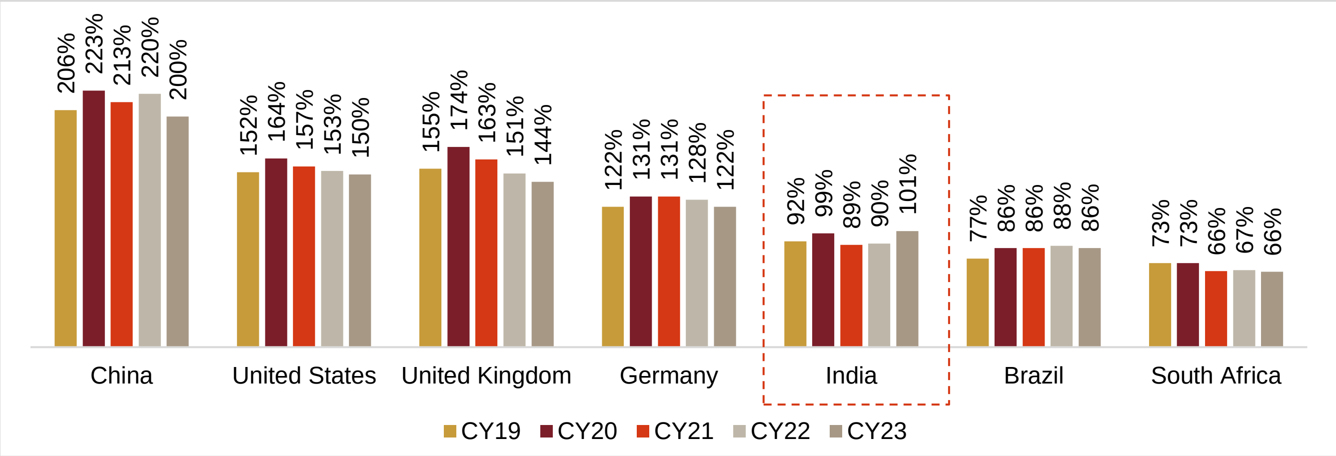
Introduced on July 1, 2017, the GST is an indirect tax regime that subsumed multiple cascading taxes levied by the central and state governments. Its implementation has spawned structural changes in the supply chain and logistics network in the country. The crux of the GST mechanism is input tax credit, which ensures more players in the supply chain come under the tax ambit. As supply from only registered taxpayers will get input tax credit, businesses and stakeholders will insist on registration of their suppliers and traders, leading to an increase in the share of organized participants.

Credit penetration in India

Credit penetration is lower in India compared to other countries

In terms of the credit to GDP ratio, India has a low credit penetration compared with other developing countries, such as China indicating the potential that can be tapped. Similarly, in terms of credit to households as a proportion of GDP as well, India lags other markets, with retail credit hovering at around 26% of GDP as of Fiscal 2023.

Credit to GDP ratio (%)



Source: Bank of International Settlements, CRISIL MI&A

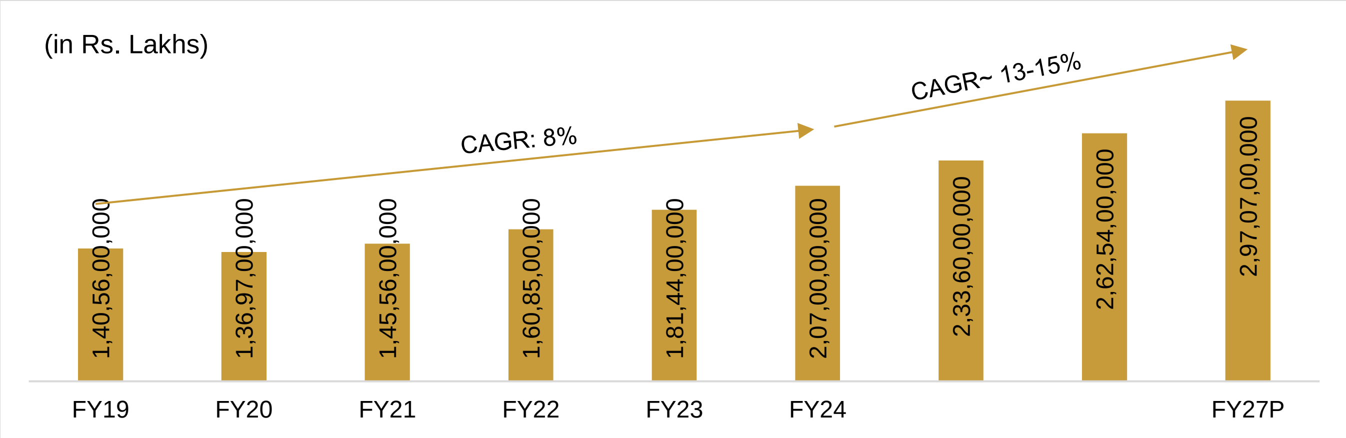
Systemic credit

Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. The slowdown in economic activity, coupled with heightened risk aversion among lenders, tightened the overall credit growth to approximately ~6.3% in FY21. In FY22, the systemic credit growth picked up steam despite the second wave of COVID-19 hurting economic growth in the first quarter of the fiscal. The retail credit has been a strong driving force behind the growth in overall credit. Retail credit witnessed a growth of 9% year on year during FY21 and 13% during FY22, while non-retail credit grew at a slower pace of 3% and 9% during FY21 and FY22.

The systemic credit grew at 10.5% year-on-year in FY22. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activities. In FY23, systemic credit showed strong growth at 12.8% year on year on back of pent-up retail demand. In Fiscal 2024, credit growth was healthy at 14.1% year on year on the back of disbursements to the retail segment, resilient demand for home and vehicle loans and supported by the services segment with healthy demand from NBFC's and trade segments.

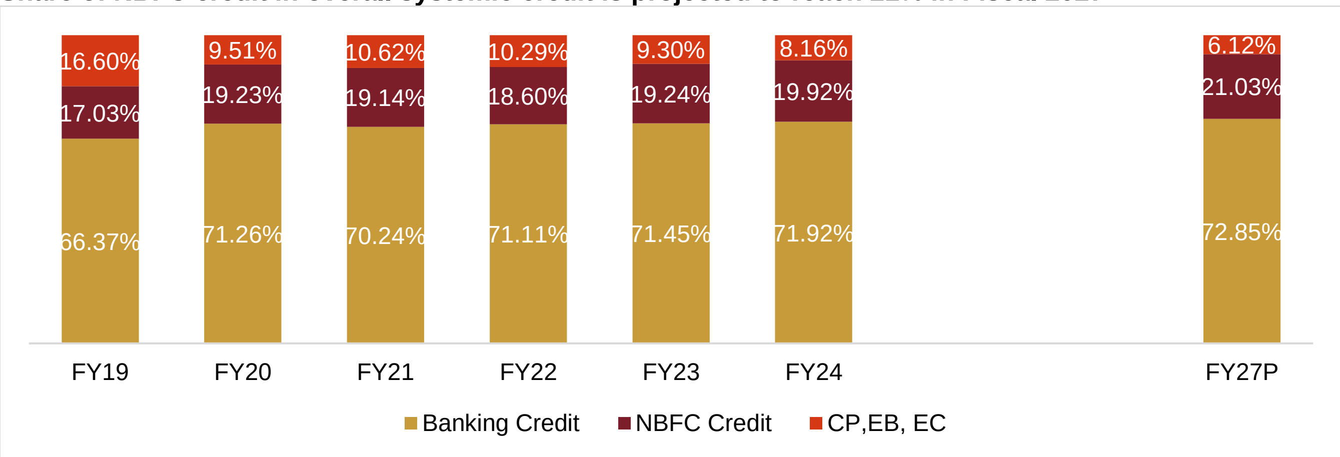
Going forward in Fiscal 2025, loan growth in the retail segment although normalizing is expected to remain the top credit growth driver supported by focussed approach of banks in expanding their retail portfolios. The normalization is due to moderation in credit growth of unsecured credit owing to RBI's risk weight circular. CRISIL MI&A projects systemic credit to grow at 13-15% between Fiscal 2024 and Fiscal 2027.

Systemic credit to grow by 13-15% between Fiscal 2024 and Fiscal 2027



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

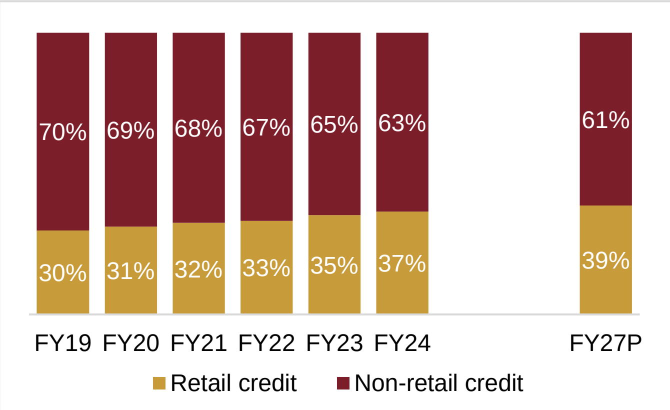
Share of NBFC credit in overall systemic credit is projected to reach 21% in Fiscal 2027



Note: P: Projected; Systemic credit includes domestic banking credit, NBFC credit, commercial papers (CP), external borrowings (EB), corporate bonds (CB) excluding those issued by Banks and NBFC; Source: RBI, Company Reports, CRISIL MI&A

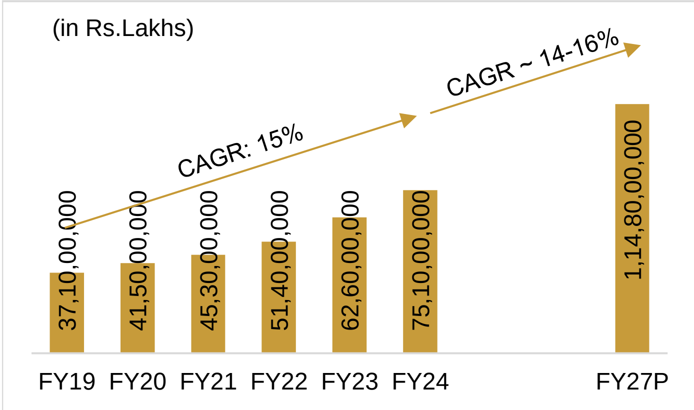
The retail credit (includes Housing finance, Vehicle Financing, Gold Loans, Education Loans, Consumer Durables, Personal loans, credit cards and microfinance) in India stood at Rs. 751,000,000 Lakhs, as of Fiscal 2024 which rapidly grew at a CAGR of 15% between Fiscals 2019 and 2024. Retail credit growth in FY20 was around approximately 12% which came down to approximately 9% in FY21. However, post-pandemic, retail credit growth revived back to reach approximately 13% in FY22. In FY23, retail credit has grown at ~22% year on year basis due to strong growth in retail book of private banks as compared to public banks. Retail credit grew at 20% in Fiscal 2024 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 Fiscal 2024 and Fiscal 2027 with risks evenly balanced. 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 play spoilsport in the retail credit growth.

Retail segment is projected to account for 39% of overall systemic credit as of Fiscal 2027



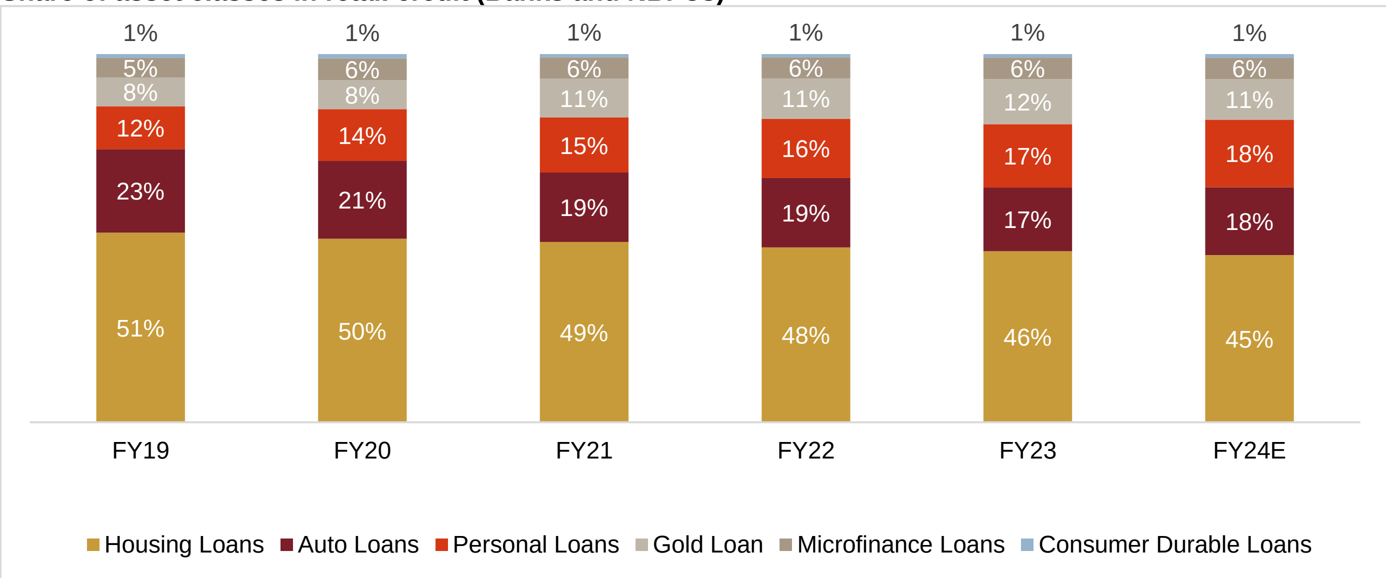
Note: E: Estimated, P: Projected
Source: RBI, CRISIL MI&A

Retail credit growth is projected to grow on a strong footing from Fiscal 2024 to Fiscal 2027



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.
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.

States like Chandigarh, Delhi, Maharashtra, Tamil Nadu and Telangana, have a higher banking credit penetration compared to other states

Delhi, Maharashtra, Telangana and Chandigarh have a banking credit to GDP ratio of more than 120% as of March 2024 which indicates that banking credit penetration in the state is higher as compared to other states in India. Chandigarh has the highest banking credit penetration of 256% as of March 2024 followed by Delhi at 253%. Maharashtra has the third highest banking credit penetration in Indian States at 186%. Sikkim, Tripura, Himachal Pradesh had the lowest banking credit penetration among all states as of Fiscal 2024. 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 (Fiscal 2024)

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 Fiscal 2023.
2. (*) GSDP as of Fiscal 2023
3. (^) GSDP as of Fiscal 2022

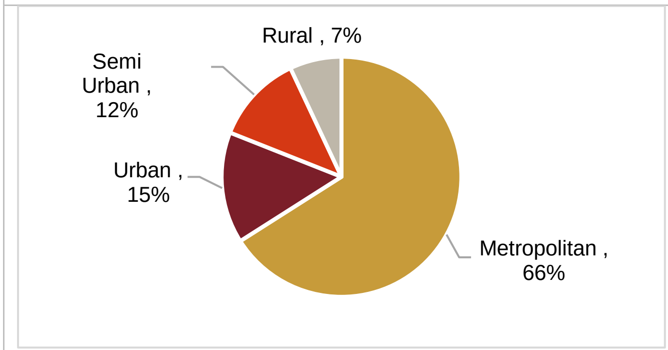
4. ($) According to Census 2011
5. (**) Rural population considered same as Andhra Pradesh
Source: RBI, MOSPI, CRISIL MI&A

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 8% 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.

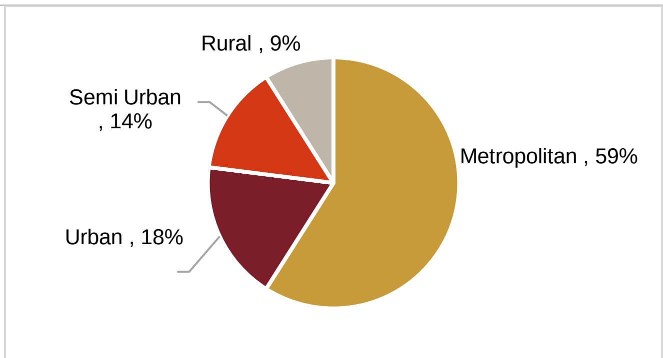
Share of rural and semi-urban regions in banking credit increased marginally between FY19 & FY24

Share of region wise banking credit data as of fiscal 2019



Source: RBI, CRISIL MI&A

Share of region wise banking credit data as of fiscal 2024



Source: RBI, CRISIL MI&A

Rural economy is becoming structurally far more resilient

According to Census 2011, there are about 640,000 villages in India, which are inhabited by about 893 million people. The rural economy is far more resilient today due to increased spends under PM-Kisan scheme, Mahatma Gandhi National Rural Employment Guarantee Act, 2005 and irrigation programmes. Additionally, schemes such as direct benefit transfer ("DBT"), PM Ujwala Yojana for cooking gas, PM Awas Yojana for housing, and Ayushman Bharat scheme for healthcare are supporting growth in rural areas. To supplement this, there has been a continuous improvement in rural infrastructure such as electricity and roads. These government initiatives have led to lesser leakages and higher incomes in the hands of the rural populace, thereby enhancing their ability and willingness to spend on discretionary products and services. The structural changes, combined with a positive macro environment, is expected to improve rural business prospects, provide business opportunities for the banking and financial services sector and drive the long-term growth of the economy.

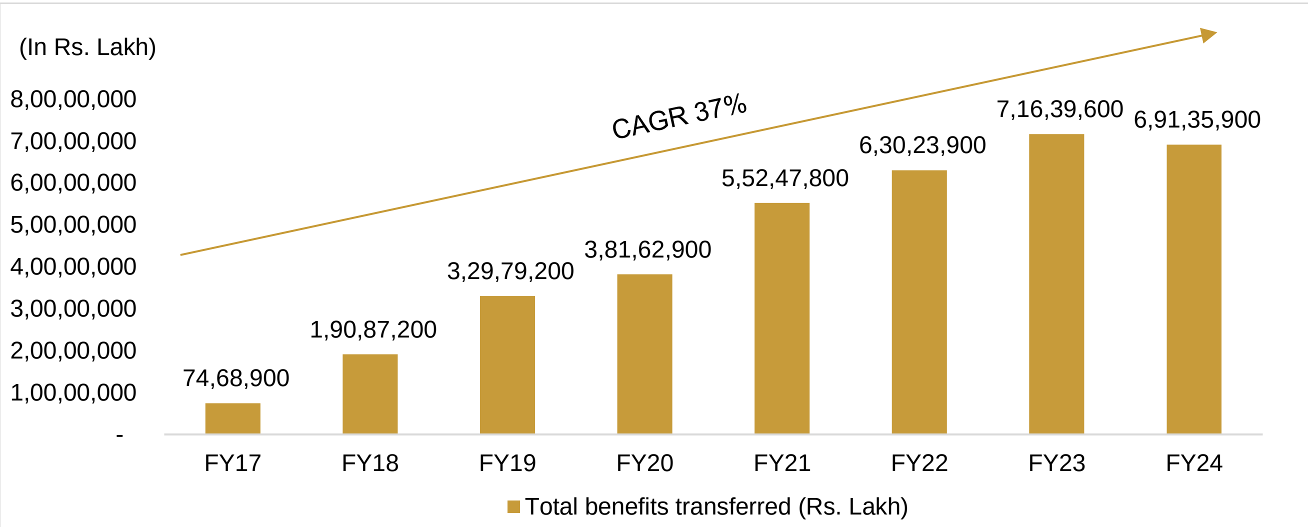
Classification	Criteria
Rural	Population less than 0.1 lakh
Semi-Urban	Population 0.1 lakh and above and less than 1 lakh
Urban	Population 1 lakh and above and less than 10 lakhs
Metropolitan	Population 10 lakhs and above

Source: RBI, CRISIL MI&A

Rural economy is becoming structurally far more resilient

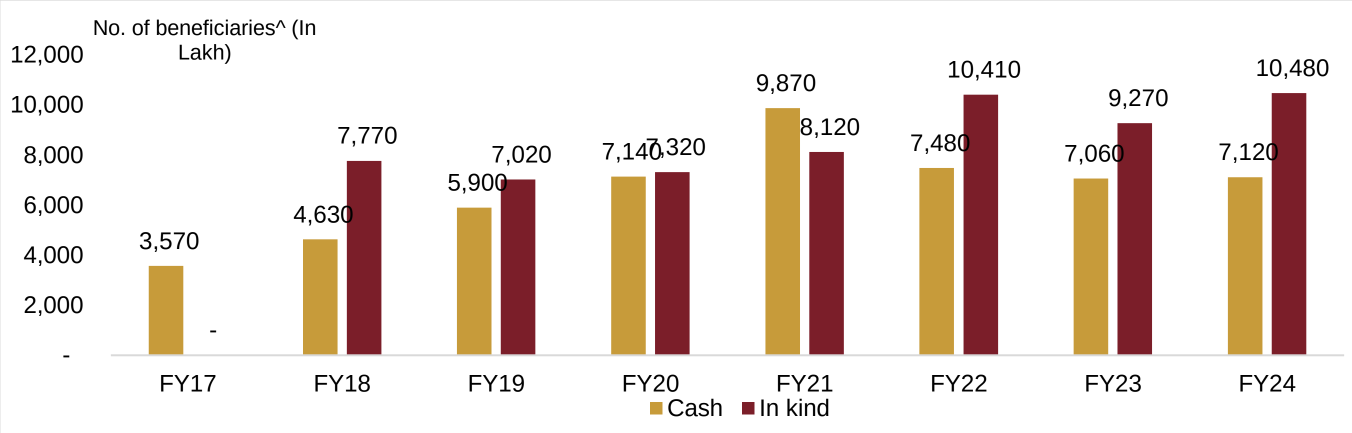
According to Census 2011, there are about 6.4 lakh villages in India, which are inhabited by about 8,930 lakh people, comprising about 65% of the country's population as of CY2021. The rural economy is far more resilient today due to increased spends under MNREGA and irrigation programmes, direct benefit transfer (DBT), the PM-Kisan scheme, PM Ujwala Yojana for cooking gas, PM Awas Yojana for housing, and Ayushman Bharat scheme for healthcare. To supplement this, there has been a continuous improvement in rural infrastructure such as electricity and roads. These government initiatives have led to lesser leakages and higher incomes in the hands of the rural populace, thereby enhancing their ability and willingness to spend on discretionary products and services. The structural changes, combined with a positive macro environment, will improve rural business prospects, provide business opportunities for the banking and financial services sector and drive the long-term growth of the economy.

