Market Intelligence
& Analytics

CRISIL
An S&P Global Company

Industry Report on NBFC Sector in India

For Manba Finance Limited

November 2023

Macroeconomic Scenario

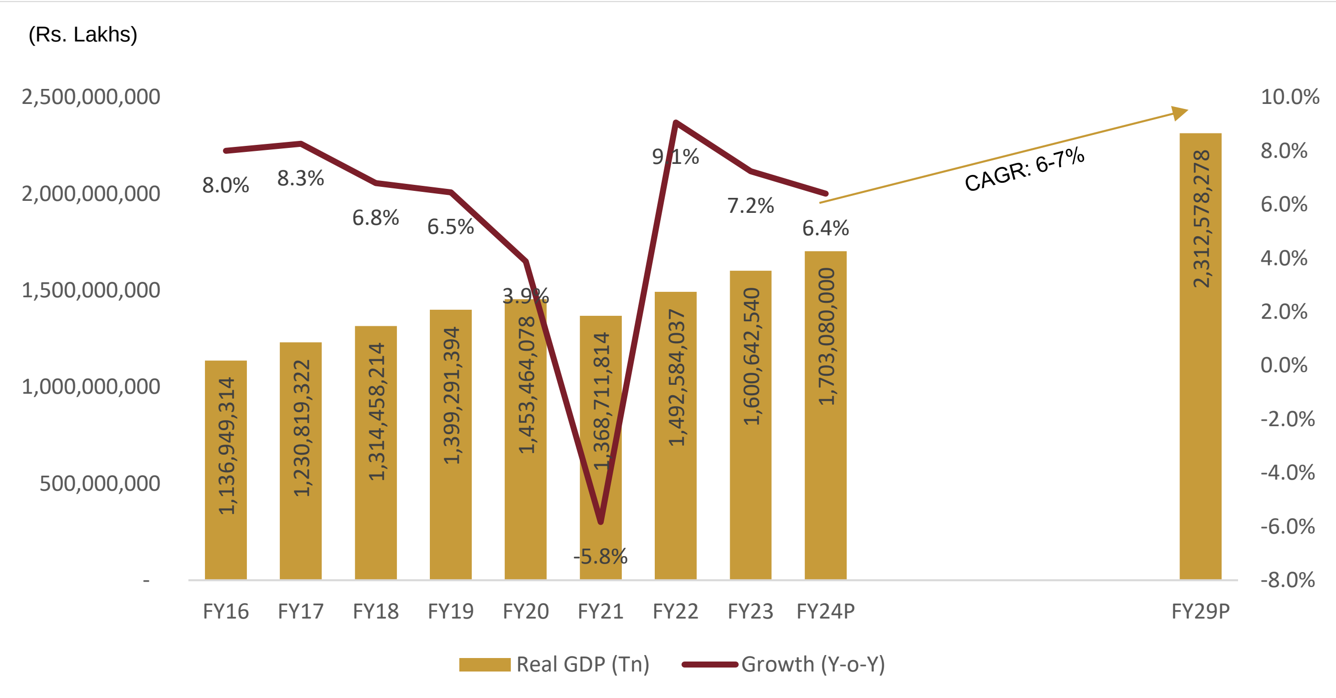
India to remain one of the fastest growing economies amid global slowdowns

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, the country's economic indicators posted gradual improvements. The twin deficits, namely current account and fiscal deficits, narrowed, while the growth-inflation mix showed a positive and sustainable trend. Despite geopolitical instability, India continues to maintain its position as one of the fastest-growing economies globally. This can be attributed to various factors such as demographic advantage, robust domestic demand, economic reforms, manufacturing and infrastructure development, technological advancements, and digital push.

In fact, the International Monetary Fund (IMF), in its October 2023 economic outlook update, revised its India economic growth forecast in real terms for the current fiscal to 6.3% from previous 6.1% estimate in July 2023, citing momentum from stronger-than-expected growth in the fourth quarter of fiscal 2023 as a result of stronger domestic investment. In contrast, global economic growth is projected to decelerate from an estimated 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, according to the IMF. While the forecast for 2023 is slightly higher by 0.2% than the earlier estimate, it remains weaker than the historical average.