Total direct benefits transfer by the government grew at CAGR of 37% between fiscal 2017 and fiscal 2024



Source: DBT Bharat, CRISIL MI&A

Direct benefits transfer (DBT) beneficiaries



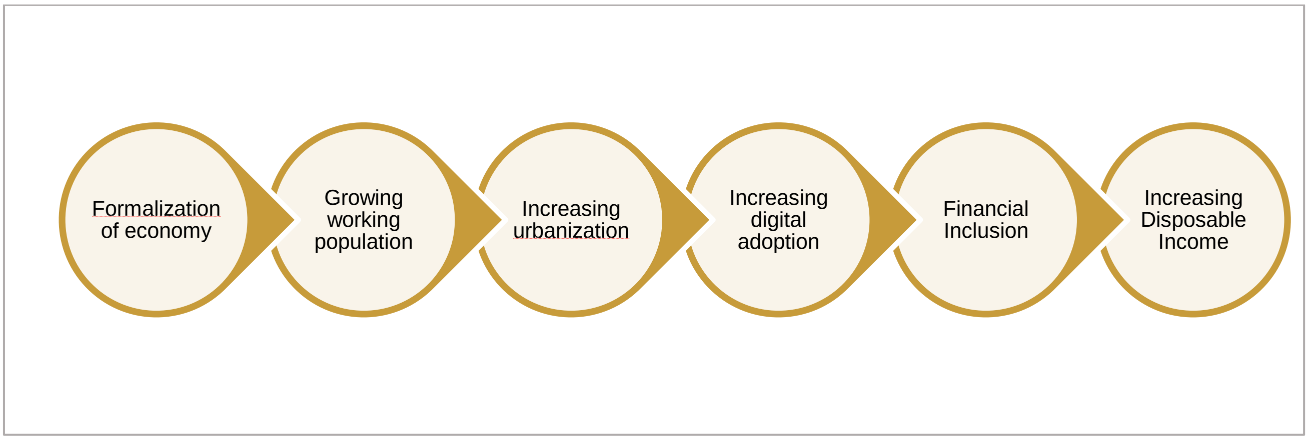
Note: ^Sum total of beneficiaries across schemes

Source: DBT Bharat, CRISIL MI&A

Retail credit market continue to remain profitable in the coming years

From a profitability perspective as well, retail lending is an attractive proposition with NBFCs across various asset classes being able to earn fairly healthy return on assets over the course of a business cycle. Given that the market is large, has good growth prospects, is under penetrated and profitable, CRISIL MI&A expects retail credit to continue to remain a key focus area for banks and NBFCs.

Factors that will support retail credit growth



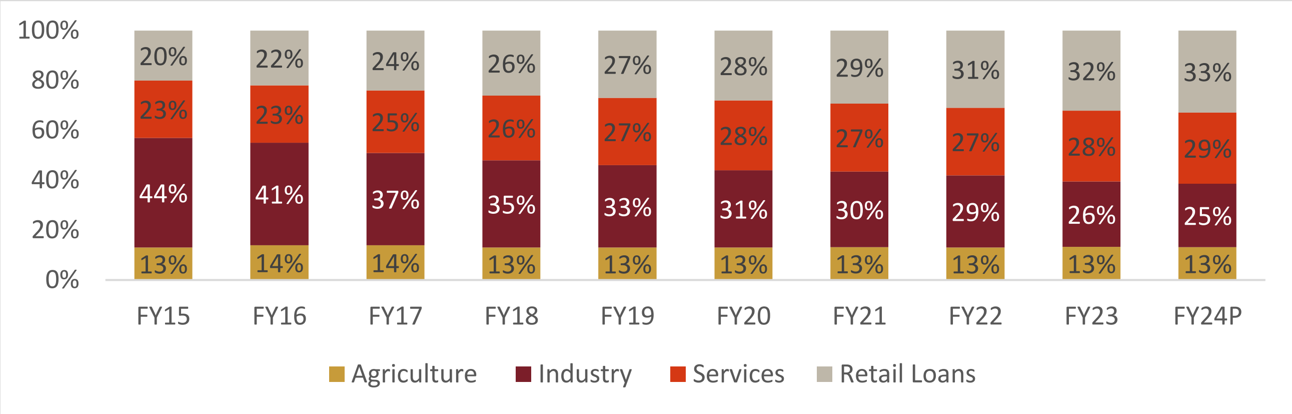
Source: CRISIL MI&A

Retail Loan and Service segment to drive credit growth in Fiscal 2024

Industrial credit accounted for nearly one fourth of the overall banking credit mix in Fiscal 2024. The demand has been lower in the past three Fiscal years, owing to subdued capital expenditure, low commodity prices and low asset quality. This has led to gradual reduction of share of industry credit in the overall banking sector's credit. In contrast, credit towards the retail and services segments has risen rapidly over the past five Fiscal years, driven by strong consumer demand, lower NPA and better margins.

Retail Loans segment grew in Fiscal 2024 driven by demand in housing segment and pent-up demand in vehicle loans segment. Going forward, CRISIL MI&A expected overall housing loan to grow at 14-16% in the fiscal 2024.

Retail loan share reached 33% as of March 31, 2024



Note: P: Projected; As at end of each Fiscal 2023, P: Projected, Source: RBI; CRISIL MI&A

Overview of NBFC in India

NBFC credit to grow faster than systemic credit

Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs not having the advantage of size, rating and/or parentage had to grapple with a liquidity crisis and as raising funding became difficult. Initially, post the IL&FS crisis, banks were expected to fill the space left out by NBFCs.

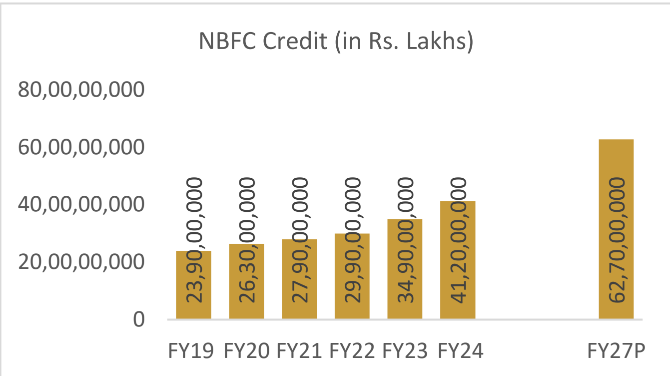
In the fourth quarter of Fiscal 2020 and the first quarter of Fiscal 2021, with the outbreak COVID-19 pandemic, challenges had intensified for both banks and NBFCs. NBFCs were hit harder in terms of demand, and they also turned cautious as they lend to borrowers with relatively weaker credit profile. In the second half of Fiscal 2021, the Indian economy showed signs of improvement, the effect of which was seen in the credit growth.

In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit recovered, with overall credit growing by 9% and retail credit increasing by 11.3% year-on-year as of March 2022. With the effect of COVID-19 waning, vaccination coverage progressively improving, the situation and growth improved further.

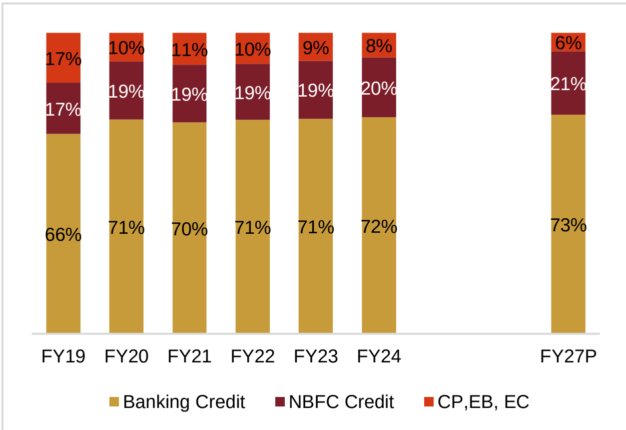
The credit growth of NBFCs which has trended above India's GDP growth historically, is expected to continue to rise at a faster pace. NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, reaching Rs. 412,000,000 lakhs at the end of Fiscal 2024. During fiscals 2019 to 2024, NBFC credit is estimated to have witnessed a growth at CAGR ~11%. Rapid revival in the economy is expected to drive consumer demand in Fiscal 2025, leading to healthy growth in NBFCs.

Going forward, CRISIL MI&A expects NBFC credit to grow at 15-17% between Fiscal 2024 and Fiscal 2027 driven by growth in retail segment, and MSME loans in the wholesale segment continuing to be the primary drivers.

NBFC credit to grow at CAGR 15-17% between fiscals 2024 and 2027

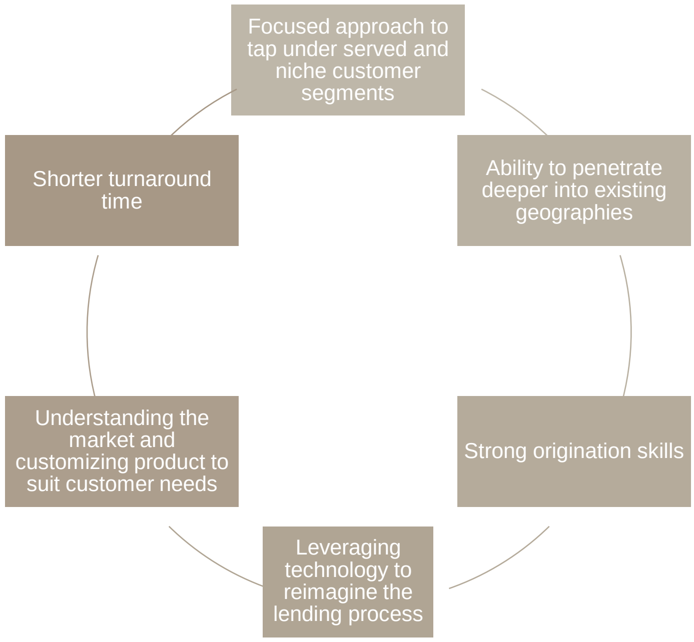


Share of NBFC Credit in Systemic Credit reached at 21% in fiscal 2024



Note: P = Projected; Note: Others include Commercial papers, External borrowings, corporate bonds excluding those issued by Banks and NBFCs; Source: RBI, Company reports, CRISIL MI&A

Growth of NBFCs reflects the customer value proposition offered by them



Source: CRISIL MI&A

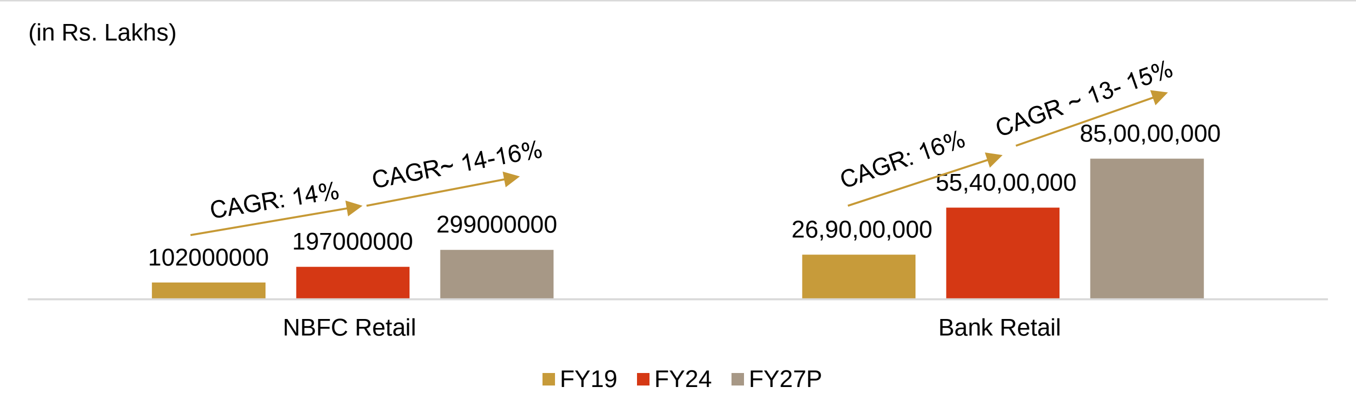
With high focus on retail loans, NBFCs are driving financial inclusion

While banks are the primary institutions for banking in India, retail loan portfolio forms only 34% of the overall banking credit as of Fiscal 2024. 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 more than 48% as of Fiscal 2024 of its portfolio 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 fiscals 2019 to 2024, is estimated to have witnessed a CAGR of ~11% 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 ~9% during the same time period.

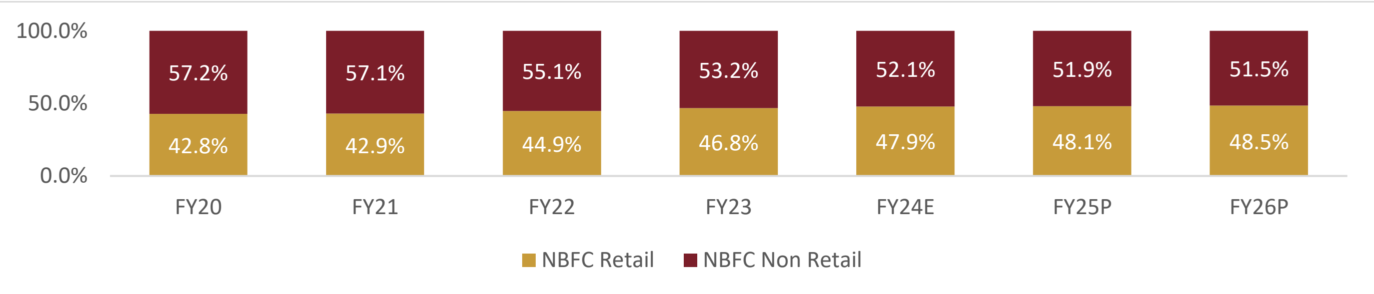
Going forward, growth in the NBFC retail segment is expected at 14-16% from Fiscal 2024 to Fiscal 2027 which will support overall NBFC credit growth, with continued focus on the retail segment and multiple players announcing plans to reduce wholesale exposure.

NBFCs retail credit is expected to grow at 14% - 16% from Fiscal 2024 to Fiscal 2027



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

Share of retail credit in total NBFC credit to grow to 48% by end of FY25 and expected to reach 48.5% in FY26



Note: E- Estimates, P - Projected

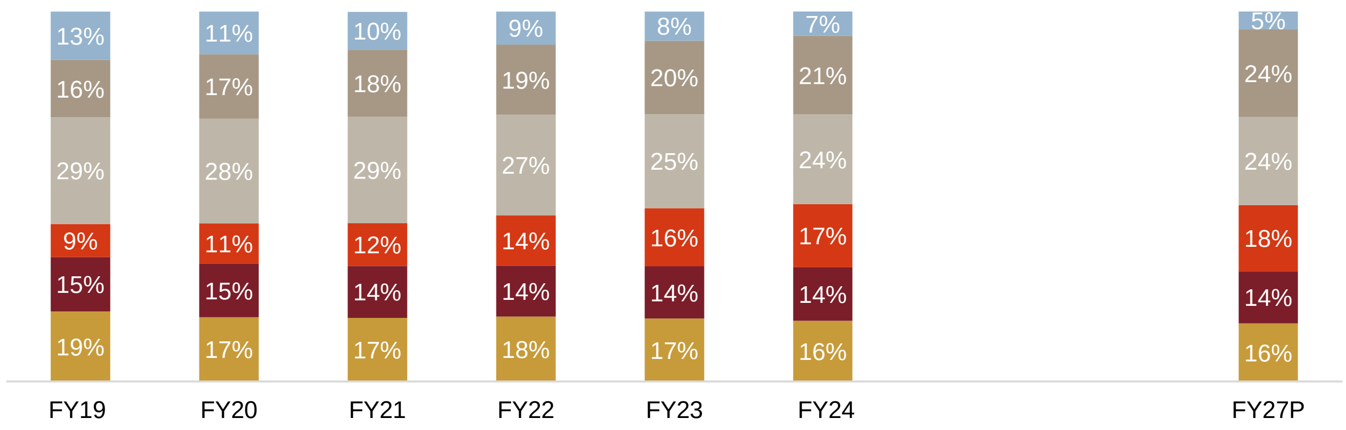
Retail credit includes housing finance, auto finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans

Source: Company reports, CRISIL MI&A

MSME, Housing and Auto Financing contributed ~51% to overall NBFC credit in Fiscal 2024

Though infrastructure accounts for the highest share in NBFC credit (24%) as of Fiscal 2024, its share in the overall NBFC credit outstanding has come down over the past fiscals from 29% in Fiscal 2019. Retail and MSME segments are expected to experience higher growth in the upcoming fiscals. MSME credit accounted for 21% share as of Fiscal 2024, witnessing a rise in its market share from 16% in Fiscal 2019. Housing and auto segment constitute ~16% and ~14% share in overall NBFC credit as of Fiscal 2024.

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

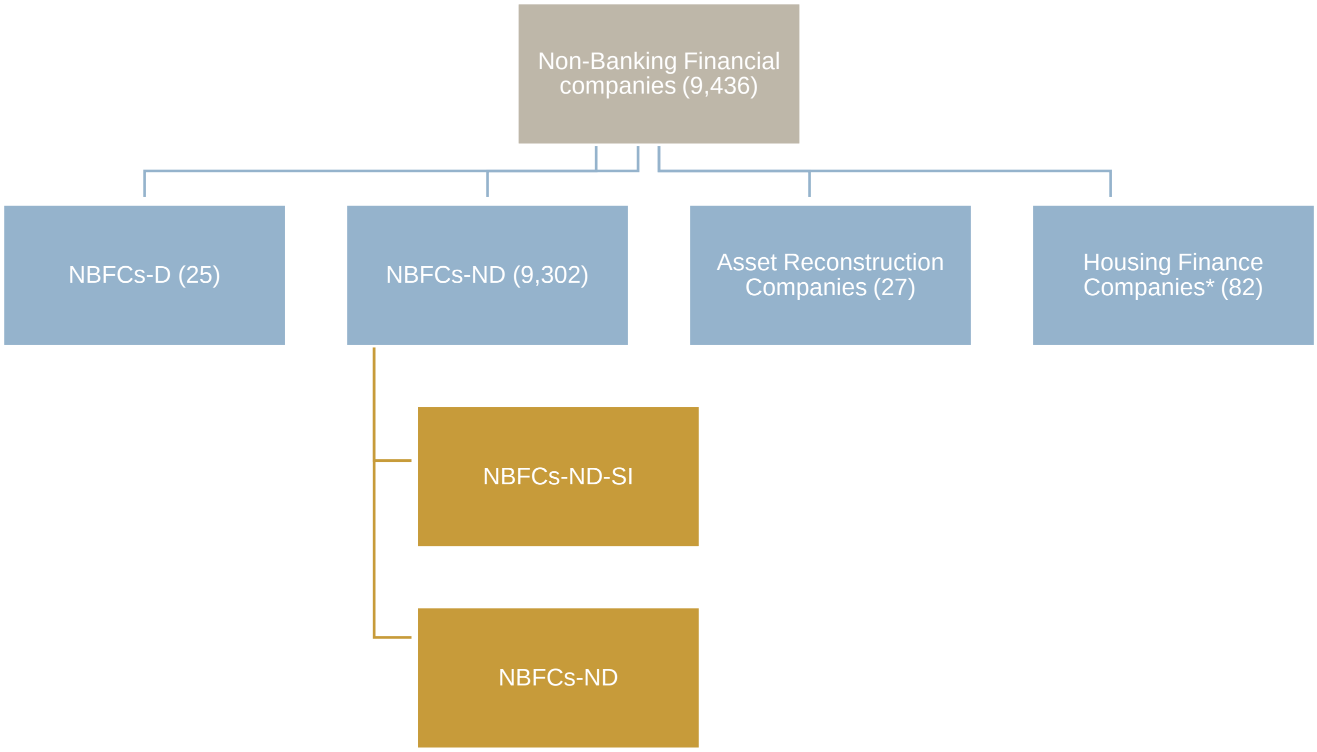
Constituents of NBFC industry in India

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.

Classification of NBFCs

NBFCs are classified based on liabilities into two broad categories: a) deposit-taking; and b) non-deposit-taking. Deposit-taking NBFCs are subject to requirements of capital adequacy, liquid assets maintenance, exposure norms, etc. Further, in 2015, non-deposit-taking NBFCs with an asset size of ₹ 50,000 Lakh and above were labelled as ‘systemically important non-deposit taking NBFCs’ (“NBFC–ND–SI”) and separate prudential regulations were made applicable to them.

Classification of NBFCs based on liabilities



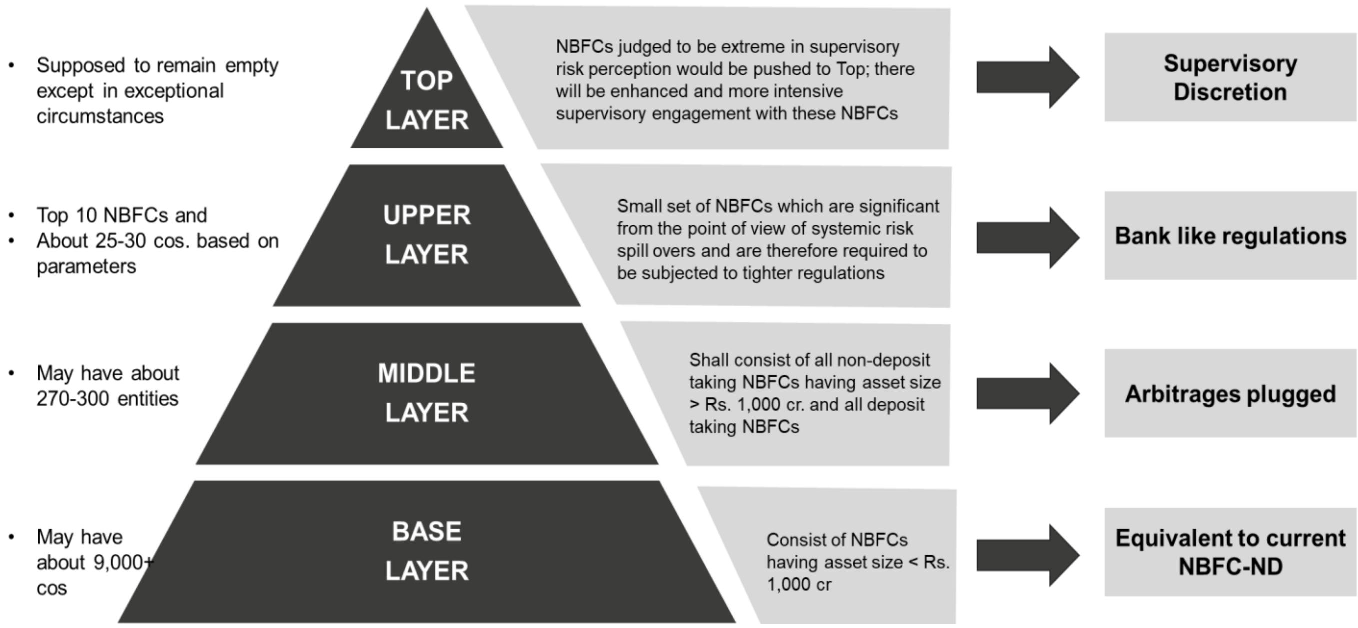
*Note: *Number of HFCs which have been granted Certificate of Registration (CoR) by National Housing Bank; Figures in brackets represent the number of entities registered with RBI as of March 2024.*

Source: RBI, CRISIL MI&A

Scale based approach proposed 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 is in effect 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. NBFCs in the lower layer will be known as NBFC-Base Layer (NBFC-BL) and those in the middle layer will be known as NBFC-Middle Layer (NBFC-ML). NBFCs in the upper layer will be known as NBFC-Upper Layer (NBFC-UL) and will invite a new regulatory superstructure. There is also a top layer, which should ideally be empty.



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.

The proposed 9% common equity tier 1 ratio should not be difficult to manage as majority of NBFCs remain well capitalised. Caps on leverage levels would impact NBFCs in the mortgage business if limits are proposed in line with other asset classes. Differential standard asset provisioning will have a negative impact on NBFCs that have high exposure to sensitive sectors, such as commercial real estate (for example, CRE at a rate of 1.00% and CRE-RH at a rate of 0.75%; current norm for NBFCs is 0.4%). Cap of ₹ 100 lakh on IPO financing per individual would hurt NBFCs operating in this space. Following this regulatory change, some NBFCs falling in the NBFC-UL category may consider conversion into universal banks. Overall, we believe the scale-based approach will translate into greater regulatory oversight and better governance practices, which will structurally strengthen the sector.

The Reserve Bank of India (RBI) has identified 15 non-banking finance companies (NBFCs) for inclusion in the Upper Layer (NBFC-UL) under Scale Based Regulations (SBR) for non-bank lenders. These chosen NBFCs encompass a range of categories, including deposit-taking housing finance companies (HFC), non-deposit-taking HFC, deposit-taking NBFC-ICC (Investment and Credit Company), Non-deposit-taking NBFC-ICC, and core investment companies.

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 would be 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

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

RBI issues Master Direction on Scale Based Regulation of NBFCs, 2023

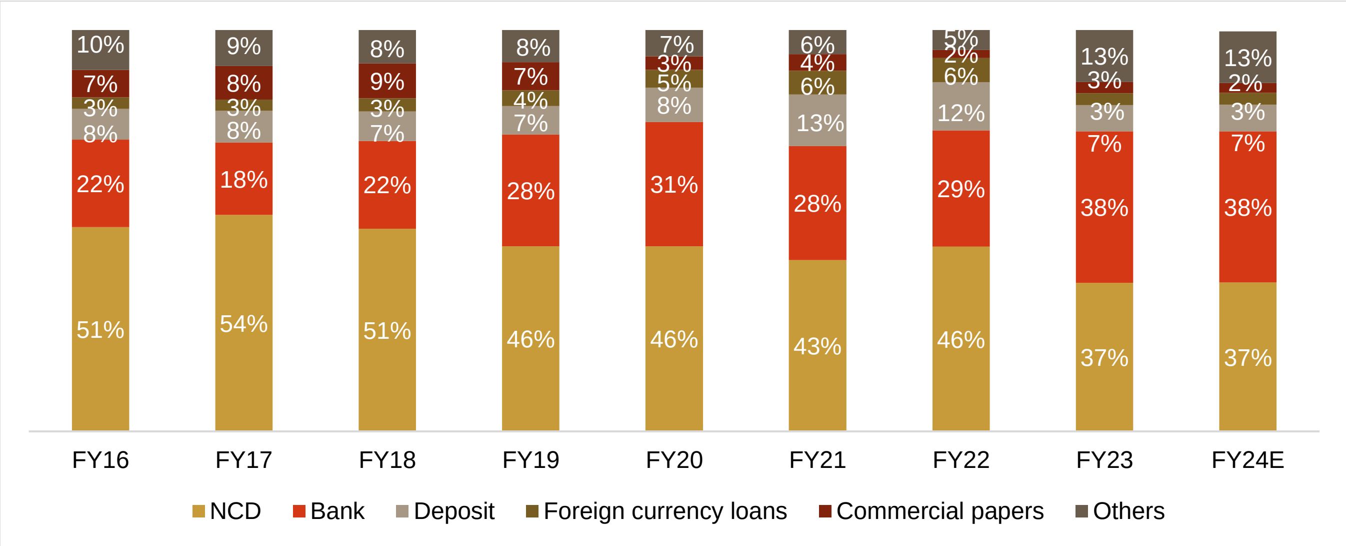
The RBI published the Master Direction on Scale Based regulation (SBR) of NBFCs to bring an end to the basic categorization of systemically important and non-systemically important NBFCs, while the classification based on acceptance of public deposits and specialisation continues to be in force. In addition, 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.

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

In FY23, NBFCs' borrowings from banks witnessed high growth resulting in an increase in share to 38% of total funding up from 29% at the end of FY22. Share of bank's lending to NBFCs have almost doubled during last 10 years.

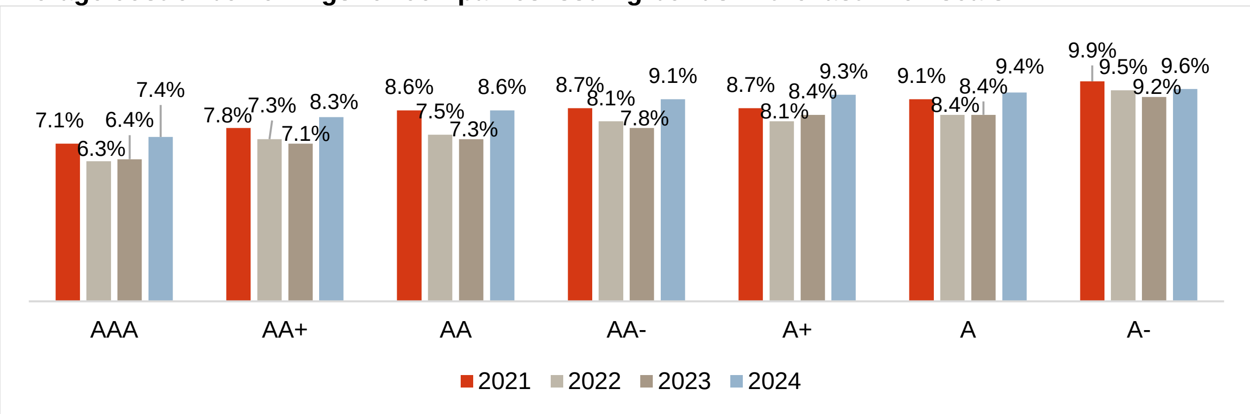
Going forward, CRISIL MI&A believes that funding access would gradually improve for NBFCs who are able to demonstrate strong performance. Reliance on bank funding is expected to remain at 38% as of Fiscal 2025, while it is expected to moderate in the near term with impact of RBI circular on risk weight and further transmission of rate hikes accelerated by deficit liquidity in the banking system.

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 2024; For FY24, 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

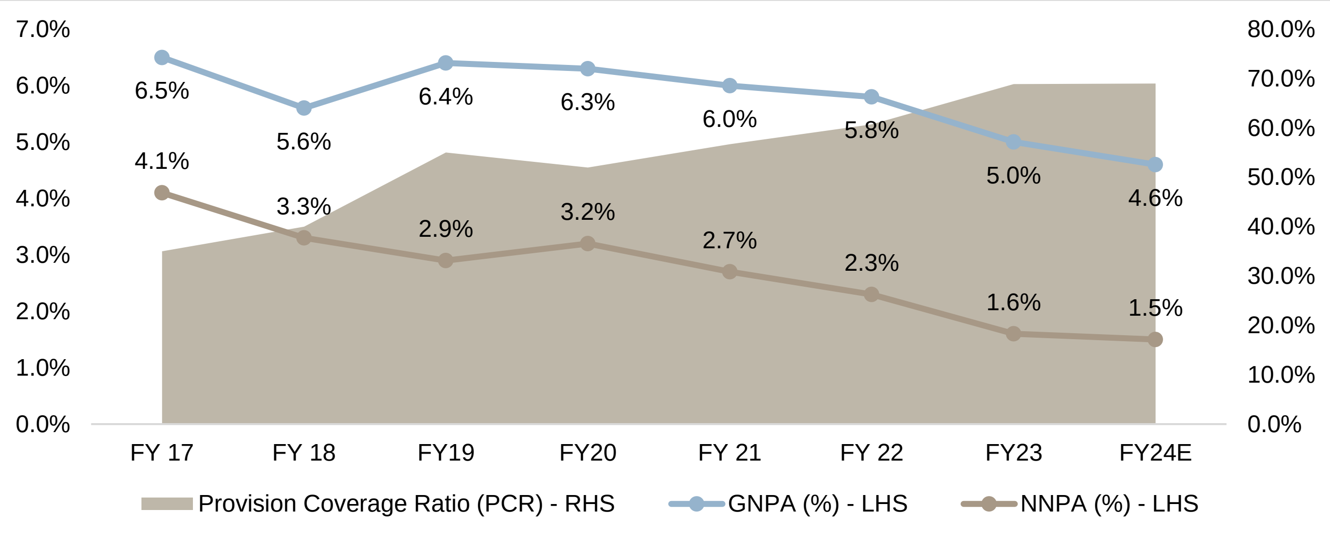
Average cost of borrowing for companies increases with deterioration in credit rating. Average cost of borrowings for AAA rating category NBFCs was in the range of 6-7% between FY19 and FY24, whereas average cost of borrowings for A- rating category NBFCs was in the range of 9-10% between FY19 and FY24.

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.

NBFCs' GNPA ratio expected to have improved significantly at the end of Fiscal 2024



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

Asset quality metrics improved in Fiscal 2023 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 at the end of Fiscal 2023 and improved further in Fiscal 2024 on account of normalisation of economic activity and improved collection efficiency across segments with the gold segment being an exception. Collection efficiency is expected to hold up in the near future resulting in easing of the asset quality pressure.

Credit cost for NBFCs moderately declined in Fiscal 2024, with improvement seen in profitability as well as asset quality

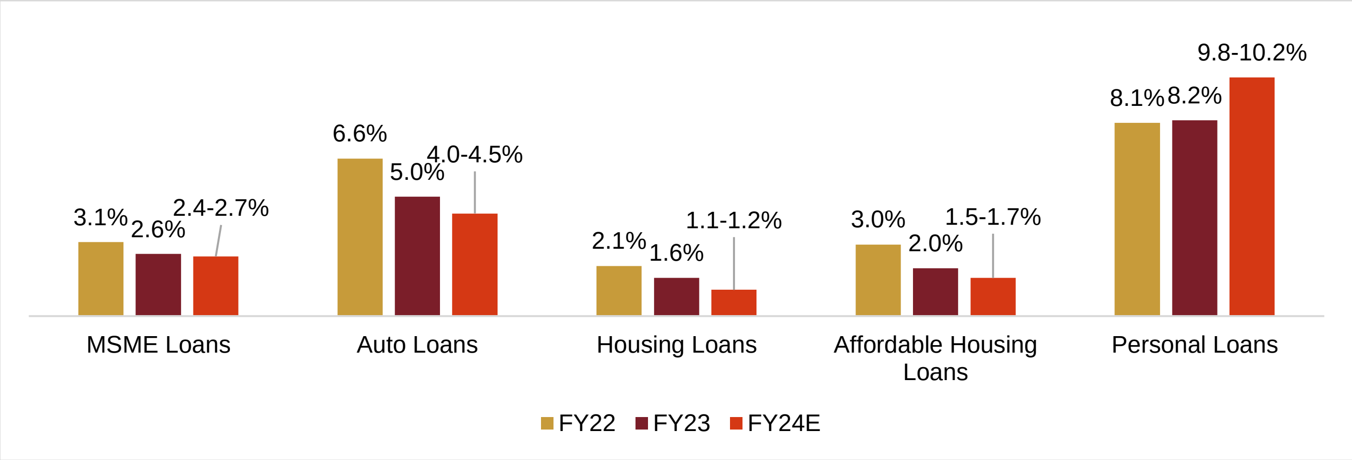
Overall yield for the retail segments increased in fiscal 2023 due to the interest rates hikes. However, the amount of pass-on has been distinct across all segments on account of level of competition, nature of asset class and segmental credit demand. Accordingly, a stable or modest increase in RoA was seen across all segments in Fiscal 2024.

In Fiscal 2023, 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 Fiscal 2024, credit cost is estimated to have 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.

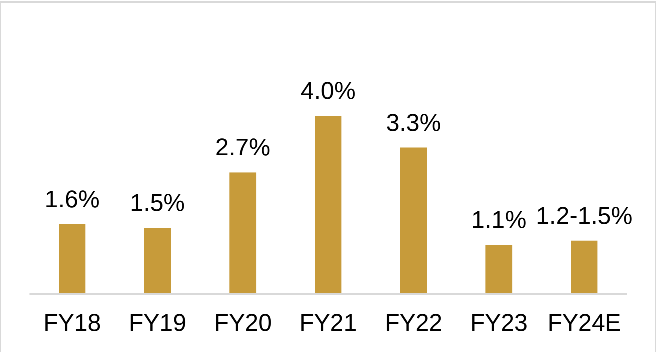
GNPAs for NBFCs across asset classes



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

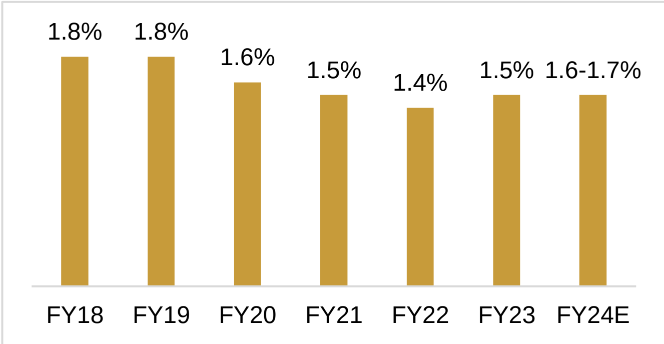
Profitability ratios of NBFCs

Credit costs for NBFCs moderately declined in Fiscal 2024



Note: E: Estimated
Source: CRISIL MI&A

Profitability (RoA) moderately increased in Fiscal 2024 for NBFCs



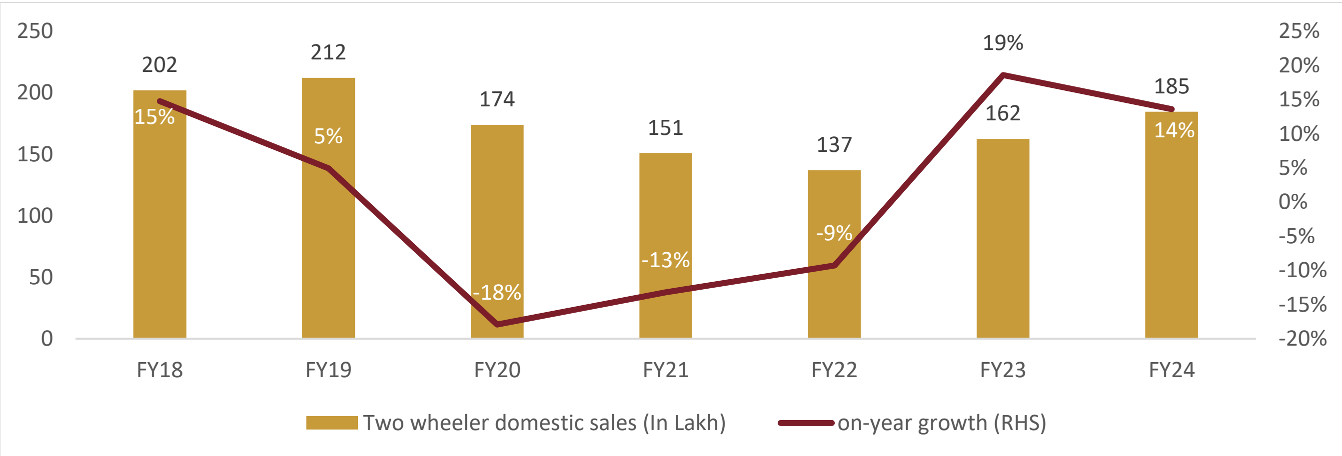
Note: E = Estimated
Source: CRISIL MI&A

Two-Wheeler Loans

Two-wheeler industry has witnessed strong recovery in last two fiscal years

In fiscal 2020, sales fell sharply by 18% as the decline in economic growth hurt demand. In fiscal 2021 and 2022, sales continued to be under pressure due to the debilitating impact of Covid-19 on consumer incomes, especially in the lower middle-class segment, and emergence of work from home model. In rural India as well, the decline in manufacturing and service sector activity in the immediate aftermath of Covid-19 hurt demand, albeit lesser than in urban areas. The continued closure of key demand segments such as students in educational institutes also impacted demand. In fiscal 2023, two-wheeler sales witnessed significant growth of 19% in fiscal 2023 on a very low base due to improving demand sentiments and normalization of economic activities and mobility. Two-wheeler sales witnessed double-digit growth of 14% on-year in fiscal 2024 owing to increase in scooter sales as urban income sentiments improved and EV penetration increased. Under two-wheeler segment, scooters grew at a faster pace than motorcycles as urban sentiments recovered faster. Moreover, electric two-wheeler also witnessed record-high sales in Fiscal 2024. However, overall sales volume is still below the pre-pandemic levels due to significant price hikes witnessed by two-wheeler segment in last three fiscals thereby affecting consumer sentiments.

Two-wheeler domestic sales clocked 14% on-year growth in fiscal 2024



Source: SIAM, CRISIL MI&A

Two-wheeler volumes are projected to improve by ~9-10% in fiscal 2025 after robust growth of 14% in fiscal 2024. This improvement in sales is expected to be driven by the recovery of motorcycle sales as rural and semi urban markets improve supported by healthy crop prices and incomes finally catching up with hike in vehicle prices and pent-up replacement demand. Scooter sales to be supported by robust urban incomes. Furthermore, premiumization to also aid volumes across both scooters and motorcycles. As fiscal 2025 is an election year, there is an anticipation of a rise in financial activity, particularly in rural areas, starting from the third quarter of fiscal 2024. This surge is projected to boost the demand for two-wheelers. Furthermore, the introduction of electric scooter models by OEMs is playing a significant role in driving up the demand even further.

However, despite the projected growth, the volumes in fiscal year 2025 are still expected to remain around 10% lower than the peak achieved in fiscal year 2019. The reason for this decline is attributed to significant price hikes recorded in the two-wheeler segment over the past few fiscal years, affecting both ownership and acquisition costs and subsequently dampening consumer sentiment. The acquisition price for an entry-level two-wheeler has surged by approximately 40-45% between fiscals 2019 and 2023 due to the implementation of safety norms, BS-VI compliance, and higher input costs.

Two-wheelers sales to improve in Fiscal 2025 due to:

- Rural demand recovery due to expected above-normal monsoon in 2024 as indicated by Indian Meteorological Department (IMD)
- Increase in consumer spending owing to rise in income levels
- Increased accessibility to financing options for two-wheelers
- Rising need for personal mobility
- Improved customer sentiments
- Increase in overall road infrastructure capex
- Expected robust festive season demand
- Multiple models launches in electric vehicles (“EVs”) by leading original equipment manufacturers (“OEMs”).
- Softening inflation
- Incomes catching up with price hikes and inflation

Headwinds in demand recovery could be:

- Monsoon below the expected levels
- Price hikes due to onboard diagnostic device (OBD)-II norms leading to 3-5% increase in of asset cost.

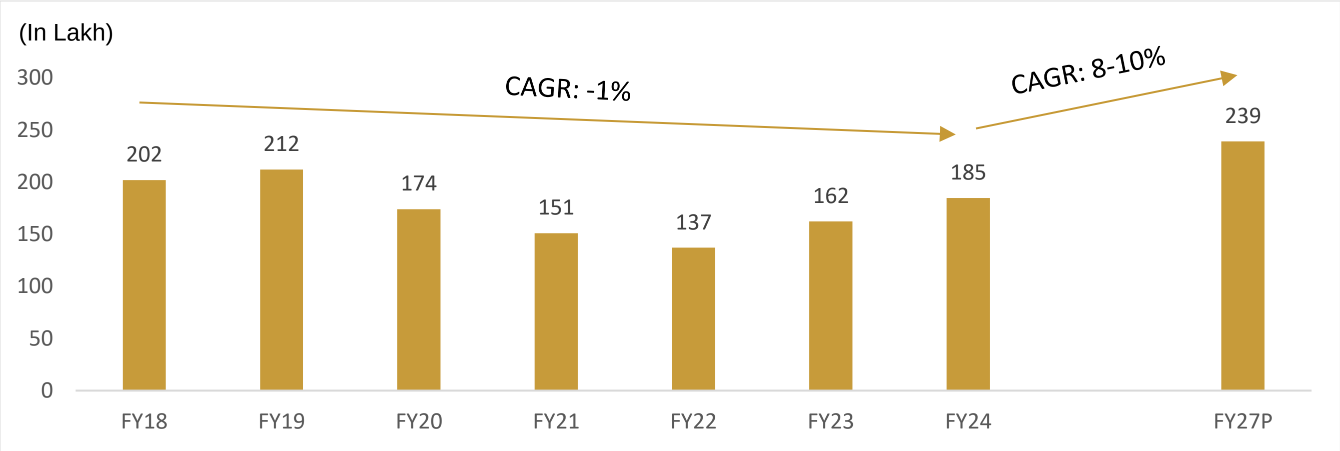
In the long-term, CRISIL MI&A expects domestic two-wheeler sales to record a CAGR of 8-10% between Fiscal 2024 to Fiscal 2027 post a robust recovery in Fiscal 2023 and Fiscal 2024. Improving rural productivity, diversification towards horticultural crops, government income support schemes and structural measures taken by the government such as PM-KISAN, eNAM, Pradhan Mantri Fasal Bima Yojna (“PMFBY”) to name a few, will aid rural income in the long run. This is expected to drive sales of motorcycle segment, which will be a primary beneficiary of the rural growth.

Scooters are expected to witness higher penetration in the rural market (scooters have an urban market share of approximately 65-75%) which will drive growth. The consumer preference shifting towards higher ‘cc’ scooters (125cc) is also likely to aid demand. This is due to a ramp up seen in road construction over the last few years. However, EV penetration is going to eat up scooters market share in the long run.

Moreover, mopeds, which account for 3-5% of domestic two-wheeler sales, are expected to decline the long run. Shift in consumer preference towards other vehicle segments and EV penetration will act as key reasons impacting moped sales.

Furthermore, the EV industry and its financing are experiencing significant growth due to the escalating focus on climate change and sustainability.

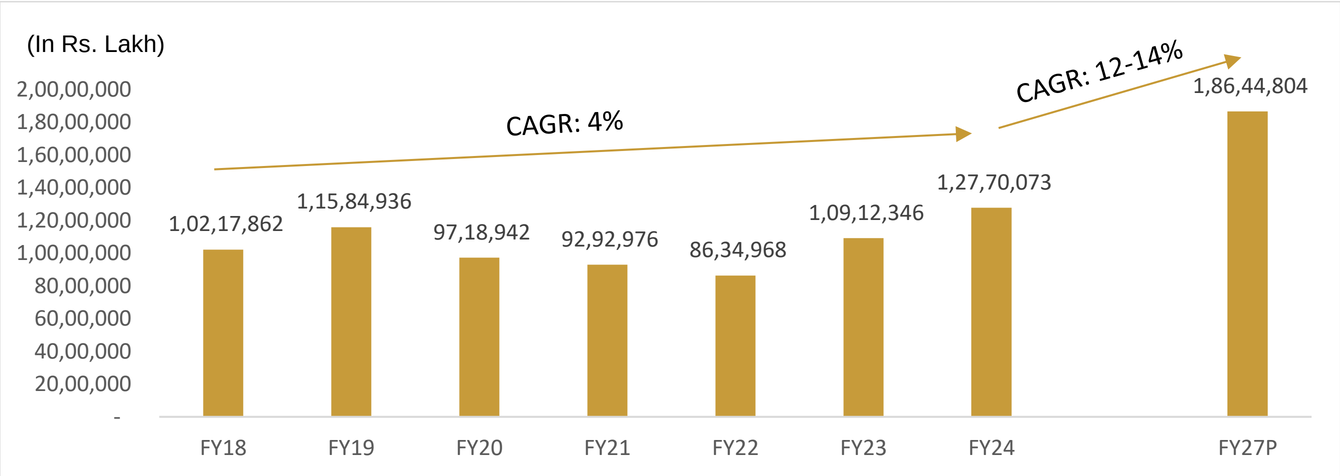
Growth in two-wheeler industry sales volume



P: Projected
Source: CRISIL MI&A

In value terms, CRISIL MI&A project the industry sales value to grow at a CAGR of 14-16% between fiscal 2023 to fiscal 2026.