CRISIL MI&A expects growth outlook for Fiscal 2024 to be fettered with multiple risks including sluggish exports and lagged impact of rate hikes manifested fully into the economy. Nevertheless, India is expected to remain the fastest growing economy in the world with GDP growth of 6.4% projected in Fiscal 2024 as per CRISIL MI&A.

India's economy to grow at 6.4% in fiscal 2024

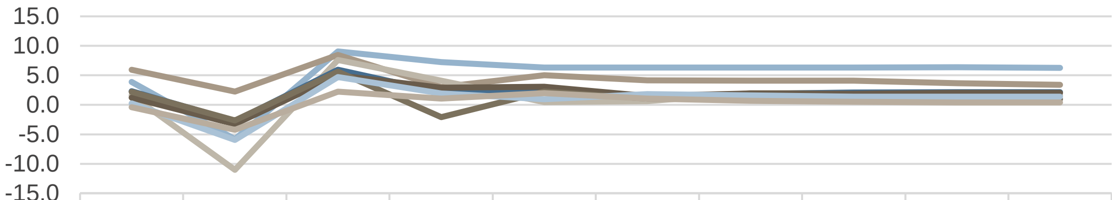


Note: P = Projected; GDP growth till fiscal 2023 is actuals. GDP Projections for fiscals 2023- 2024 is projected based on CRISIL MI&A estimates and that for fiscals 2025-2028 based on IMF estimates.

Source: NSO, CRISIL MI&A, IMF (World Economic Outlook – October 2023 update)

Over the past three fiscals, Indian economy has outperformed its global counterparts by witnessing a faster growth. 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 among the fastest-growing major economies (GDP growth, % year-on-year)



	2019	2020	2021	2022	2023P	2024P	2025P	2026P	2027P	2028P
India	3.9	-5.8	9.1	7.2	6.3	6.3	6.3	6.3	6.3	6.3
China	6.0	2.2	8.5	3.0	5.0	4.2	4.1	4.1	3.7	3.4
United Kingdom	1.6	-11.0	7.6	4.1	0.5	0.6	2.0	2.1	1.8	1.5
United States	2.3	-2.8	5.9	2.1	2.1	1.5	1.8	2.1	2.1	2.1
Brazil	1.2	-3.3	5.0	2.9	3.1	1.5	1.9	1.9	2.0	2.0
Russia	2.2	-2.7	5.6	-2.1	2.2	1.1	1.0	1.0	1.0	1.0
South Africa	0.3	-6.0	4.7	1.9	0.9	1.8	1.6	1.4	1.4	1.4
Japan	-0.4	-4.2	2.2	1.0	2.0	1.0	0.7	0.5	0.4	0.4

Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Data represented is for calendar years, P: Projected;
Source: IMF (World Economic Outlook – October 2023 update), CRISIL MI&A

Indian economy to be a major part of 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 for 2023 according to IMF forecasts (World Economic Outlook -April 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.

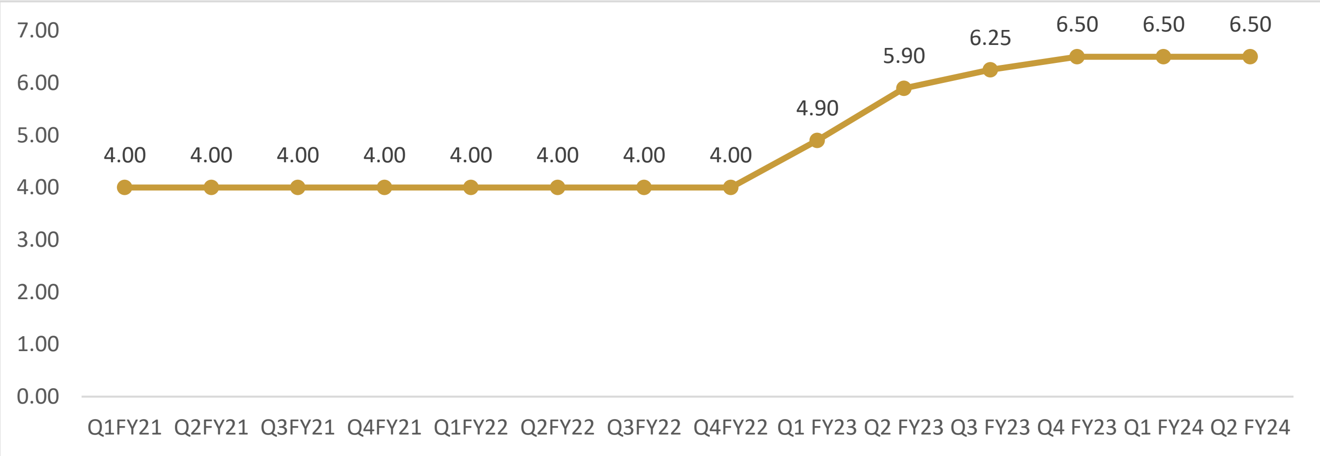
Financial conditions stabilize, broader economy to face elevated rates