Growth in two-wheeler industry sales value



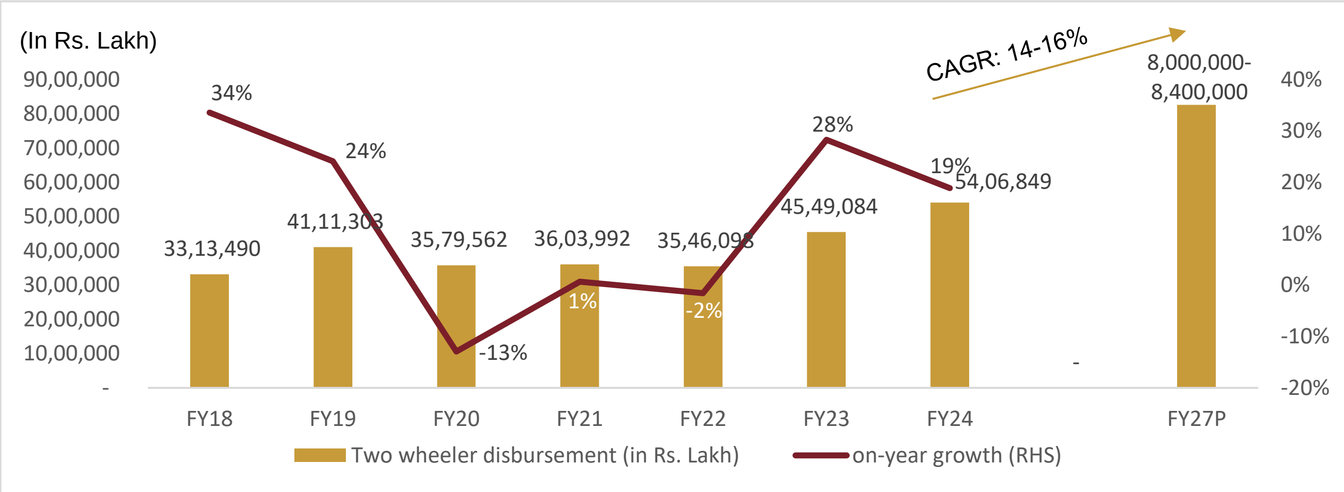
Note: P: Projected
Source: CRISIL MI&A

Two-wheeler disbursements expected to grow at a 14-16% CAGR from fiscal 2024 and fiscal 2027

Two-wheeler loan disbursements increased by 9% CAGR between fiscals 2018 and 2024, led by an increase in average vehicle prices, considerable shift of consumer preference towards premium segments (mostly in urban areas), increasing loan-to-value (LTV), and higher finance penetration.

Two-wheeler disbursement decreased by 2% in fiscal 2022 owing to 9% fall in two-wheeler sales during the fiscal due to increasing realisation. Two-wheeler disbursements increased by 28% on-year in fiscal 2023 and 19% on-year in fiscal 2024 on account of recovery in scooter sales as urban income sentiments improved and rise in EV penetration. CRISIL MI&A expects two-wheeler disbursements to grow at 14-16% CAGR from fiscal 2024 to 2027, driven by recovery in scooter sales with improvement in urban sentiments along with increase in two-wheeler EV penetration and improving rural infrastructure.

Growth in two wheeler loan disbursements



Note: P = Projected
Source: CRISIL MI&A

Factors influencing two-wheeler demand

Industry grappling with price hike due to BS VI transition in times of subdued demand

In fiscal 2021, with the launch of BS VI models, prices of motorcycles increased by 10-15% depending upon models. Due to the introduction of fuel injection technology in place of carburettor, the price of BS VI two wheelers went up. It must be noted that price impact in economy segment models is the highest because it required maximum technology upgradation.

Rural demand recovered in fiscals 2023 and 2024 after being under pressure during pandemic years

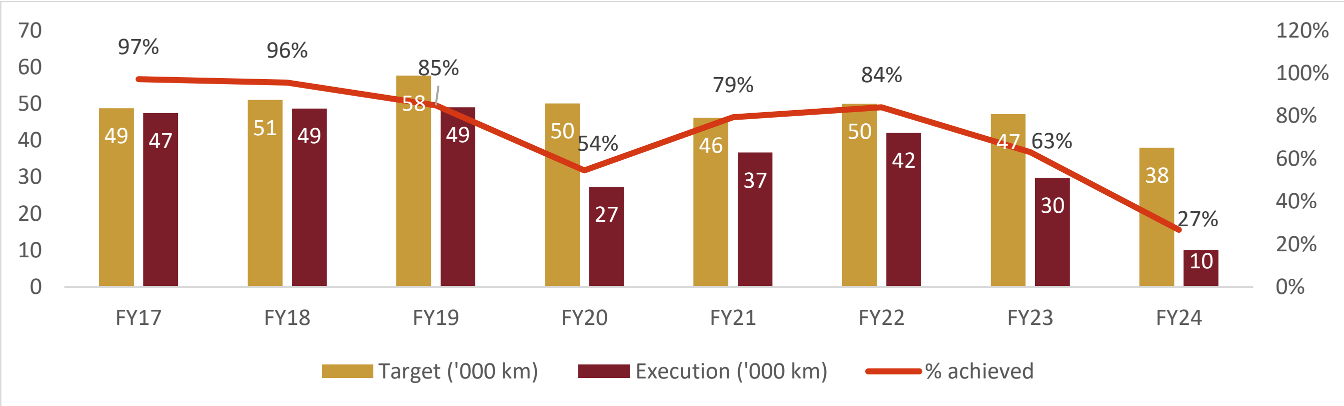
It has been observed that rural income growth is an important determinant of two-wheeler demand. Rural income is a major driver for motorcycle sales as it contributes about ~55-60% of total sales. As of fiscal 2024, motorcycles account for ~63% of overall two-wheeler volumes whereas scooters account for ~29% and the rest is moped and EVs. Two-wheelers are more popular in the rural and semi-urban areas and are preferred mode of transport for people due to limited public transportation facilities. Two-wheeler provides an efficient and affordable means of last-mile connectivity, driving up demand. Rural demand is expected to aid two-wheeler growth in the long term, and this will likely be backed by rising farm incomes, improving rural infrastructure, moderating inflation, especially as the government continues to invest in developing rural roadways.

Rural infrastructure also has a pronounced impact on rural incomes and, in turn, two-wheeler sales. Under the Pradhan Mantri Gram Sadak Yojana (PMGSY-I) scheme I, launched in 2000, the government aims to build all-weather roads in rural India. The scheme involves the construction/ upgradation of rural roads. In 2013, the government also launched PMGSY-II for upgradation of selected Through Routes and Major Rural Links (MRLs) with a target to upgrade 0.5 Lakh Km in various states and UTs and further launched PMGSY-III in 2019 for consolidation of 1.25 Lakh Km Through Routes and Major Rural Links connecting habitations, inter-alia, to Gramin Agricultural Markets (GrAMs), Higher Secondary Schools and Hospitals.

As of March 2024, a total of 8.09 Lakh km road length was sanctioned under the PMGSY scheme out of which 7.60 Lakh km was completed. 6.29 Lakh km road length was sanctioned under PMGSY-I out of which 6.24 Lakh km road has been completed. Under PMGSY-II, a total of 0.49 Lakh km road length was sanctioned and 99% was completed as of March 2024. Under PMGSY-III, a total of 1.15 Lakh km road length was sanctioned, and 0.78 Lakh km has been completed as of March 2024.

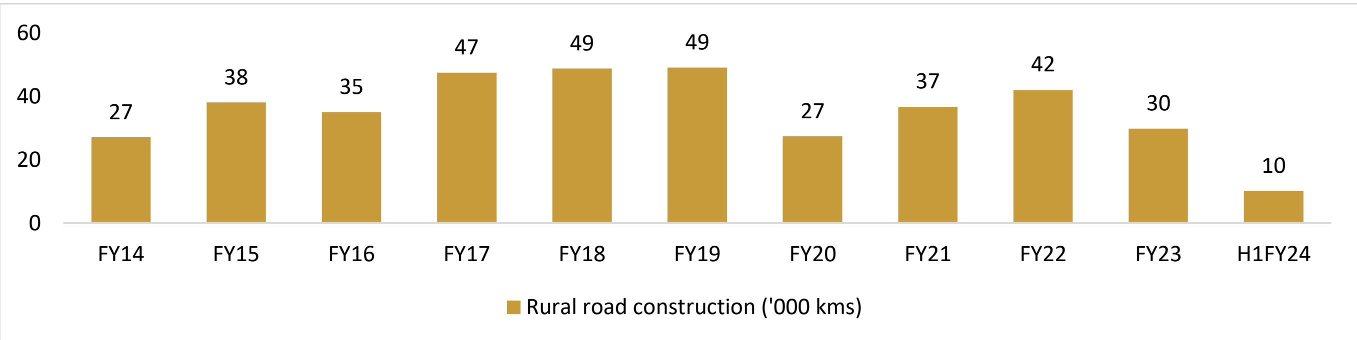
Rural road construction (in kms) was almost half in fiscal 2020 at ~0.27 Lakh kms construction, as compared with ~0.49 Lakh kms in the previous year. Fiscal 2021, saw construction of ~0.37 Lakh kms, while fiscal 2022 construction was ~0.42 Lakh kms. In fiscal 2023, rural road construction remained muted and failed to achieve the year's target. In fiscal 2024, the target for rural road construction was slashed to 0.38 Lakh km. As of September 2023, 0.10 Lakh kms of road was completed.

PMGSY execution shows a substantial decline after rising significantly till fiscal 2019 on account of budgetary constraints



Note: In FY24, execution and percentage achieved figures are as of September 2023
Source: Ministry of Rural Development, CRISIL MI&A

Rural road construction



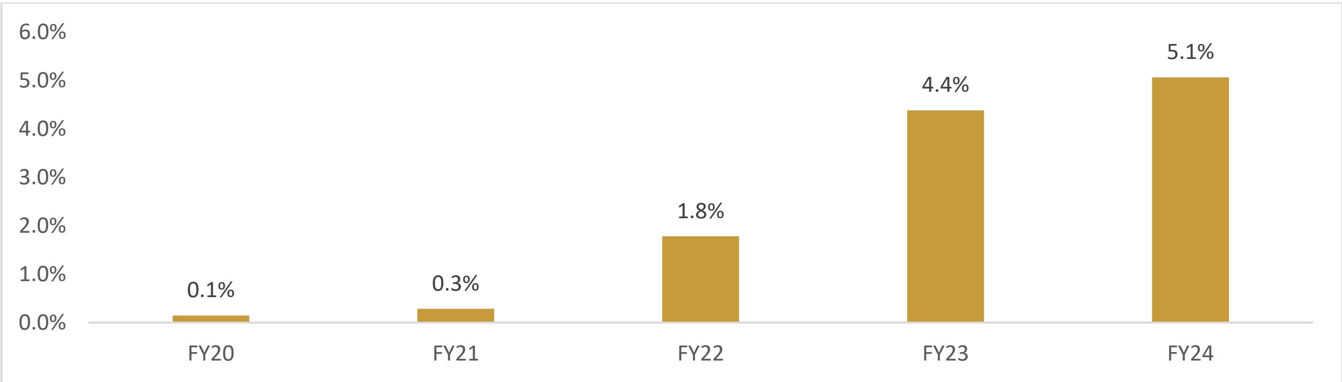
Note: –Execution for fiscal 2024 is Target set by government
Source: Ministry of Rural Development, CRISIL MI&A

Electric two-wheelers to contribute ~25-30% of domestic two-wheeler sales by fiscal 2029, adoption to ramp up

In order to curb pollution levels, electric vehicles (EV) are gaining global interest. In India as well, electric vehicles are gaining popularity as the government is extending support via Faster Adoption and Manufacturing of Hybrid and Electric (FAME)-2 vehicles and tax rate cuts to give a boost to EV adoption.

In fiscal 2024, total electric two-wheelers (eTW) sales recorded 31% on-year growth at 9.34 lakh units after an exponential on-year growth of 192% in fiscal 2023 that witnessed 7.12 lakh units sold as against 2.44 lakh units sold in fiscal 2022. 22-25% of the eTW sold in fiscal 2022 were low-speed scooters compared to ~70-73% in fiscal 2021 with maximum speed of 25km/hr and do not need registration with the transport authorities. The low-speed scooter segment is highly unorganized. Many players import parts largely from China and assemble these in India. These being low in cost at around Rs 0.3 Lakh, having low speed as well as range are used for short distance commute.

Share of Electric Two Wheelers (e-TW) in total domestic two-wheeler sales is increasing rapidly



Source: SIAM, CRISIL MI&A

Electric two-wheeler market penetration was 5.1% in fiscal 2024 and we expect electric two-wheeler penetration to grow to 6-8% in fiscal 2025.

FAME subsidy incentives ended in March'2024. A new Electric mobility promotion scheme was announced for 4 months starting April'2024. The scheme provides subsidies up to Rs. 5,000 per kw of battery and is capped at Rs. 10,000 per vehicle for two-wheelers. In fiscal 2025 even though, cost of acquisition is expected to marginally inch up due to reduced subsidy outgo, localization of batteries is expected to offset it which will lead to LCO being more lucrative for EV scooters even in fiscal 2029. On the whole, the lower battery cost, economies of scale and launch of smaller battery sized entry level models is expected to offset the lack of FAME subsidy and it will help maintain the competitiveness of e-scooter against its ICE counterparts.

Electric vehicle adoption in the two-wheeler segment will be largely driven by urban scooter buyers by fiscal 2029. This is because the cost of ownership in case of electric scooters will be less than that for ICE scooters. Major OEMs are already in the process of developing electric vehicles in-house or acquiring stakes in existing electric vehicle start-ups in order to diversify their offerings.

Structural reforms in EV space

- **FAME Scheme Phase I & II: Phase I –** The Ministry of Heavy Industries, Government of India, launched FAME (Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India) India Scheme Phase I in 2015 as part of its National Electric Mobility Mission Plan (NEMMP) 2020, with an aim to promote electric vehicles in India by providing subsidies to manufacturers and infrastructure providers of electric vehicles. Phase I was extended till 31st March 2019 which was implemented through four focus areas namely demand creation, technology platform, pilot project and charging infrastructure.

  Phase II – Phase II of the FAME Scheme commenced from 1st April 2019 with an outlay of Rs. 1,000,000 Lakh. This phase aims to generate demand by supporting 0.07 lakh eBuses, 5 lakh e-3 Wheelers, 0.55 lakh e-4 Wheeler Passenger Cars and 10 lakh e-2 Wheelers. Moreover, it focuses on electrification of public & shared transportation and creation of charging infrastructure. Phase II of the subsidy scheme has stricter localization norms and is aimed at promoting domestic manufacturing of electric vehicles and components. Due to this, majority of vehicles have not been able to meet the criteria. Under FAME I, 88 models of electric two wheelers manufactured by 18 manufacturers were eligible for subsidy. Under FAME II, this has been reduced to 19 models by 9 manufacturers. In fiscal 2019, 1.2 lakh electric two wheelers were sold out of which ~90% were low speed (<25 kmph scooters). As per the data released by SMEV (Society of Manufacturers of Electric Vehicles) and VAHAN portal, in fiscal 2023, 73 lakh EV two wheelers were sold where share of high speed EVs increased to 86% from 77% in fiscal 2022.

  On June 1, 2023, the government reduced the FAME subsidy incentive cap from 40 percent of a vehicle's value to 15 percent and capped the subsidy to Rs 0.1 Lakh per kWh of battery from Rs 0.15 Lakh per kWh earlier. Due to which, manufacturers such as Ola, TVS and Ather had to increase the prices of their electric scooters. This led to major setback in EV sales momentum in the month of June. The government extended the FAME II scheme making this scheme applicable till 31st March 2024.

- **PLI Scheme:** The Ministry of Heavy Industries notified the Production Linked Incentive (PLI) Scheme for Automobile and Auto Component Industry in India on September 23, 2021, with a budgetary outlay of Rs 2,593,800 Lakh. The key objectives of the PLI Scheme are to provide financial incentives to boost domestic manufacturing of advanced automotive technology products and attract investments in the automotive manufacturing value chain. The scheme focuses specifically on EVs and Hydrogen fuel cell vehicles and their components. The inclusion of a PLI scheme of this magnitude, combined with existing schemes like FAME, multiple state subsidies and the ACC scheme provide a direct fiscal incentive for the brands. The PLI scheme introduced for the automobile and auto components sector has gathered proposed investments worth Rs 6,769,000 Lakh against the target estimate of investment of Rs 4,250,000 Lakh over a period of five years.

- **PLI Scheme for automotive sector:** The Ministry of Heavy Industries notified the Production Linked Incentive (PLI) Scheme for Automobile and Auto Component Industry in India on September 23, 2021, with a budgetary outlay of Rs 2,593,800 Lakh. The key objectives of the PLI Scheme are to provide financial incentives to boost domestic manufacturing of advanced automotive technology products and attract investments in the automotive manufacturing value chain. The scheme focuses specifically on EVs and

Hydrogen fuel cell vehicles and their components. The inclusion of a PLI scheme of this magnitude, combined with existing schemes like FAME, multiple state subsidies and PLI scheme for Advanced Chemistry Cell (ACC) provide a direct fiscal incentive for the electric two-wheeler brands. The PLI scheme introduced for the automobile and auto components sector has gathered proposed investments worth Rs 6,769,000 Lakh against the target estimate of investment of Rs 4,250,000 Lakh over a period of five years.

- **PLI Scheme for Advanced Chemistry Cell (ACC):** The Ministry of Heavy Industries notified the Production Linked Incentive (PLI) Scheme for Advanced Chemistry Cell (ACC) in June 2021 with a budgetary allocation of Rs. 1,810,000 Lakh. The scheme aims to establish a competitive ACC battery manufacturing set up in the country and strengthen the ecosystem for electric mobility.

- **GST reduction on EVs:** The 36th GST Council Meeting held in July 2019 reduced the GST rate on electric vehicles from 12% to 5%. However, lithium-ion batteries and charging stations attract 18% GST.

- **Exemption from permit requirements:** In September 2018, to scale up its efforts in pushing eco-friendly transportation in India, the government decided to exempt all electric vehicles and all vehicles that run on alternative fuel like ethanol, biodiesel, CNG, methanol and biofuel, from permit requirements.

- **Road tax exemptions:** Following the notification of Ministry of Road Transport and Highways (MoRTH), various state governments like Uttar Pradesh and Punjab decided to exempt electric vehicles from road tax and registration fees.

Urban demand assessment

Demand for scooters mainly stems from the urban population, which account for 65-75% of the overall demand. In fiscal 2025, scooter demand is expected to record growth of 10-12% followed by a 11% rise in fiscal 2024 aided by healthy semi urban and urban incomes coupled with trend of scooterisation. Structural factors such as changes in perception with the scooter being considered a gender-neutral vehicle, improving mileage, expansion in the road network in semi-urban and rural areas; greater convenience and utility for intra-city transport in tier-II and tier-III cities as well as availability of more variants/choices over the past few years are expected to encourage demand for scooters in the medium term.

Key Industry Parameters

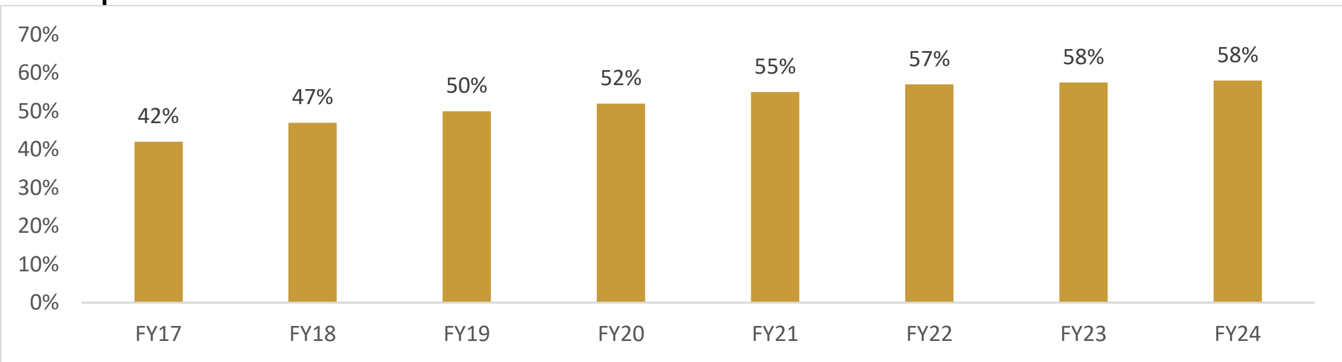
Finance penetration estimated at ~58% in fiscal 2024

Cash transactions continue to dominate two wheelers' sales, as compared with other automobile segments, given the industry's smaller ticket sizes, relatively lower-income profile of customers, high default rates, and difficulty in repossessing vehicles.

The industry has witnessed strong competition with new players in the form of new NBFCs entering the market, and captive NBFCs (operated by two-wheeler manufacturers) largely focusing on non-metros and rural markets. Finance penetration is estimated to have increased to around 58% in fiscal 2024 from 47% from fiscal 2018 due to increasing options available to customers. CRISIL MI&A project finance penetration to further increase, and cross 60% over the next four years.

Average yields on two-wheeler loans given by NBFCs range between 20-28%, with yields being higher for rural-focused players.

Finance penetration on the rise

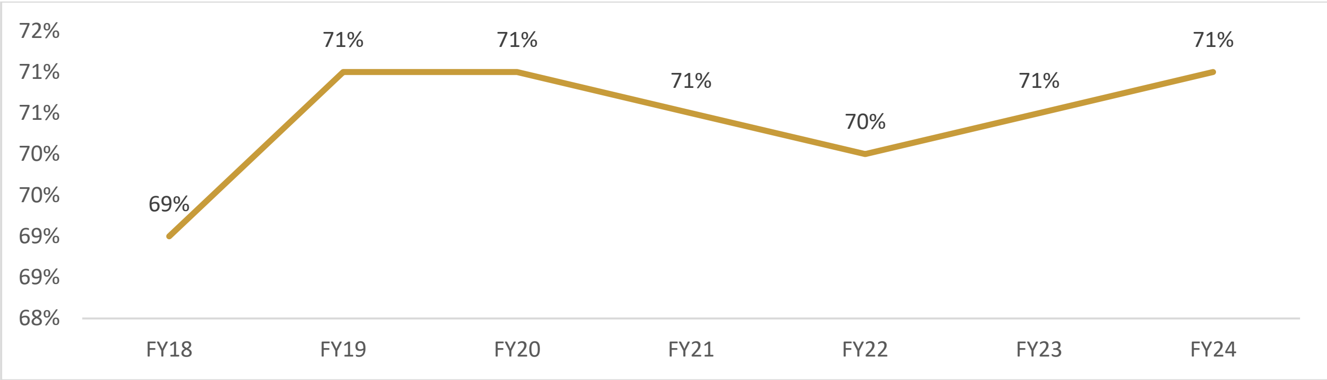


Source: CRISIL MI&A

LTVs to improve in-line with demand recovery

Cash transactions continue to dominate two-wheelers sales, as compared with other automobile segments, given the industry's smaller ticket sizes, relatively lower-income profile of customers, high default rates, and difficulty in repossessing vehicles.

The industry has witnessed strong competition with new players in the form of non-banking financial companies (NBFCs) targeting those markets exited by banks, and captive NBFCs (operated by two-wheeler manufacturers) largely focusing on non-metros and rural markets, while delinquencies remain key monitorable. During covid, financiers were being more apprehensive in providing two-wheeler loans. Lending was available more to customers with stable income and good track record. In fiscal 2023 and 2024, subdued demand owing to high-cost increase led to financiers offering a wide range of schemes and promotions like low down payment, attractive EMI options, no charge on processing fees, etc., in order to attract more customers for small ticket size purchases. Additionally, OEMs started offering discounts across various models in order to push sales. Going ahead, lending in two wheeler space is expected to be better on account of addition of support from various captive NBFCs that are aggressively trying to capture market in the rural space in order to aid sales.

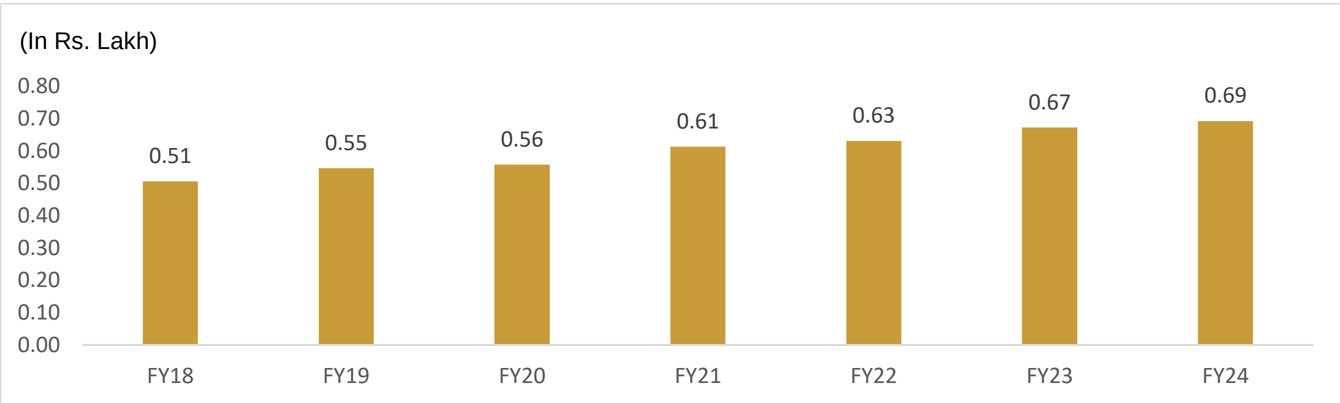


Source: CRISIL MI&A

Increase in average ticket size on account of rising vehicle prices

Two-wheeler segment witnessed significant price hikes in last few fiscals affecting both ownership and acquisition costs and subsequently dampening consumer sentiments. The acquisition price for several entry-level two-wheelers increased exponentially due to the implementation of safety norms, BS-VI compliance, and higher input costs.

CRISIL MI&A expects an increase in the average ticket size of loans, led by an increase in the average vehicle price, a considerable shift in consumer preference towards premium-segment vehicles, increasing proportion of urban people and rising LTV ratios. CRISIL MI&A estimate a further 2-4% rise in the average ticket size as two-wheeler prices increase.



Source: CRISIL MI&A

NBFCs poised to dominate two-wheeler financing on better rural penetration

The two-wheeler financing segment is increasingly becoming a stronghold of NBFCs due to their greater ability to tap rural markets by offering loans at rates much lower than those of unorganised peers. Limited presence of banks in rural markets also helps them. Major captive NBFCs in the segment are Bajaj Finance, Hero FinCorp, TVS Credit Services, and Mahindra Finance and major non-captive ones are Shriram Finance and Muthoot Capital, among others. Though weaker demand sentiments have delayed their expansion, NBFCs remain poised to dominate the two-wheeler financing segment this fiscal as well as banks are likely to tread the space carefully.

Factors favouring banks and NBFCs:

(i) For Banks -

- Banks have a stronghold on two-wheeler financing in urban areas due to which their two-wheeler GNPAs are lower than that of NBFCs. Banks mainly cater to salaried customers offering better terms as asset quality risk is perceived to be lower.
- Banks can offer variable interest rates based on customer credit history to attract more customers and gain share in the segment.
- As a result, pre-tax return on assets (RoAs) are set to remain rangebound between 4% and 5%

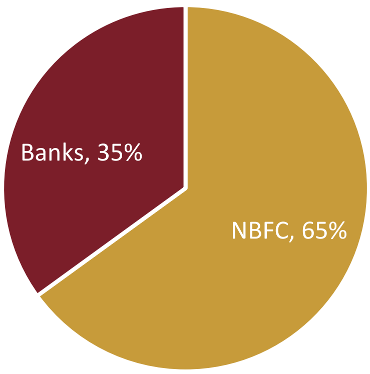
(ii) For NBFCs:

- Two-wheelers are more popular in the rural and semi-urban areas. Thus, captive players, who have a hold in these areas, can capitalise on it to increase their share.
- The under-penetrated rural market will be the key growth segment for NBFCs. Rising income will be further aided by better rural connectivity and rising participation of women in both, urban and rural areas.

NBFCs have been usurping market share from banks

CRISIL MI&A estimates NBFCs' share in two-wheeler financing to be 65% in fiscal 2024. Financers have been offering a wide range of schemes and promotions (such as low-down payment, attractive EMI options, waiver of processing fees) to attract more customers for small ticket-sized purchases.

NBFCs account for 65% of two-wheeler financing (as of March 2024)



Source: Company reports, CRISIL MI&A

Key factors driving competitiveness of NBFCs

Better presence in rural markets

Rural demand is expected to aid two-wheeler growth in the long term, and this will be backed by rising farm incomes and improving rural infrastructure, especially as the government continues to invest in developing rural roadways. Greater ability of NBFCs (generally smaller NBFCs) to tap specific markets and/or customer segments by offering financing at much lower rates than the unorganized sector will enable them to retain their strong market position.

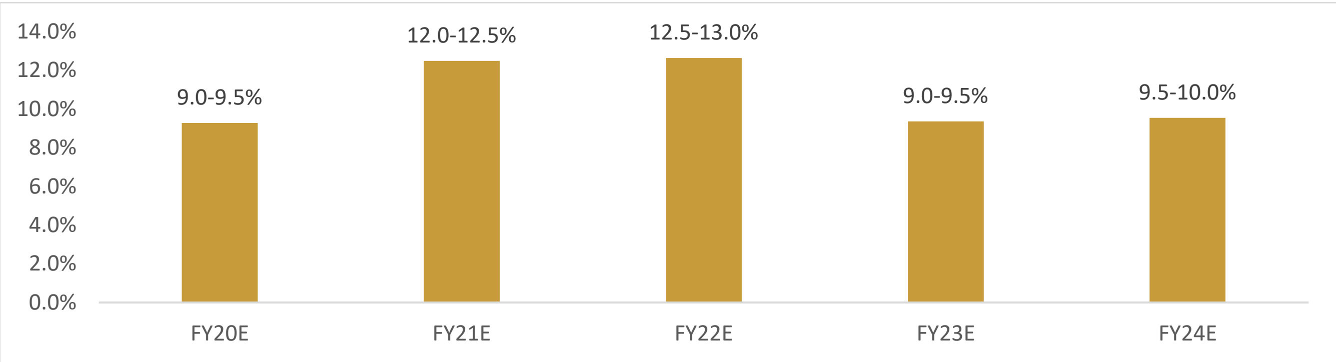
Better LTV and schemes by NBFC players

NBFC's offers a wide range of schemes and promotions such as low-down payment, attractive EMI options, no charge on processing fees to attract more customers. Moreover, with increase in the cost of acquisition caused by BS-VI and other regulations, customers are looking for financing options with higher LTV and schemes.

Asset quality remained higher at 9.5%-10% in fiscal 2024

The stress levels for NBFCs, which peaked during the pandemic, have now returned to their pre-pandemic levels. The GNPA has seen a downturn however the stress is still on the higher end. This was reflected in the improvement in the GNPA of players, the GNPA course has been corrected from a high of 12.5-13.0% in the fiscal 2022 to 9.0-9.5% in fiscal 2023. However, the stress in two-wheeler segment remained higher at 9.5-10.0% in fiscal 2024. Going forward, the asset quality for as two-wheeler is expected to remain range bound given the characteristics of the underlying borrower segments.

GNPA trend of NBFCs in two-wheeler loans



P: Projected
Source: Company reports, CRISIL MI&A estimates

Profitability of NBFCs in two-wheeler loans

Ratios	FY20E	FY21E	FY22E	FY23E	FY24E	FY25P
NIMs	17.03%	16.65%	16.15%	16.81%	17.92%	18.31%
Opex	6.00%	5.90%	6.05%	6.20%	6.10%	6.10%
Credit costs	4.70%	7.00%	6.50%	5.00%	4.70%	4.60%
RoA	4.24%	2.51%	2.41%	3.76%	4.77%	5.10%

E: Estimated P: Projected

Source: Company Reports, CRISIL MI&A

Overview of used two-wheeler financing market in India

Due to India's growing population and rapidly increasing traffic congestion, motorized vehicles are used by commuters of all ages, with two-wheelers being the most suitable, fuel-efficient, and practical form of transportation in cities. However, the total cost of ownership of new two-wheelers, which includes insurance, maintenance, fuel cost and loan repayment, has risen exponentially in the past few years. Hence, the demand for used two-wheelers has witnessed a consistent rise over the past few years, excluding the year of covid-pandemic. The rising cost of owning a new two-wheeler was further fuelled by the implementation of BS VI Standards by the government in April 2020 has now made used two-wheelers significantly less expensive than new ones, which has further pushed the growth of used two-wheeler market in India.

Several organized used two-wheeler players have started providing loan facilitation services thereby making the process of availing used two-wheeler loans much easier for the customers. Moreover, the popularity of e-commerce platforms in the country has led to the emergence of the used two-wheeler market online. Most of these online platforms have partnered with numerous banks and NBFCs to give loans to its consumers, hence becoming a one-stop solution for used two-wheelers. The amount of loans for used two-wheelers is rising dramatically in rural areas.

Going forward, rising cost of owning a new two-wheeler in India, rising fuel prices, and increasing e-commerce platforms as one stop solutions are expected to drive the growth of used two-wheeler finance in India.

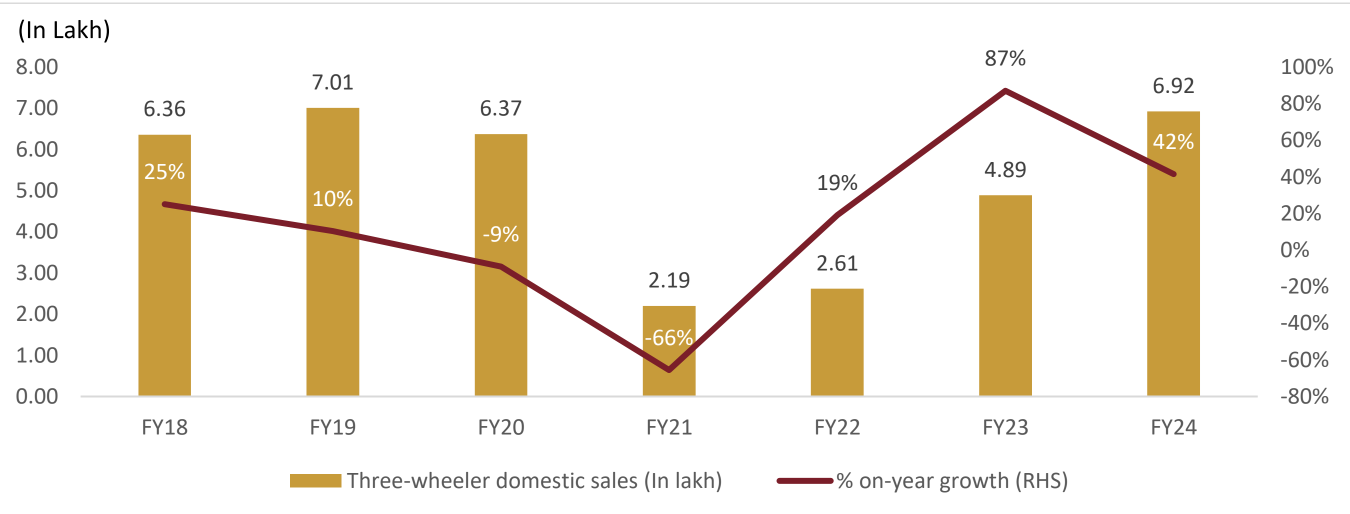
Three-Wheeler Loans

Three-wheeler industry witnessed strong recovery in last two fiscals to reach pre-pandemic sales

The three-wheeler (3W) market in India was severely hit during the pandemic as three-wheeler domestic sales witnessed 66% of de-growth in Fiscal 2021 owing to reduced requirement of commutation with closure of offices, schools, and other public places, and increased preference of personal mobility. However, as the pandemic withered away and lockdowns ceased, three-wheeler domestic sales increased at 19% on-year in fiscal 2022 on lower base. In Fiscal 2023 and Fiscal 2024, the sales increased by a massive 87% and 42% respectively on-year due to positive demand sentiments, normalization of economic activities and public mobility, and increase in demand of electric three-wheelers which led to total domestic three-wheeler sales in Fiscal 2024 reaching 6.92 lakh units, close to the pre-pandemic levels. Going forward, CRISIL expects the demand for three-wheelers will continue with increasing traction towards electric three-wheelers as well in Fiscal 2025.

The three-wheeler sector has been among the first to embrace e-mobility, especially in fleet and shared transportation particularly in Tier-2 and Tier-3 cities. In Fiscal 2018, the share of EV three-wheeler sales in overall Three-wheeler sales stood at 14%, which is estimated to have increased to around 90% in Fiscal 2024. Companies like Mahindra (e-Alfa, Treo Zor), Kinetic Green (Passenger and Cargo), Paggio (Ape Electric series), Smart E, among others, are leading this shift, with Electric 3W Cargo carriers expected to see traction in activity with increasing interest from last mile delivery partners of Flipkart and Amazon.

Three-wheeler domestic sales registered 42% on-year growth in fiscal 2024



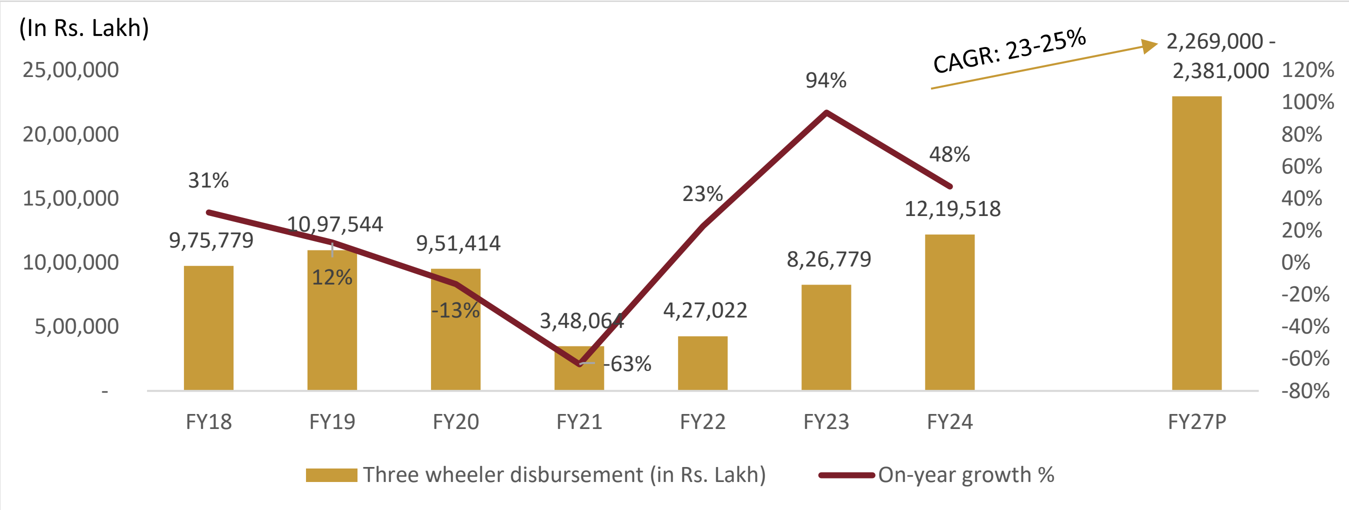
Source: SIAM, CRISIL MI&A

Three-wheeler disbursements surpassed pre-pandemic levels in fiscal 2024

Three-wheeler segment witnessed a fall in disbursements during fiscal 2020 and fiscal 2021 on account of lockdown and lower demand. Though pandemic-related restrictions hampered production (and hence supply) in the first quarter of fiscal 2022, the disbursements started picking up slowly from the second quarter onwards. Additionally, with the improvement of economic activity and lifting of travel restrictions, sales volumes rebounded in the second quarter of fiscal 2022 boosting the disbursements for the full year. In Fiscal 2023, three-wheeler disbursements witnessed robust growth of 94% led by higher demand, growth in sales and higher finance penetration. Continued strong growth in three-wheeler sales led disbursements in Fiscal 2024 to grow by 48% on-year.

CRISIL MI&A expects three-wheeler disbursements to grow at 23-25% CAGR from fiscal 2024 to 2027, driven by improvement in urban sentiments along with increase in three-wheeler EV penetration. EV penetration is expected to increase further in fiscal 2025 supported by the increase in charging stations, lower cost of acquisition and newer model launches from OEMs.

Growth momentum in three-wheeler disbursements to continue in the long-term



Source: CRISIL MI&A Estimates

Key Industry Parameters (Three-wheelers)

Finance Penetration to improve over the long term:

Finance penetration as of Fiscal 2024 is estimated at 96% and is expected to improve marginally in the near term.

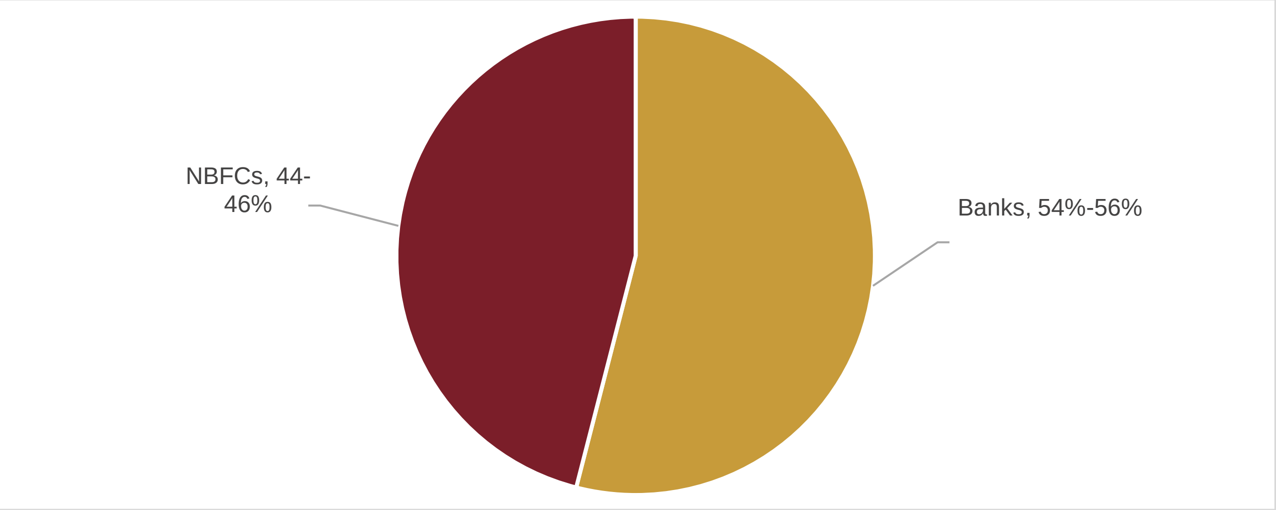
LTVs to improve gradually in the near term

LTVs for three-wheeler loans is expected to increase on account of easing restrictions, and improving collection efficiencies, however LTVs are expected to remain below pre-covid levels.

Share of captive NBFCs in the three-wheeler segment to improve 100 bps over the next two fiscals

NBFCs are expected to tap greater market share in the upcoming fiscals in the three-wheeler loan market. Factors supporting it would include NBFCs ability to tap rural and tier 2, tier 3 markets and deeper connect. Lower reach of the banks is expected to constrain their ability to increase their share in overall borrowing. Also, the three-wheeler customers' credit quality is not as good as that of passenger vehicles or two-wheeler segments as the delinquency is higher in three-wheeler financing. Because of this, banks have been cautious of the segment and will remain so. Some of the key players in the industry include captive financiers such as Mahindra Finance, Bajaj Finance and Hinduja Leyland Finance and major non-captives are Cholamandalam Finance and Muthoot Capital, among another smaller auto financing ones.

Market share of various lenders (FY2024)



Source: CRISIL MI&A

Key factors driving competitiveness of NBFCs in three-wheeler financing

Better presence in rural markets

The greater ability of NBFCs to tap specific markets and/or customer segments by offering financing with low documentation is a key driver for growth for NBFCs.

Better LTV and schemes by NBFC players

NBFC's offers a wide range of schemes and promotions such as lower down payment, attractive EMI options, no charge on processing fees to attract more customers. Moreover, with increase in the cost of acquisition caused by BS-VI and other regulations, customers are looking for financing options with higher LTV and schemes.

Used Car Loans

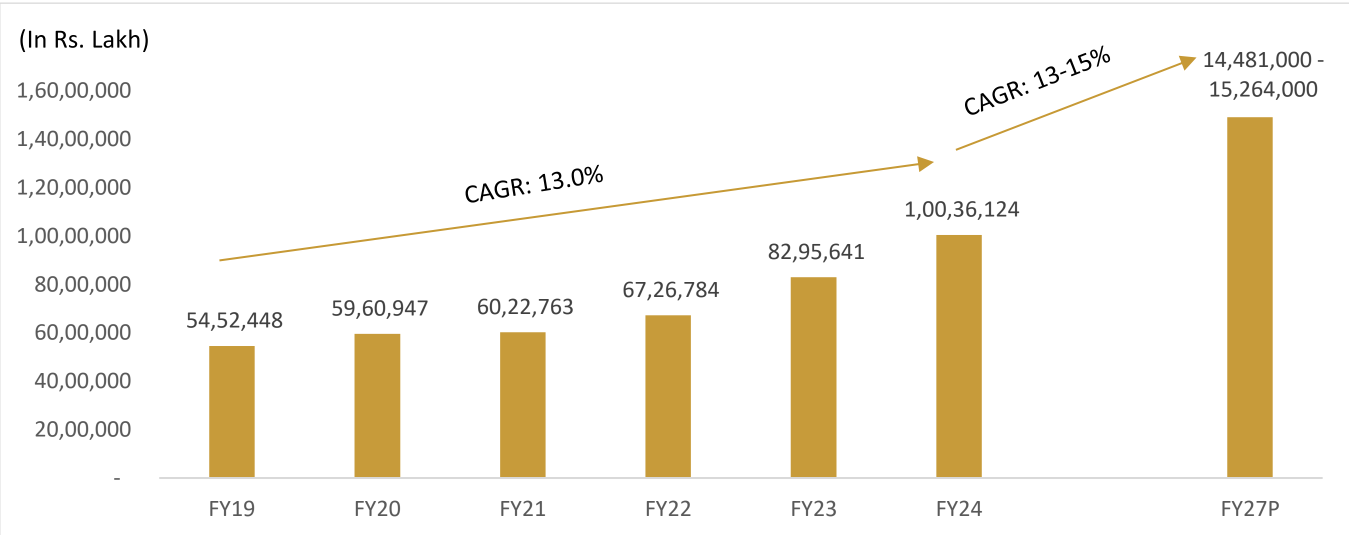
Used car market to grow at a faster rate in coming years

The used car market primarily serves new buyers looking for cost-effective entry-level vehicles. Over the past few years, the used car market in India has witnessed an unprecedented surge with the luxury segment emerging the major contributor of growth. This has led to the rise of the thriving luxury used car market, which we believe can continue to grow in coming years. The increase in demand for used cars will be primarily driven by the sale of new cars, which perpetuates more used vehicles to be available, to cater to the needs of the customer.