The RBI's Monetary Policy Committee (MPC) is expected to be on an extended pause for the next few meetings, as it evaluates the inflation trajectory and growth momentum. The impact of past rate hikes on growth will be the most prominent in the current fiscal. As growth slows, CRISIL MI&A expects RBI to initiate rate cuts in the last quarter of fiscal 2024. While the pause on rate hikes has augured well for financial markets, elevated bank lending rates could tighten financial conditions for some segments of the economy which could ease down subsequently basis the direction of the economy.

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

In fiscal 2023, the Reserve Bank of India (RBI) raised the repo rate by 90 basis points ("bps") in Q1, and since then, it has continued to increase every quarter. By Q2 of fiscal 2024, the repo rate reached 6.50 per cent, which signifies a substantial increase of 250 bps from Q1 of fiscal 2023. The initial rate hike occurred in May 2022, when the central bank's rate-setting panel unanimously raised the benchmark lending rate by 40 bps. However, the repo rate remains unchanged in Q2 of fiscal 2024 as compared to Q4 of fiscal 2023.

Repo rate in India (%)



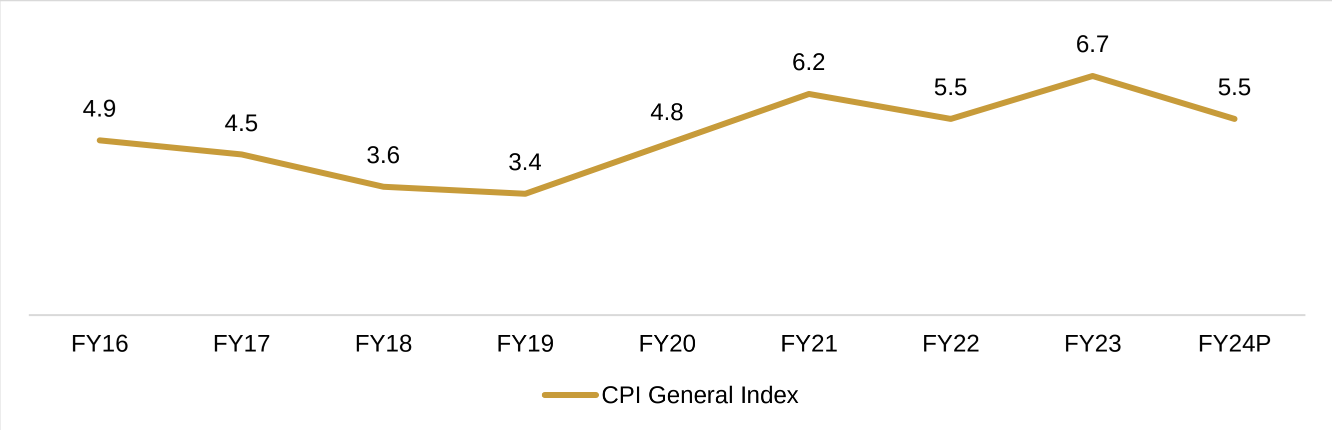
Source DBIE RBI, CRISIL MI&A

Consumer Price Index ("CPI") inflation to average at 5.5% in Fiscal 2024

CPI based inflation softened to 6.8% in August after surging to 7.4% in July aided by lower food inflation. While the non-food components stayed unchanged, a slight moderation in food inflation pulled down the headline number. Inflation in all commonly constructed non-food CPI categories remained low and unchanged from July: non-food CPI at 4.8%, core CPI (excluding food and fuel) at 4.9%, services CPI at 4.5% and core CPI goods (excluding food and services) at 5.1%.

Food inflation eased to 9.9% from 11.5% led by some cooling of inflation in vegetables, cereals, pulses and milk. Fuel inflation increased marginally from 3.7% in July to 4.3% in August led by high electricity inflation. Core inflation which has been a major concern in Fiscal 2023, cooled to 4.9% in July and remained the same in August. Since August's monetary policy, CPI inflation breached the MPC's upper tolerance band of 6.0%, averaging 7.1% in July-August driven by sharp increases in food inflation over the two months. CRISIL MI&A expects CPI inflation to average 5.5% in Fiscal 2024 from 6.7% in Fiscal 2023 on the assumption of a normal monsoon. In the coming months, the key monitorable for food inflation is expected to be the progress of monsoon given the El Niño risk. Core inflation, the pain point for the RBI due to its stickiness, should see limited easing as producers continue to pass on input costs. For Fiscal 2024, CRISIL MI&A expects CPI inflation to come down, averaging 5.5% on-year, within the RBI's target range of 4-6%. A combination of three factors — impact of rising interest rates on domestic demand, a global demand slowdown leading to falling international commodity prices, and the base effect — should lead to lower inflation.

Inflation to moderate to 5.5% in Fiscal 2024



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

Macroeconomic outlook for Fiscal 2024

Macro variables	FY23	FY24P	Rationale for outlook
GDP (y-o-y)	7.2%	6.4%	Slowing global growth is likely to weaken India's exports in Fiscal 2024. Domestic demand could also come under pressure as Reserve Bank of India (RBI) rate hikes are transmitted to consumers. Despite the lower forecast, India continuous to grow at highest rate in world.
Consumer price index (CPI) inflation (y-o-y)	6.7%	5.5%	Lower commodity prices, base effect, and cooling off domestic demand is likely to help in moderating inflation in Fiscal 2024.
10-year Government security yield (Fiscal end)	7.4%	7.0%	A moderate increase in gross market borrowings is budgeted for Fiscal 2024. This, coupled with lower inflation, is likely to moderate yields in Fiscal 2024.
CAD (Current account balance)/GDP (%)	-2.0%	-1.8%	Lower commodity prices, especially in energy space and support from healthy services exports is expected to lead to moderation of trade deficit in Fiscal 2024

Rs/$ (March average)	82.3	83.0	While a lower current account deficit (CAD) will support the rupee, challenging external financing conditions will continue to exert pressure in the next Fiscal. However, the overall impact on the rupee is expected to remain below the levels indicated by current forward premiums for the year.

Note: P – Projected

Source: Reserve Bank of India (RBI), National Statistics Office (NSO), CRISIL MI&A

Positive government measures to aid economic growth for India

Going forward, CRISIL MI&A expects India's gross domestic product (GDP) growth to decelerate to 6.4% in Fiscal 2024 from 7.2% in Fiscal 2023 due to a global slowdown, monetary policy impact and volatile geopolitical scenario. However, some optimism can be seen in form of moderating consumer inflation, capital and productivity increases aided by better physical and digital infrastructure.

CRISIL MI&A expects this growth to be supported by the following factors:

- The Union Budget 2023-24 announced by Finance Minister highlighted that the government has set 7 priorities – Inclusive Development, Reaching the last mile, Infrastructure and Investments, Unleashing the Potential, Green Growth, Youth power and Financial Sector, which they called '**Saptarshi'**, which will strive to turn India into a developed country
- One key area of announcement was towards Support in technological advancement would promote financial inclusion, ensure better availability of customer data, enable faster and secure sharing of documents with financial institutions and increase rural penetration. This will in turn is expected lead to improving efficiency in terms of operating and credit cost for financial institutions.
- The increase in aggregate budgetary support for infrastructure by 17% to reach Rs. 125,000,000 lakh lays emphasis on the broad plan for infrastructure spending by the Government that is expected to give a push to economic growth. The railways capex has been increased by 15% over fiscal 2023 and capex for roads and highways was increased by 25% over fiscal 2023. These capex initiatives are expected to drive economic growth.
- Production linked incentive (PLI) scheme, which aims to incentivise local manufacturing by giving volume-linked incentives, has been launched by the government for six of India's top 10 export verticals, which is likely to propel incremental exports. In Fiscal 2024, PLI-driven exports will be the lone growth driver for India, helping improve the overall export growth to 2-4%.
- Government has launched two key initiatives to promote financial inclusion, Pradhan Mantri Jan Dhan Yojna (" PMJDY") and Pradhan Mantri Jeevan Jyoti Bima Yojna ("PMJJBY"), under PMJDY it aims to ensure a bank account in every household to avail all financial services. Under PMJJBY, one year life insurance is offered with a life cover of Rs. 2 lakhs at a premium of Rs. 330 per annum per member, which can be renewed every year.
- Focus on investments rather than consumption push enhancing the productive capacity of the economy. Policy pushes and new age opportunities to lead capex growth in Fiscal 2024.

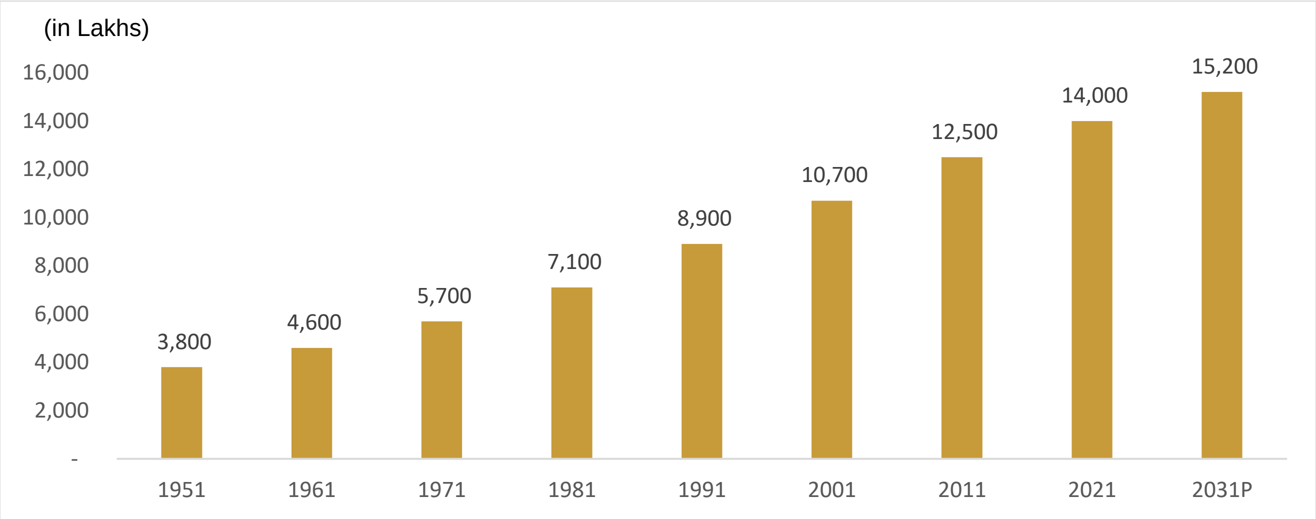
- Policies aimed towards greater formalisation of the economy, which are bound to lead to an acceleration in per capita income growth.

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.