With the change in shift, the unorganized used car market in India is also evolving into a more formalized one with more small dealers or brokers, semi-organised dealers and direct C2C sales, getting involved into the ecosystem. Further, market consolidation and entry of OEMs and new car dealership in the organised used car market has caused an increase in awareness and preference of certified used cars in India. These certified use car undergoes a thorough inspection, thereby ensuring reliability and quality, and hence providing the end customer a comfort to consider them as their first car.

On account of these changes in the market and customer preference, CRISIL MI&A estimates the total size of the used car financing market to be around Rs. 10,036,000 Lakh at end of March 2024.This market size includes loans provided by banks and NBFCs for used cars, which has grown at a CAGR of ~13% between fiscals 2019 and 2024. CRISIL MI&A projects the overall industry growth to be faster at 13-15%, as compared to 11% in the past owing to an increase in the middle-class population in the country, higher disposable income, increasing formalization of the sector and the greater availability of used cars.

Used Car Financing Market projected to cross Rs. 14,000,000 Lakh as of March 2027

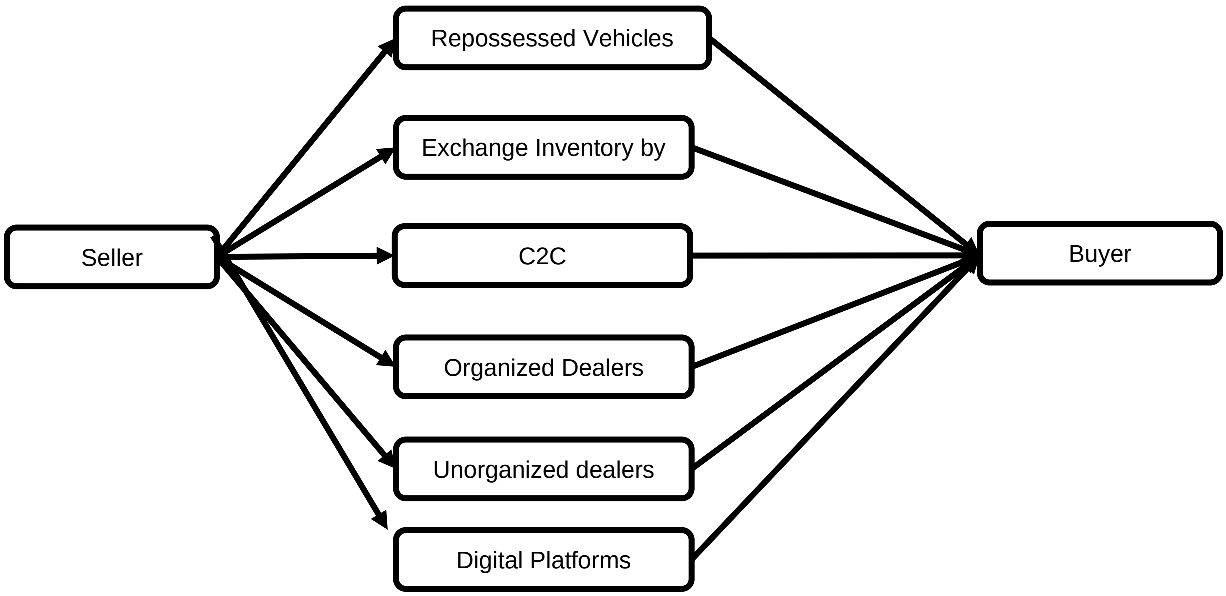


Source: Industry, CRISIL MI&A Estimates

Ecosystem of used vehicle market

India's used car sector exhibits fragmentation, encompassing independent dealers or brokers without physical premises and institutional dealers operating from physical locations or associated with disorganized setups and branded showrooms. Roughly the large majority of dealers function within unorganized structures. Exchanged vehicles from new car dealerships flow into used vehicle outlets managed by established manufacturer-backed entities like True Value and Mahindra First Choice. Meanwhile, smaller, local, or unaffiliated dealers source vehicles from multiple channels—sellers, agents, digital platforms, and trade-ins from new car dealers. Structured and unstructured dealers recondition these vehicles and exhibit them in showrooms with adjusted prices. At these outlets, customers access financing, insurance, and warranties.

Primary revenue streams for organized players include vehicle sales and commissions from third-party financing and insurance. Moreover, the sale of used vehicles complements new car sales by offering trade-in options for customers' existing vehicles.



*Note: **Repossessed vehicles** refer to vehicles that banks or insurance companies have taken back from the original owners due to default on loan payments or insurance claims; **Exchange inventory** refers to vehicles accepted by new car dealers as part of a trade-in deal when a customer purchases a new vehicle from them; **C2C** represents direct transactions between customers without intermediary involvement; **Organised Dealers** are the dealers with sales showroom and workshop; It also includes OE backed dealerships such as True Value, Mahindra First Choice etc; **Unorganized dealers** are those dealers without a proper sales infrastructure and lack workshop facilities, which includes classified platforms and direct selling; Classified platforms are digital spaces where dealers list vehicles for sale, enabling them to connect with potential customers; **Digital platforms** serve as the online storefronts or virtual retail spaces for entities such as OlxAuto, Spinny, and Cars24 in the automotive industry.*
Source: Industry, CRISIL MI&A

Manufacturer-associated dealerships, mainly established entities, have expanded their presence into digital platforms to enhance their traditional business models. Potential buyers can browse vehicle inventory and dealership details online, visit physical stores for test drives, and finalise purchases. Additionally, online platforms within these original equipment (OE) chains offer added services such as financing and insurance.

Industry rebounded after Covid-19

Over recent years, the Indian market has experienced a notable surge in the used car segment. Changing buyer demographics and the frequent introduction of feature-rich vehicles have shortened replacement cycles, contributing to increased supply in the market. Additionally, the accessibility of competitive financing options, the emergence of digital platforms, and the escalating prices of new cars have further spurred demand within the used car industry. In Fiscal 2024, the used car industry normalized following the reopening of the economy and is expected to witness strong traction going forward.

Growth Outlook and Key Growth Drivers

Utilizing digital platforms for lead generation in the growing e-commerce landscape

The digital revolution has played a vital role in transforming how businesses operate across industries; the automobile industry is no exception. New-age platforms have emerged that help new car dealerships run efficient used car programs not just in Tier 1 markets, but also in Tier 2 and 3 markets where potential lies largely untapped. This has caused OEMs like Mahindra First Choice, Maruti Suzuki True Value, Hyundai Promise, Toyota Trust, Honda Auto Terrace, and others to foray into the used car market. Further, Digital platforms such as Spinny, CarWale, Cars24, Droom, LeleCarr, GaadiBazaar, Shriram Automall, and Ola Cars, among others, are gaining traction in the organized segment, and with the integration of digital technology, this growth is poised for further acceleration.

By prioritizing their online presence, these firms can effectively tap into a vast pool of potential clients. These technological advancements are enhancing customer outreach, improving buying experiences, ensuring transparency in vehicle valuation and pricing, and bolstering customer retention for automotive dealerships. This expansion in reach indirectly amplifies dealer revenues.

Elevated replacement rates and shifting consumer preferences

The accelerated replacement cycle of cars has amplified both the demand and supply for used cars. New vehicles are now being replaced approximately every 4-5 years, broadening the options available to customers seeking used cars. In the wake of the COVID-19 pandemic, there has been a notable shift in consumer preferences towards personal vehicles, reflecting a desire for reduced contact with public transport. The heightened need for individual mobility, increased consumer aspirations, augmented disposable income, shortened replacement cycles, and improved financial accessibility has caused a surge in used car sales.

Surge in transport aggregator services

The proliferation of online taxi and rental services, exemplified by industry leaders such as Uber, Ola, InDrive, Meru cabs, Carzonrent, ZoomCar, has significantly expanded the reach of used car dealerships. This trend is expected to continue with these aggregators deepening their penetration in Tier 2 and Tier 3 markets in the coming years.

Enhanced Financing Accessibility

Growing support from financiers, coupled with favourable interest rates and higher Loan-to-Value (“LTV”) ratios, is set to elevate finance penetration levels. These changes are poised to bolster the market for used cars vehicles in the country.

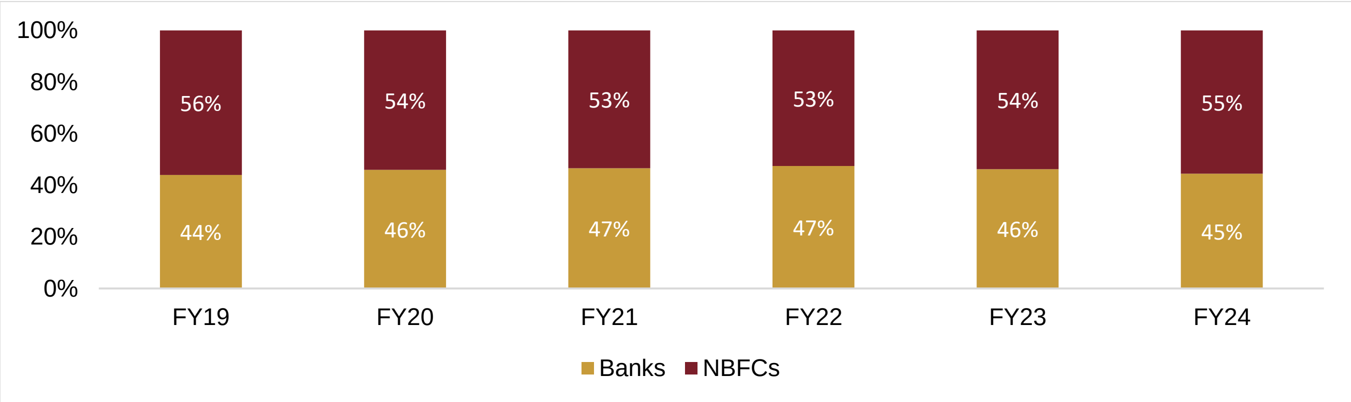
Escalating Ownership Costs of New Vehicles

Annual price escalations undertaken by OEMs to offset rising material costs and comply with evolving safety and emission standards contribute to increased ownership expenses. Moreover, the trend towards premiumization in the mass and premium car sector is anticipated to drive up average vehicle prices further. The rise in the price of new cars and the increased cost of ownership of new cars makes used cars an attractive option for customers seeking vehicle ownership at a lower cost.

Market share of various lenders (2024)

As of Fiscal 2024, NBFCs have established a strong foothold in the used car segment by prioritizing customer needs, ensuring swift processing, delivering excellent customer service, and expanding their geographical coverage. Their cumulative market share in outstanding used car loans is estimated to be approximately 55% as of fiscal 2024, rising from 54% as of fiscal 2023. CRISIL MI&A expects the market share of NBFCs in this segment to grow over the same range.

NBFCs have more than half the market share for used cars loans as of fiscal 2024



Source: Company Reports, CRISIL MI&A

Asset Quality

In fiscal 2021, the Gross Non-Performing Assets (GNPAs) of NBFCs experienced an uptick, primarily attributed to the pandemic-induced circumstances that led to sluggish growth in used car sales and slowing down on mobility and car aggregator services. However, the situation improved after opening up of economic activity. GNPAs stood at 3.9% as of March 2021, which improved to 3.5% as of March 2022, 2.2% as of March 2023 and 2.1% as of March 2024. Going forward CRISIL MI&A expects the asset quality to improve and moderate further to around 1.8% - 2.0% on account of strong traction of rising automobiles and adoption by buyers due to greater formalization of the market.

Profitability

The used car market is experiencing an improving ecosystem for financing due to increasing formalization and rising financial penetration. The used car loans experience higher interest rates than new cars due to higher Opex required in refurbishment and valuation of cars, and marginally elevated credit costs. Within the sphere of used car loans, NBFCs operating in this sector have been able to maintain a net interest margin (“NIMs”) ranging from 8-9%, Opex ranging between 3-4%, with profitability, i.e. return on assets hovering around 3% to 4%. Going forward, borrowing costs are projected with overall profitability of used car loans remaining stable, driven by sustained higher interest income.

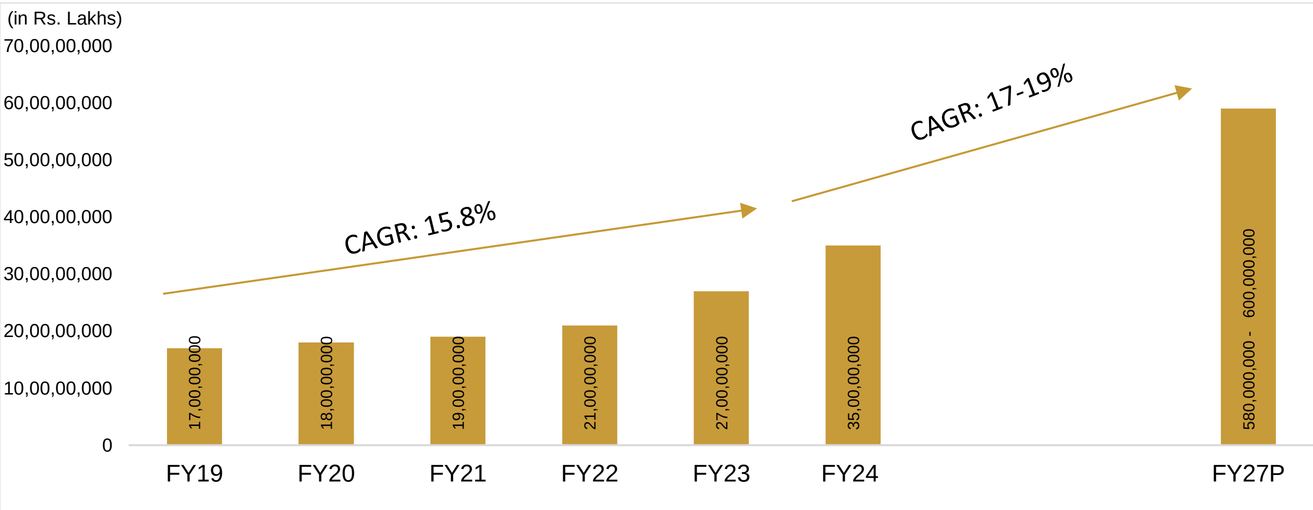
MSME Loans

Overall MSME lending has grown at a CAGR of ~16% from fiscal 2019 to 2024

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 ₹ 350,000,000 Lakh 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 fiscal 2023, 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 30% in fiscal 2023. In Fiscal 2024, overall MSME credit grew by 30% on the back of higher credit demand from MSME's, higher focus of lenders on the asset class leading to higher disbursements.

MSME credit outstanding estimated at ₹ 350,000,000 Lakh as of March 2024



Source: CRISIL MI&A estimates

COVID-19 pandemic led to a heavy impact in the MSME industry in Fiscal 2021 which was also seen in the first quarter of Fiscal 2022. ECLGS schemes aimed to reduce the impact of the COVID-19 pandemic on the MSME sector. The first half of Fiscal 2022 was also impacted by the second wave leading to lower disbursements to these MSMEs. This led to the extension of the ECLGS scheme which cushioned the impact of COVID-19 pandemic. ECLGS scheme led by revival of economic activities, strong exports and domestic growth prompted MSME lending to grow at 13% in Fiscal 2022.

NBFCs have managed to carve out a strong presence in MSME loans due to their focus on serving the needs of the customer segment, faster turnaround time, customer service provided and expansion in geographic reach. Over the years, the MSME portfolio of NBFCs have grown at a faster rate than the overall MSME portfolio at a systemic level.

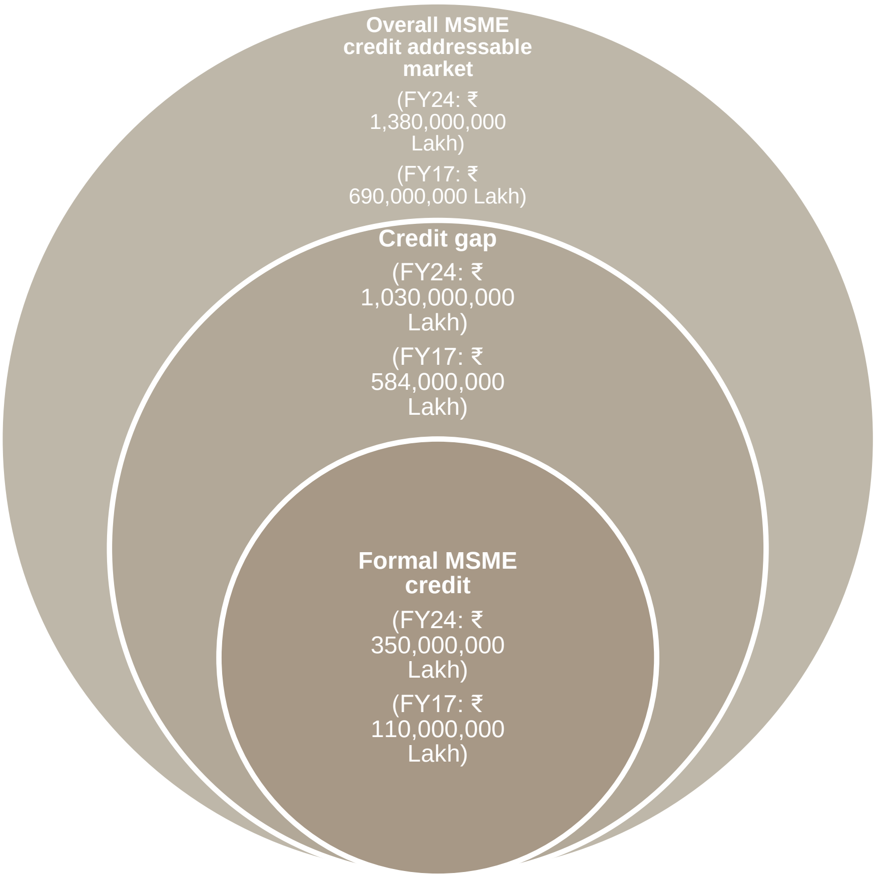
Going forward CRISIL MI&A expects the competitive positioning of NBFCs to remain strong, given their strong target customer and product focus.

Growth drivers

High credit gap in the MSME segment

Less than 15% of approximately 700 Lakh 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 ₹ 584,000,000 Lakh as of 2017 *(Source: IFC report named Financing India's MSMEs released in November 2018, CRISIL MI&A)* and is estimated to have widened further to around ₹ 1,030,000,000 Lakh as of Fiscal 2024.

Credit Gap estimated at ₹ 1,030,000,000 Lakh as of Fiscal 2024



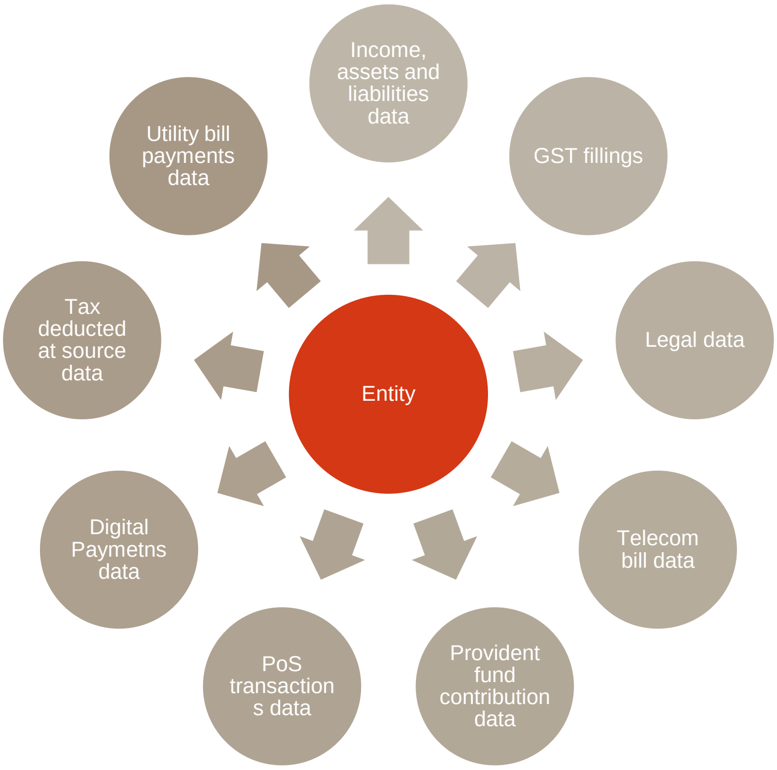
Note: Overall formal MSME credit given above includes all kinds of secured and unsecured loans given to MSMEs across ticket sizes by organised lenders.

Source: MSME Ministry Annual report for FY21, IFC report on Financing India's MSMEs dated November 2018, CRISIL MI&A

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. For example, the quantum of retail digital payments has catapulted from ₹ 1,400,000,000 Lakh in fiscal 2017 to ₹ 7,914,946,100 Lakh in fiscal 2024. Within UPI, the quantum of person-to-merchant payments has zoomed from ₹ 62,000,000 Lakh in Fiscal 2021 to ₹1,999,508,600 Lakh in Fiscal 2024. This increase 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.

Multiple data points can be used for credit assessment of end consumers



Source: CRISIL MI&A

Reduction in risk premiums due to information asymmetry

In the absence of reliable information about small businesses, it becomes difficult for lenders to assess the creditworthiness of the borrower. Hence, lenders often charge a credit risk premium from these customers, leading to higher interest rates. By leveraging technology and using a combination of traditional data (bureau data, financial statements, credit score), non-traditional data (payments, telecom, provident fund contribution and psychometric data), and government data (Aadhaar, GST), lenders would be able to gain greater insight into their customers' data, thereby increasing the accuracy of customer assessments. This would reduce the level of asymmetry in information and could lower the credit risk premium over a period of time.

Increasing competition with entry of new players and partnerships between them

More players in consumer-facing businesses with a repository of data (such as e-commerce companies and payment service providers) are expected to enter the lending business, intensifying competition. For example, In June 2018, Amazon India launched a platform for lenders and sellers, wherein sellers can choose loan offers from various lenders at competitive rates. In August 2021, Meta (earlier known as Facebook) partnered with Indifi Technologies to provide loans to small businesses that advertise on its platform. Incumbent traditional lenders are expected to increasingly leverage the network of their partners and/or digital ecosystem to cross-sell products to existing customers, tap customers of other lenders, and cater to new-to-credit customers. This is expected to expand the market for MSME loans.

Reduction in turn-around-time ("TAT") and increased use of technology

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.