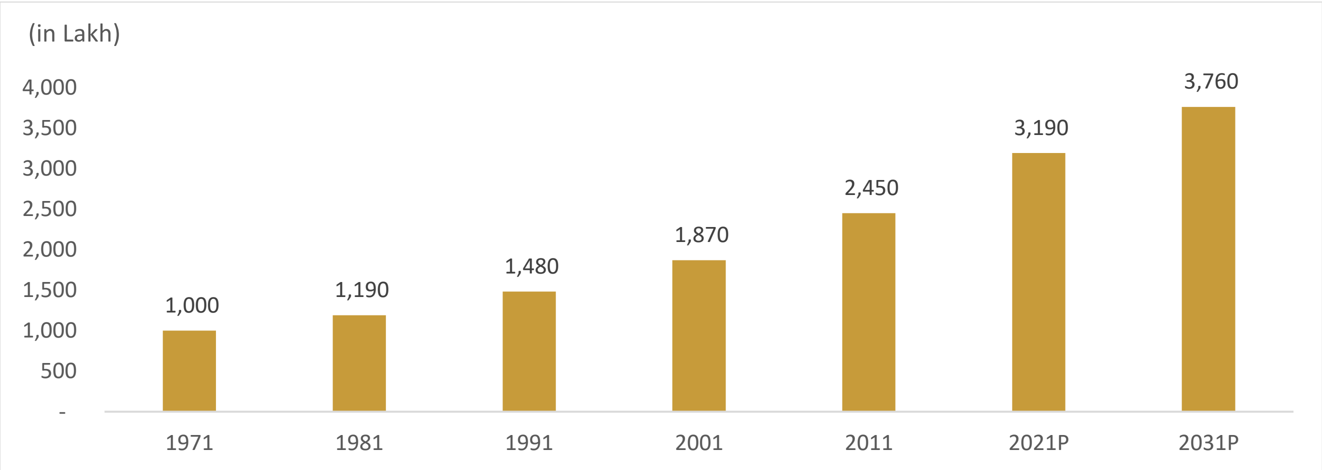
India's population growth trajectory



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



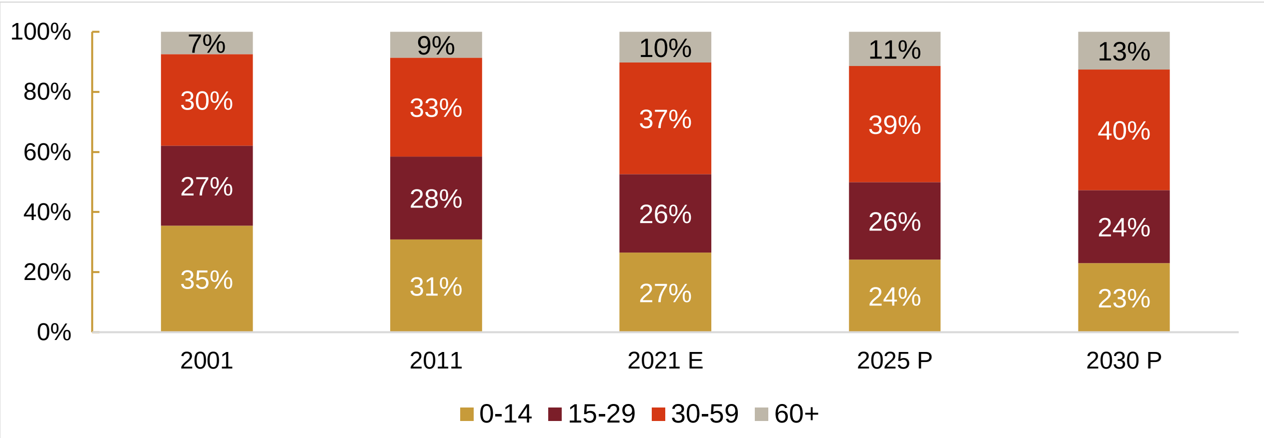
Note: *As at the end of each* Fiscal. P: Projected