Overall MSME market consists of various players, asset quality relatively better for private banks

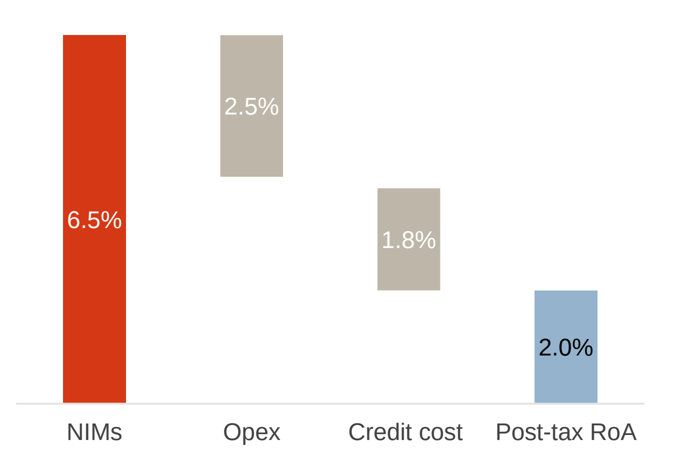
In absolute terms, the aggregate size of extending MSME loans is estimated to be around ₹ 350,000,000 Lakh as of March 2024. With growth in number of MSMEs and increasing requirement of credit for scaling their businesses, CRISIL MI&A believes that MSME loans would provide a huge opportunity for lenders 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.

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. Fintech firms with NBFC license and SFBs are other players that operate in the MSME loans landscape. Fintechs leverage data and technology in their business models and are more focused on unsecured business loans. Hence, they also have higher yields in the range of 24-30% because of the higher risk associated with the customer profile catered and the product segment they operate in.

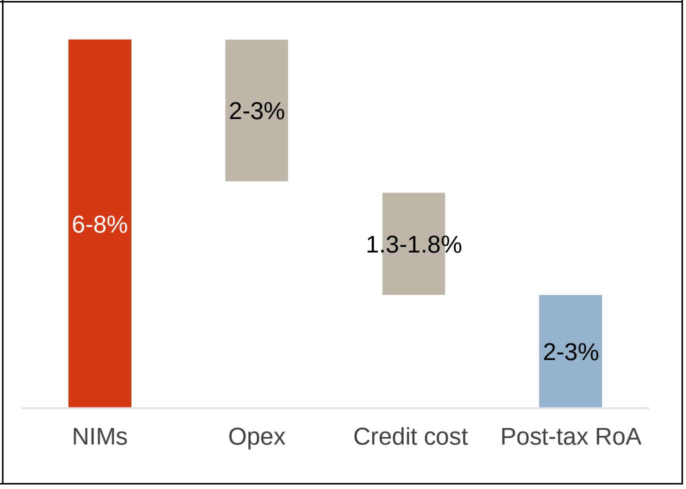
NBFC profitability to improve going forward

NBFCs in MSME segment operate with yield in the range of 17-18%, on an average. With cost of funds being in the range of 9-10%, net interest margins ("**NIMs**") for this segment are in the range of 6-8%. CRISIL MI&A estimates the profitability in this segment to have increased in Fiscal 2023 owing to better credit costs and increase in interest yields. Going forward, in Fiscal 2024, borrowing costs are expected to stabilise or marginally move upwards, and overall profitability of MSMEs loans is still expected to be sustained, on account of higher interest income. In addition, improvement in collections is expected to lead to aid profitability for the segment.

FY23



FY24E



Source: CRISIL MI&A estimates

Asset quality for overall MSME at 3.6%; asset quality relatively better for private banks

Asset quality deteriorated as of March 2021 due to COVID-19 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 decreased as of March 2022. As of March 2023, the GNPA ratio for overall MSME loans stands at 3.6%. Among various player groups, the asset quality is the best for private banks as of March 2023 because they serve relatively low risk customers compared to NBFCs, which also serve customers with no documented income. CRISIL MI&A estimates asset quality to be in the range of 3-3.5% during fiscal 2024.

Key success factors for NBFCs offering MSME Loans

- **Strong branch network and deep understanding of the target customer segment and markets**: 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.
- **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-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.
- **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.

Small Business Loans

Small Business Loans witnessed a reasonable growth in the past

In this section, we have classified all loans with ticket size lower than Rs 100 Lakh extended to MSMEs, irrespective of the turnover of the entity, as small business loans. CRISIL MI&A estimates outstanding small business loans given out by banks and NBFCs to be around Rs 131,100,000 Lakh as of March 2024.

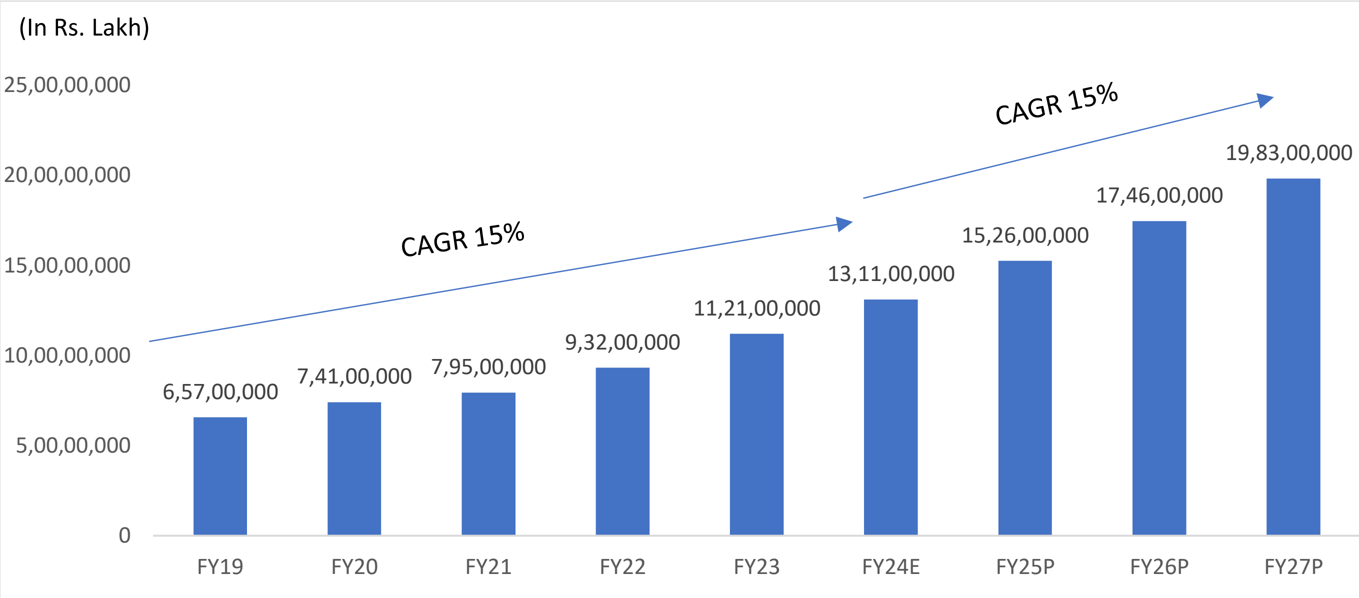
Small business loans grew at a fast pace, registering a CAGR of 15% over fiscal 2019 and 2024. Over the years, more data availability and government initiatives like GST has led to increasing focus of lenders, especially the NBFCs, on the underserved segment of MSME customers as lending to this segment has become easier compared to the past. In fiscal 2019 and 2020, however, the growth was relatively muted due to the NBFC liquidity crisis as well as cautious stance being taken while lending to MSMEs due to slower economic growth. Due to liquidity constraints for NBFCs, the growth slowed in fiscal 2019. In fiscal 2020, despite the revival of flow of liquidity, access to funds was difficult in the business segments such as wholesale finance or LAP. Since LAP forms major portion in the small business loans portfolio, the growth was impacted in fiscal 2020 as well.

In fiscal 2021, the nationwide lockdown to contain the spread of the pandemic disrupted economic activity, hit production facilities, impacted working capital needs and supply chain along with future investments and expansions. Domestic supplies and supplies from imports also suffered, affecting both, their availability and cost. Contractual and wage labour was also hit due to more layoffs. MSMEs in the sectors such as hotels, tourism, logistics, construction, textiles and gems and jewellery suffered the most during the first half of the fiscal. Hence, fiscal 2021 witnessed a sharp dip in the growth rate of small business loans.

However, faster-than-expected revival in economic activity and pent-up demand led to the growth spurt in MSME lending since the plummet in fiscal 2021. Due to the second wave of the pandemic, growth in the segment lagged in banks and non-banks during the first quarter of fiscal 2022. CRISIL MI&A estimates outstanding small business loans given out by banks and NBFCs to be around Rs 131,100,000 Lakh as of March 2024.

Growth in small business loan was supported by an increase in disbursements in the non-LAP (unsecured and secured) segment for NBFCs due to rapid industrialisation, driven by loans to the micro segment. With economic activity reviving and cash flows improving, NBFCs increased their funding in the unsecured segment while restricting lending in the LAP segment owing to the asset quality stress of the previous years. Growth was further led by improved underwriting, increasing funding to the unsecured portfolio.

Small Business Loans to grow at 15% CAGR between fiscals 2024 and 2027



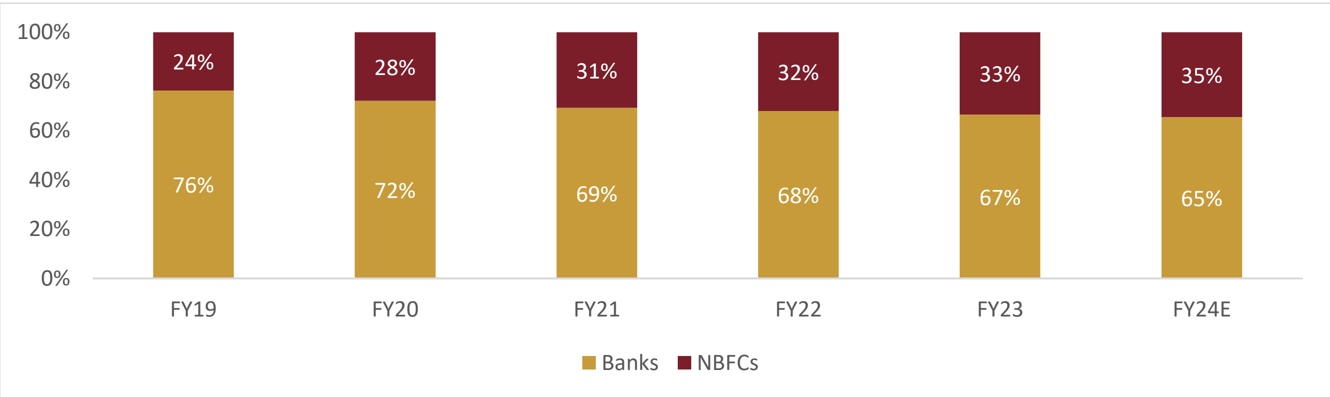
Note: E-Estimated, P-Projected; Source: CRISIL MI&A

Going forward, small business loans are expected to grow at 15% CAGR between fiscals 2024 and 2027 led by both LAP and Non-LAP segments aided by increasing penetration, enhanced use of technology, newer players entering the segment, and continued government support.

NBFCs increasing their presence in the small business loans segment

NBFCs have managed to carve out a strong presence in small business loans due to their focus on serving the needs of the customer segment, faster turnaround time, customer service provided and expansion in geographic reach. As of fiscal 2024, the cumulative market share of NBFCs in small business loans outstanding has increased from 24% in fiscal 2019 to 35% in fiscal 2024.Going forward, we expect the market share of NBFCs in this segment to continue to increase and touch 38% by fiscal 2026.

NBFCs continue to gain market share from banks in small business loans



Note: E-Estimated; Source: CRISIL MI&A

NBFC profitability to remain stable on account of lower credit costs

Improved net interest margins ("NIMs") and decline in credit costs are the key reasons for improving or stable profitability in Fiscal 2024. The pent-up demand drove the AUM growth especially across higher yielding segments which impacted profitability positively. In addition, credit costs declined for all the players in Fiscal 2023 and remained stable in Fiscal 2024 due to overall improvement in collection efficiency. On an overall basis, the RoA is estimated to improve in Fiscal 2024 for all the NBFCs.

Furthermore, CRISIL MI&A expects profitability to remain stable in near term as asset quality is expected to remain range bound.

	Fiscal 2021E	Fiscal 2022E	Fiscal 2023E	Fiscal 2024E	Fiscal 2025P
Net Interest Margin (NIM)	6.2%	6.3%	6.6%	6.7%	6.6%
Operating Cost	2.4%	2.3%	2.3%	2.2%	2.2%
Credit costs	2.3%	2.4%	2.2%	2.1%	2.1%
Return of Asset (RoA)	1.2%	1.4%	1.6%	1.8%	1.8%

Note: E - Estimated, P – Projected, Net interest income = (Interest income less interest expense) on average yearly assets; Operating costs = Operating expenses on average yearly assets; Credit cost = Impairment on financial instruments on average yearly assets; RoA = Profit after tax on average yearly assets

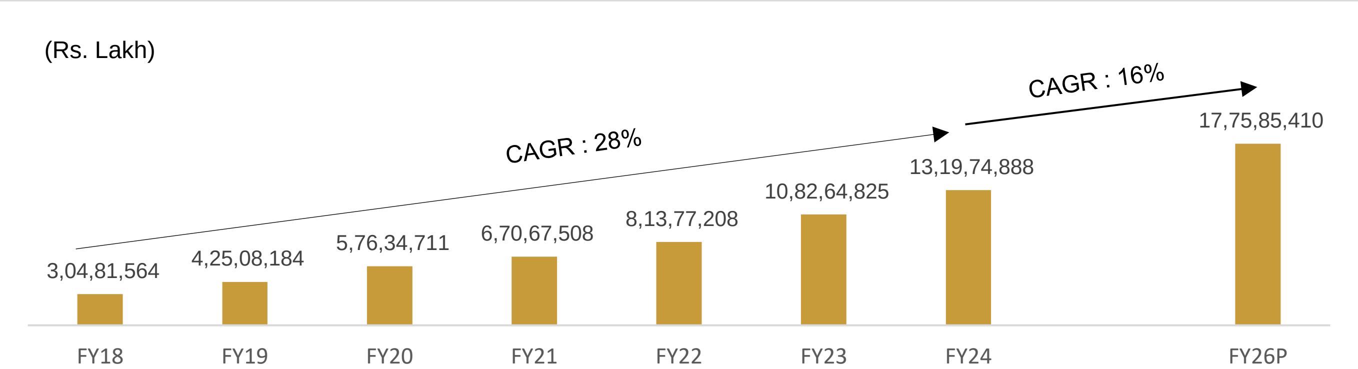
Source: Company reports, CRISIL MI&A

Personal Loans

Strong disbursements, especially from NBFCs, and improving collections supported personal loan book growth in fiscal 2023

Personal loan outstanding stood at Rs 131,974,888 Lakh in fiscal 2024 and is likely to touch ~Rs. 177,585,410 Lakh in fiscal 2026. The growth is going to be driven by healthy growth momentum in banks supported by their high base. Parallelly, NBFCs would also continue to display aggressive growth in their personal loan book. NBFCs build their retail book through lower-ticket-size personal loans and focus on growth in tier 2 and below cities. Banks focus on the salaried middle-age group borrowers and have a higher share in tier-1 cities as compared with NBFCs. The overall personal loan book, which increased at 28% compound annual growth rate (CAGR) between fiscals 2018 and 2024, is expected to grow by 19% CAGR in fiscal 2026.

Personal loan outstanding to report 16% CAGR growth in fiscal 2026



Note: P - Projected

Source: CRISIL MI&A

NBFCs market share declined in fiscal 2021, gradual increase foreseen

The personal loans segment, with its attractive risk-reward potential, has become highly competitive over the past few years with aggressive competition from both banks and NBFCs. The market is dominated by banks on account of their wide presence, large customer base which helps in cross selling and lower interest rates as compared to NBFCs. Up to fiscal 2020, NBFCs have grown much faster than banks in this space, partly supported by low base and the advent of new players in this segment. In recent years, players are focusing more towards retaining their customer base as majority of unsecured loans are originated through cross sell. Apart from traditional lenders (banks and NBFCs), entry of several other players such as P2P lenders, fintech firms etc. in the segment makes the segment more competitive.

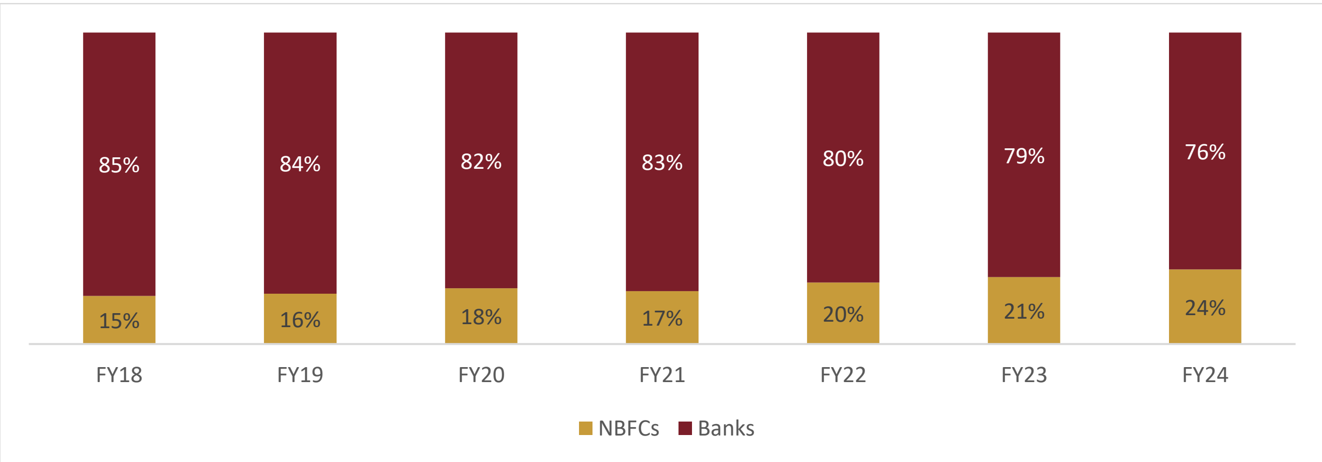
Where banks are offering pre-approved loans to their existing customers, NBFCs on the other hand are trying to increase their focus by diversifying portfolio through cross sell. New age digital NBFCs are focusing on acquiring and lending to customers which are largely underserved by the incumbents like traditional NBFCs and banks and penetrate deeper into hitherto unpenetrated segments.

Large NBFCs focus on individuals with good repayment capabilities (mostly salaried customers). However, there are many small NBFCs and fintechs that extend small ticket sized personal loans to customers with lower or no credit score and charge relatively high interest rates to compensate for the risk. Small and mid-sized NBFCs have also been innovative with products such as pay as you go, check out financing, tie-up with card companies, and very short tenure loans (3-6 months). This has helped them stay relevant despite higher interest rates, even among salaried customers. A number of NBFCs also cross sell personal loans to existing customers who have taken other loans from them and have a good repayment track record.

NBFCs have outpaced banks in terms of growth in outstanding, leveraging their specialised focus and extensive branch network to reach remote areas. This coupled with high contribution from the digital platform, drove year on year growth to 36% leap in fiscal 2024. The year-on-year credit growth of banks on a higher base was at 18% in fiscal 2024 spurred by credit demand and aggressive focus on retail portfolio. Additionally, with a salaried customer base coupled with relatively higher share of tier-1 cities in the portfolio, the banks' borrower segment faced lower cashflow disruptions, thereby realizing a relatively better asset quality performance compared to NBFCs. In the case of NBFCs, with a higher share of the self-employed segment coupled with higher share of tier 2 and lower cities in the portfolio, the asset quality was relatively weaker compared to banks.

With NBFCs growing faster than banks, CRISIL MI&A expects NBFCs to increase their market share further in fiscal 2025. NBFCs have seen a sharp rise on account of an aggressive strategy and a low base. CRISIL MI&A expects NBFCs to sustain the pace of growth and capture share from banks. Fintechs and NBFCs compete fiercely with banks even though they cater to different consumer segments. Banks primarily focuses on salaried, higher-ticket-size borrowers, while NBFCs and fintechs focus on bridging the financing gap for self-employed, low income, younger generation, and smaller ticket size borrowers.

Share of NBFCs has increased in the past few years



Source: CRISIL MI&A

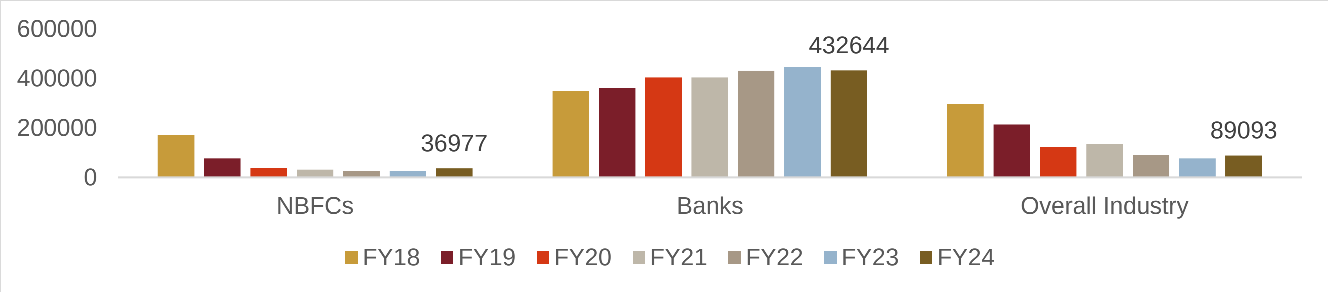
NBFCs and fintechs focus on low ticket loans for growth

With NBFCs and fintechs deepening their market penetration, the share of small-ticket personal loans, i.e., loans below Rs 100,000 in value, has gradually increased over the past few years.

The overall average ticket size, however, has declined since NBFCs and fintechs are focusing more on this bucket of personal loans. As of fiscal 2024, the average ticket size was ~Rs 37,000 for NBFCs and ~Rs 430,000 for banks versus an overall average of ~Rs 90,000.

Fintechs, on their part, have been rapidly expanding their base in the personal loans segment by offering smaller-ticket and short-tenure loans to younger, low-income and digital-savvy customers with insufficient credit history through alternative scorecard-lending models. The loans disbursed are now as low as Rs 5,000-20,000 for aspirational customers.

Average ticket size (Rs.) by lender type

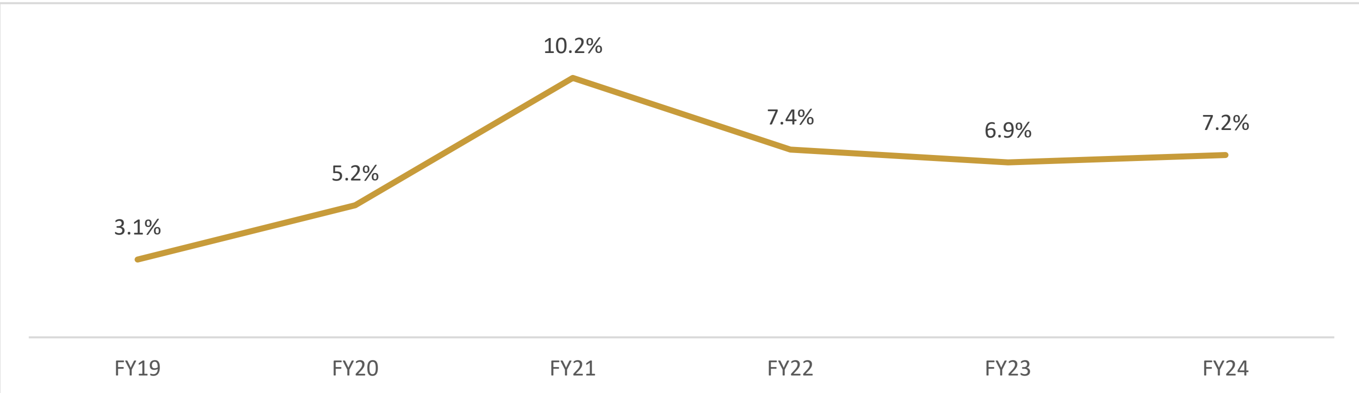


Source: CRISIL MI&A

NBFC asset quality closer to pre-pandemic levels in fiscal 2023

Personal loan is an unsecured segment with minimal or no end-use monitoring. Gross non-performing assets (GNPAs) of major players increased in fiscal 2022 on account of the second pandemic wave with cashflow disruptions for borrowers with already weaker credit profiles. The collection efficiency improved in second half of fiscal 2022 and stabilised in fiscal 2023. In line with this, GNPAs for NBFCs stood at 6.9% as of fiscal 2023, improving from 7.4% as of fiscal 2022. GNPAs increased to 7.2% in fiscal 2024 and a further marginal uptick is expected in fiscal 2025, as the loan book undergoes some seasoning after a period of supernormal loan book growth in previous fiscal years. Given the unsecured nature of segment, asset quality will always be a key monitorable.

GNPAs expected to increase marginally in fiscal 2025



Note: P = Projected

Source: CRISIL MI&A

NBFC profitability estimated to improve subsequently

In the personal loans segment, the spreads remain reasonably attractive at 8-9%. However, the impact of credit costs associated with unsecured lending continues to influence the overall profitability. In fiscal year 2020, the Return on

Assets (RoA) for personal loan portfolios stood at a healthy 2.56%, reflecting strong performance. However, fiscal year 2021 saw a decline to 1.32% due to elevated credit costs driven by uncertainties related to the Covid-19 pandemic.

In fiscal year 2022 and 2023, there was moderate improvement in profitability which can be attributed to recovery in demand, increasing spreads and improving credit cost. Additionally, operational efficiencies are expected to increase as players embrace technological advancements, resulting in lower operating expenses (Opex). Notably, there is a shift in sourcing practices. Non-Banking Financial Companies (NBFCs) are reducing their reliance on Direct Selling Agents (DSAs) in favour of cross-selling strategies and digital sourcing modes. This transition aims to reduce costs and improve customer acquisition efficiency. Going forward in fiscal 2024, profitability is expected to improve further largely on account of improvement in credit cost. Nevertheless, credit costs are expected to remain elevated in near term as players continue to expand their customer base and target tier-2 and tier-3 areas.

ROA improved in fiscal 2023 and is expected to remain stable in near term

	FY20E	FY21E	FY22E	FY23E	FY24P
NIMs	9.78%	9.67%	9.88%	10.13%	10.13%
Opex	4.35%	4.60%	4.50%	4.40%	4.30%
Credit costs	2.70%	4.20%	3.60%	3.20%	3.00%
RoA	2.56%	1.32%	1.93%	2.43%	2.63%

Note: E = Estimated, P = Projected

Source: Company reports, CRISIL MI&A

Peer benchmarking

Indian NBFC sector in India in recent time has emerged as one of the leading forms in institution in providing credit to underserved and unorganized segment population of the country. Over the past few years, there has been a war between banks and non-banks for taking the lions share in the overall credit outstanding in the country. While Banks have been dominating segments such as Housing Finance, MSME Loans; NBFC players have been leading the credit share in segments such as gold finance, Vehicle finance & Micro finance loans. Non-banking player competitive strengths in form of higher rural penetration, customer centric product design etc. has helped them strengthen their share in the overall credit landscape.

In this section, CRISIL MI&A has compared the financial and operating performances of Auto Financing NBFCs operating in various segments based on the latest available data for fiscals 2022, 2023 and 2024. For analysis, we have compared Manba Finance with Arman Financial, Baid Finserv, Berar Finance, Hero Fincorp, MAS Financial, Muthoot Fincorp and TVS Credit on standalone basis.

Manba Finance posted disbursement growth of 47.6% between fiscals 2022 and 2024 amongst the peer set

In terms of AUM, Hero Fincorp had the highest AUM amongst the selected peer set, at Rs 4,648,800 Lakhs, at end of fiscal 2024, followed by TVS Credit and Muthoot Fincorp, which had an AUM of Rs 2,590,000 Lakhs and Rs. 2,171,200 Lakhs, respectively. In terms of growth, Arman Financial, Manba Finance and TVS Credit has reported a higher AUM growth of 45.3%, 37.5% & 36.4% CAGR between fiscal 2022 and 2024 respectively. Manba Finance had the second highest disbursement CAGR growth of 47.6% between fiscal 2022 and fiscal 2024 among peers for which data is available.

In terms of Capital Adequacy, Manba Finance had a CRAR of 25.2%, at end-fiscal 2024.

AUM and Disbursement for Players (Fiscal 2024)

Player	AUM (Rs. Lakh)				Disbursement (Rs. Lakh)			
	FY22	FY23	FY24	CAGR (FY22-24)	FY22	FY23	FY24	CAGR (FY22-24)
Arman Financial	21,122	31,529	44,600	45.3%	18,318	28,186	40,200	48.1%
Baid Finserv	26,314	30,086	36,572	17.9%	8,300	11,300	17,900	46.9%
Berar Finance	83,198	94,705	111,762	15.9%	74,156	84,252	95,600	13.5%
Hero Fincorp	3,023,100	3,780,000	4,648,800	24.0%	1,854,300	2,583,700	3,214,500	31.7%
Manba Finance	49,582	63,368	93,686	37.5%	29,060	42,669	63,286	47.6%
MAS Financial	624,680	809,256	1,012,561	27.3%	NA	NA	NA	NA
Muthoot Fincorp	1,732,313	1,761,507	2,171,200	12.0%	3,515,400	4,003,983	NA	NA
TVS Credit	1,391,100	2,060,200	2,590,000	36.4%	1,253,300	2,165,200	2,501,800	41.3%

Note: Table is arranged in alphabetical order. Data is on standalone basis

Source: Company reports, CRISIL MI&A

Capital Adequacy for Players (Fiscal 2024)

Player	Capital Adequacy Ratio			
	FY22	FY23	FY24	Avg. (FY22-24)
Arman Financial	29.1%	32.6%	62.7%	41.5%

Baid Finserv	51.0%	50.7%	45.6%	49.1%
Berar Finance	28.8%	26.3%	25.0%	26.7%
Hero Fincorp	15.6%	20.6%	16.3%	17.5%
Manba Finance	31.4%	27.0%	25.2%	27.9%
MAS Financial	26.4%	25.3%	24.1%	25.2%
Muthoot Fincorp	19.4%	21.3%	20.0%	20.3%
TVS Credit	18.6%	18.8%	18.6%	18.7%

Note: Table is arranged in alphabetical order. Data is on standalone basis

Source: Company reports, CRISIL MI&A

Manba Finance had third highest AUM per branch in fiscal 2024 among peers

Manba Finance had the third highest AUM per branch at Rs. 1,441 Lakhs at end of fiscal 2024 among the players for which data is available. Amongst the peer group, Hero Fincorp had the highest AUM per employee at Rs. 33,206 Lakhs at end of fiscal 2024 followed by MAS Financial at Rs. 5,357 Lakhs at end fiscal 2024 among the players for which data is available.

In terms of other operational metrics, Manba Finance have witnessed the fastest growth in branches with CAGR of 40.3% from 33 in fiscal 2022 to 65 in fiscal 2024, albeit a smaller base.

Branch Operational Metrics for Players (Fiscal 2024)

Player	Number of Branches			AUM per Branch (Rs. Lakh)		
	FY22	FY23	FY24	FY22	FY23	FY24
Arman Financial	291	336	402	73	94	111
Baid Finserv	32	37	45	822	813	813
Berar Finance	114	115	116	730	824	963
Hero Fincorp	82	81	140	36,867	46,667	33,206
Manba Finance	33	51	65	1,502	1,243	1,441
MAS Financial	125	149	189	4,997	5,431	5,357
Muthoot Fincorp	3,657	3,619	3,683*	474	487	590
TVS Credit	NA	NA	NA	NA	NA	NA

Note: NA: Not Available. Table is arranged in alphabetical order: (*) Branch as of 31st December 2023

Source: Company reports, CRISIL MI&A

Employee Operational Metrics for Players (Fiscal 2024)

Player	Number of Employees			AUM per Employee (Rs. Lakh)		
	FY22	FY23	FY24	FY22	FY23	FY24
Arman Financial	2,413	2,805	3,805	8.8	11.2	11.7
Baid Finserv	161	178	225	163.4	169.0	162.5
Berar Finance	NA	NA	NA	NA	NA	NA
Hero Fincorp	2,099	2,985	3,509	1,440.3	1,266.3	1,324.8
Manba Finance	663	827	1,133	74.8	76.6	82.7
MAS Financial	946	1,154	1,590	660.3	701.3	636.8
Muthoot Fincorp	16,873	17,899	NA	102.7	98.4	NA
TVS Credit	17,158	19,198	17,780	81.1	107.3	145.7

Note: NA: Not Available. Table is arranged in alphabetical order.

Source: Company reports, CRISIL MI&A

Disbursement Operational Metrics for Players (Fiscal 2024)

Player	Disbursement per Branch (Rs. Lakh)			Disbursement per Employee (Rs. Lakh)		
	FY22	FY23	FY24	FY22	FY23	FY24
Arman Financial	62.9	83.9	100.0	7.6	10.0	10.6
Baid Finserv	259.4	305.4	397.8	51.6	63.5	79.6
Berar Finance	650.5	732.6	824.1	NA	NA	NA
Hero Fincorp	22,613.4	31,897.5	22,960.7	883.4	865.6	916.1
Manba Finance	880.6	836.7	973.6	43.8	51.6	55.9
MAS Financial	NA	NA	NA	NA	NA	NA
Muthoot Fincorp	961.3	1,106.4	NA	208.3	223.7	NA
TVS Credit	NA	NA	NA	73.0	112.8	140.7

Note: NA: Not Available. Table is arranged in alphabetical order.

Source: Company reports, CRISIL MI&A

Manba Finance has highest Yields and fourth highest NIMs in FY2024 among peers for which data is available

Manba Finance exhibited a substantial increase in Yield on Advances, reaching 23.9% in FY2024, coupled with a gradual rise in cost of funds. In Fiscal 2024, Manba Finance had highest yield on advances and fourth highest NIMs at 23.9% and 9.8% respectively among the peer group.

Profitability Metrics for Players (Fiscal 2024)

Player	Yield on Advances (%)				Cost of Borrowings (%)			
	FY22	FY23	FY24	Avg. FY22-24	FY22	FY23	FY24	Avg. FY22-24
Arman Financial	34.3%	35.9%	NA	NA	10.8%	12.3%	14.9%	11.8%
Baid Finserv	17.2%	17.8%	16.9%	17.3%	12.1%	10.7%	11.2%	12.2%
Berar Finance	21.0%	23.2%	NA	NA	14.9%	16.0%	14.6%	15.0%
Hero Fincorp	15.0%	16.3%	16.9%	16.1%	6.3%	6.6%	7.4%	6.7%
Manba Finance	19.6%	22.6%	23.9%	22.0%	12.1%	11.4%	12.1%	11.9%
MAS Financial	12.3%	13.1%	13.4%	12.9%	8.5%	9.4%	9.5%	9.0%
Muthoot Fincorp	17.9%	19.3%	NA	NA	9.2%	8.8%	NA	NA
TVS Credit	19.4%	21.6%	21.9%	21.0%	6.4%	7.3%	8.0%	7.2%

Note: Table is arranged in alphabetical order. Data is on standalone basis. NA: Not Available

Source: Company reports, CRISIL MI&A

Profitability and Leverage Metrics for Players (Fiscal 2024)

Player	Debt to Equity Ratio				NIM %			
	FY22	FY23	FY24	Avg. FY22-24	FY22	FY23	FY24	Avg. FY22-24
Arman Financial	1.26	1.40	0.54	1.07	14.1%	13.4%	11.2%	12.9%
Baid Finserv	1.10	1.10	1.45	1.22	9.5%	10.2%	8.7%	9.4%
Berar Finance	2.33	2.35	2.62	2.43	7.1%	9.7%	10.2%	9.0%

Hero Fincorp	5.42	6.31	7.22	6.32	8.3%	9.4%	9.4%	9.0%
Manba Finance	2.59	3.57	3.75	3.30	8.7%	10.1%	9.8%	9.5%
MAS Financial	3.16	3.88	3.99	3.67	4.3%	4.8%	4.9%	4.7%
Muthoot Fincorp	5.14	4.58	NA	NA	6.9%	7.5%	NA	NA
TVS Credit	6.96	6.84	5.84	6.55	12.6%	13.8%	13.7%	13.4%

Note: Table is arranged in alphabetical order; Data is on standalone basis. NA: Not Available

Source: Company reports, CRISIL MI&A

Manba Finance had second highest RoA 3.6% in FY2024 amongst the peers

In fiscal year 2024, Manba Finance had the second highest Return on Assets (RoA) at 3.6% among its peers. The company achieved the second highest Return on Equity (RoE) standing at 17.0%.

In terms of Operating Expenses, TVS Credit has the highest Opex at 7.2%, owing to increase in its touchpoints and employee base. For Manba Finance, the Opex stood 6.8% at end of Fiscal 2024.

Profitability Metrics for Players (Fiscal 2023)

Player	RoE (%)				RoA %			
	FY22	FY23	FY24	Avg. FY22-24	FY22	FY23	FY24	Avg. FY22-24
Arman Financial	12.1%	15.3%	9.9%	12.4%	5.3%	6.3%	5.4%	5.7%
Baid Finserv	6.2%	6.9%	8.0%	7.0%	2.8%	3.1%	3.4%	3.1%
Berar Finance	8.6%	6.4%	7.8%	7.6%	1.8%	1.6%	1.8%	1.7%
Hero Fincorp	3.9%	9.0%	10.9%	7.9%	0.7%	1.3%	1.4%	1.1%
Manba Finance	6.4%	9.5%	17.0%	11.0%	1.7%	2.2%	3.6%	2.5%
MAS Financial	12.5%	14.1%	15.1%	13.9%	2.8%	2.9%	3.0%	2.9%
Muthoot Fincorp	10.4%	12.5%	13.8%	12.3%	1.5%	2.0%	NA	NA
TVS Credit	7.0%	16.8%	17.3%	13.7%	0.9%	2.1%	2.3%	1.7%

Note: Table is arranged in alphabetical order. Data is on standalone basis. NA: Not Available

Source: Company reports, CRISIL MI&A

Operational Metrics for Players (Fiscal 2024)

Player	Cost to Income Ratio				Opex %			
	FY22	FY23	FY24	Avg. FY22-24	FY22	FY23	FY24	Avg. FY22-24
Arman Financial	40.7%	39.3%	38.7%	39.6%	6.4%	5.8%	4.9%	5.7%
Baid Finserv	33.2%	32.8%	32.6%	32.9%	3.2%	3.8%	3.7%	3.6%
Berar Finance	62.5%	55.6%	53.7%	57.2%	5.5%	6.0%	6.4%	6.0%
Hero Fincorp	47.1%	45.5%	40.5%	44.3%	4.7%	5.1%	4.6%	4.8%
Manba Finance	75.4%	66.5%	54.4%	65.5%	8.3%	7.6%	6.8%	7.6%
MAS Financial	20.5%	20.9%	23.0%	21.5%	1.2%	1.4%	1.7%	1.4%
Muthoot Fincorp	68.0%	64.7%	NA	NA	5.1%	5.3%	NA	NA
TVS Credit	52.4%	52.5%	44.0%	49.6%	7.8%	8.4%	7.2%	7.8%

Note: Table is arranged in alphabetical order. Data is on standalone basis. NA: Not Available

Source: Company reports, CRISIL MI&A

Manba Finance had fourth lowest credit cost amongst peers in fiscal 2024

Manba Finance had the fourth lowest credit cost of 1.3% in fiscal 2024 among players for which data is available. In terms of asset quality, Manba Finance has witnessed an increase in gross nonperforming asset (GNPA) from 3.7% to 4.0% between fiscal 2023 and 2024, along with net non-performing asset (NNPA) rising from 3.1% to 3.2% during the same period.

Other players such as Hero Fincorp also experienced fluctuations, with GNPA decreasing from 8.4% in fiscal 2022 to 4.4% in fiscal 2024, and NNPA showing a declining trend. Amongst the peers, Muthoot Fincorp has been able to keep the asset quality under check and have managed to maintain a low GNPA and NNPA throughout the period.

In terms of asset quality, Manba Finance is among the top six financier among the peers with Gross Non-Performing Asset (GNPA) of 4.0% in fiscal 2024.

Asset Quality and Credit Cost for Players

Player	GNPA (%)			NNPA (%)			Credit Cost %		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
Arman Financial	7.7%	2.6%	2.9%	1.7%	0.6%	0.3%	2.4%	0.5%	1.0%
Baid Finserv	3.3%	2.9%	2.6%	1.0%	0.6%	0.4%	1.4%	1.7%	0.6%
Berar Finance	3.0%	4.6%	4.6%	2.2%	3.0%	2.8%	1.0%	2.8%	3.2%
Hero Fincorp	8.4%	5.6%	4.4%	4.6%	2.8%	2.1%	6.2%	3.3%	3.9%
Manba Finance	4.9%	3.7%	4.0%	4.3%	3.1%	3.2%	1.8%	1.2%	1.3%
MAS Financial	2.3%	2.2%	2.3%	1.7%	1.5%	1.5%	0.6%	0.8%	1.1%
Muthoot Fincorp	2.8%	2.1%	1.6%	1.6%	0.6%	0.6%	0.3%	0.3%	NA
TVS Credit	3.7%	4.4%	2.9%	1.9%	2.6%	2.9%	4.1%	3.4%	4.5%

Note: Table is arranged in alphabetical order. Data is on standalone basis. NA: Not Available

Source: Company reports, CRISIL MI&A

Manba Finance had one of the highest share of Two-wheeler loan in fiscal 2024

Manba Finance had the one of the highest share of Two-wheeler loans at 92% of AUM in fiscal 2024. While TVS Credit had 27% of the AUM in Two-wheeler loans in fiscal 2024.

Product wise AUM mix for Players (FY2024)

Players	AUM Mix by Product categories	
	Product Categories	AUM Mix (%)
Arman Financial*	Microfinance Loans	82%
	MSME Loans	13%
	Two-Wheeler Loans	3%
	Individual Business Loans	2%
Baid Finserv	MSME and Mortgage Loans	88%
	Vehicle Loans	12%
Berar Finance*	Two-Wheeler Loans	95%
	Other Loans	5%
Hero Fincorp	Retail Loans	65%
	Secured and Unsecured SME	21%
	Corporate Loans	12%

	Other Loans	3%
Manba Finance	Two-Wheeler Loans	92%
	Top up Loans	5%
	Personal Loans	1%
	Small Business Loans	1%
	Used Vehicle and Three-wheeler Loans	1%
MAS Financial*	Micro-Enterprise Loans	47%
	SME Loans	37%
	Two-Wheeler Loans	7%
	Commercial Vehicle Loans	5%
	Salaried Personal Loans	4%
Muthoot Fincorp*	Gold loan	56%
	MFI	30%
	Two-Wheeler & Housing Loans	8%
	SME & MSME Loans	6%
TVS Credit	Two-Wheeler Loans	27%
	Used Car Loans	8%
	Tractor Loans	23%
	Used Commercial Vehicle Loans	12%
	Business Loans	3%
	Consumer Durable Loans	11%
	Personal Loans	17%

*Note: *Data is of fiscal 2023. Source: Company reports, CRISIL MI&A*

Share of Secured Loans for Players (FY2024)

Player	Share of Loans Secured/Unsecured	
	Secured Loans	Unsecured Loans
Arman Financial*	19.3%	80.7%
Baid Finserv	99.6%	0.4%
Berar Finance*	99.4%	0.6%
Hero Fincorp	55.8%	44.2%
Manba Finance	98.5%	1.5%
MAS Financial*	74.2%	25.8%
Muthoot Fincorp*	79.1%	20.9%
TVS Credit	79.1%	20.9%

*Note: NA: Not Available * Data is of fiscal 2023.*

Source: Company reports, CRISIL MI&A

Type of loan offerings for players (FY2024)

Player	Type of Loan Offering								
	Two-wheeler	Three-wheeler	Car/Used Car	MSME/SME/Small Business	Personal	Commercial Vehicle	Tractor	Housing	Micro-Finance
Arman Financial	☑			☑					☑
Baid Finserv			☑	☑		☑			

Berar Finance	☑		☑	☑	☑				
Hero Fincorp	☑		☑	☑	☑				
Manba Finance	☑	☑	☑	☑	☑				
MAS Financial	☑		☑	☑	☑	☑	☑	☑	
Muthoot Fincorp	☑			☑				☑	☑
TVS Credit	☑	☑	☑	☑	☑	☑	☑		

Source: Company websites & reports, CRISIL MI&A

ALM Position of various peers (Fiscal 2024)

Player	Asset (Rs. Lakh)		Liabilities (Rs. Lakh)		Net (Rs. Lakh)		Asset-Liability Ratio*	
	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months
Arman Financial*	25,986	30,764	18,101	14,638	7,885	16,126	143.6%	210.2%
Baid Finserv	NA	NA	NA	NA	NA	NA	NA	NA
Berar Finance*	75,417	38,690	46,771	39,822	28,646	-1,132	161.2%	97.2%
Hero Fincorp	2,316,086	2,540,441	1,910,232	2,368,740	405,854	171,701	121.2%	107.2%
Manba Finance	64,284	33,092	41,213	36,101	23,070	-3,010	156.0%	91.7%
MAS Financial*	440,850	326,802	347,614	269,465	93,236	57,337	126.8%	121.3%
Muthoot Fincorp*	1,988,771	381,128	1,230,920	749,676	757,851	-368,548	161.6%	50.8%
TVS Credit	2,006,468	1,525,719	1,434,605	1,254,495	571,863	271,224	139.9%	121.6%

*Note: * Asset to liabilities ratio is calculated by dividing the percentage of assets maturing in the specified period by percentage of liabilities maturing at the same time, Table is arranged in alphabetical order. Data is on standalone basis, * Data is of fiscal 2023.*

Source: Company reports, CRISIL MI&A

Credit Ratings of various peers

Player	Credit Ratings
Arman Financial	CARE BBB+, ACUITE A- (09-Feb-24)
Baid Finserv	CARE BBB (04-Oct-23)
Berar Finance	CARE BBB (30-Aug-23), ICRA BBB (07-Dec-23), IND BBB (16-Apr-24)
Hero Fincorp	CARE AA+ (29-Aug-23), ICRA AA+(15-Sep-23), CRISIL AA (03-May-24)
Manba Finance	CARE BBB+(31-Oct-23), ACUITE A (23-Jan-24),
MAS Financial	CARE A+ Stable Positive (18 Jan 2024), ACUITE AA- Stable (11-Mar-24)
Muthoot Fincorp	BWR AA-(26-Aug-22), CRISIL AA- (29-Nov-23)
TVS Credit	CRISIL AA (16-Nov-23), ICRA AA (06-Dec-23), BWR AA (14-Feb-24)

Source: Company Reports, CRISIL MI&A

List of formulae

Parameter	Formulae
NIMs	NII / Average total assets
Yield on advances	Total interest income/ Average advances
Cost of borrowings	Interest expense / Average borrowings and deposits
Opex	Opex / Average total assets
Employee expense	Employee expense / total income
Credit cost	Provisioning / Average total assets
Cost to income	Opex / NII
ROE	PAT / Average shareholder equity
RoA	PAT / Average total assets

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