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

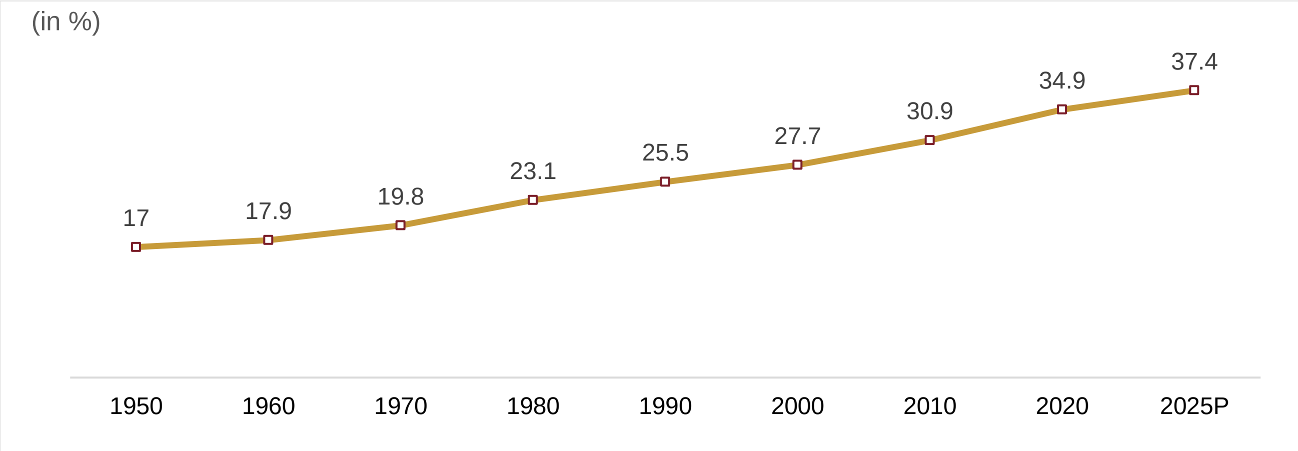


Note: E: Estimated, P: Projected; Source: United Nations Department of Economic and Social affairs, CRISIL MI&A

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.

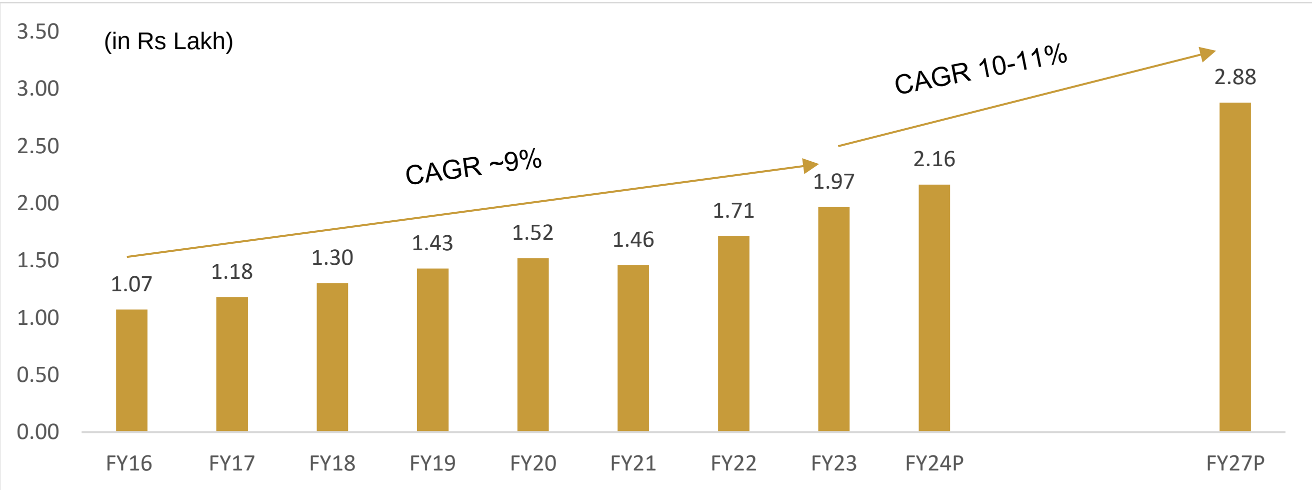
Urban population as a percentage of total population (%)



Note: P – Projected; Source: Census 2011 and World Urbanization Prospects: The 2018 Revision (UN) (https://population.un.org/wup/)

Trend in Nominal GDP per capita (at current prices)

As per IMF's estimates, India's nominal GDP per capita (at current prices) is projected to increase at a CAGR of 10-11% from FY2023 to FY2027.



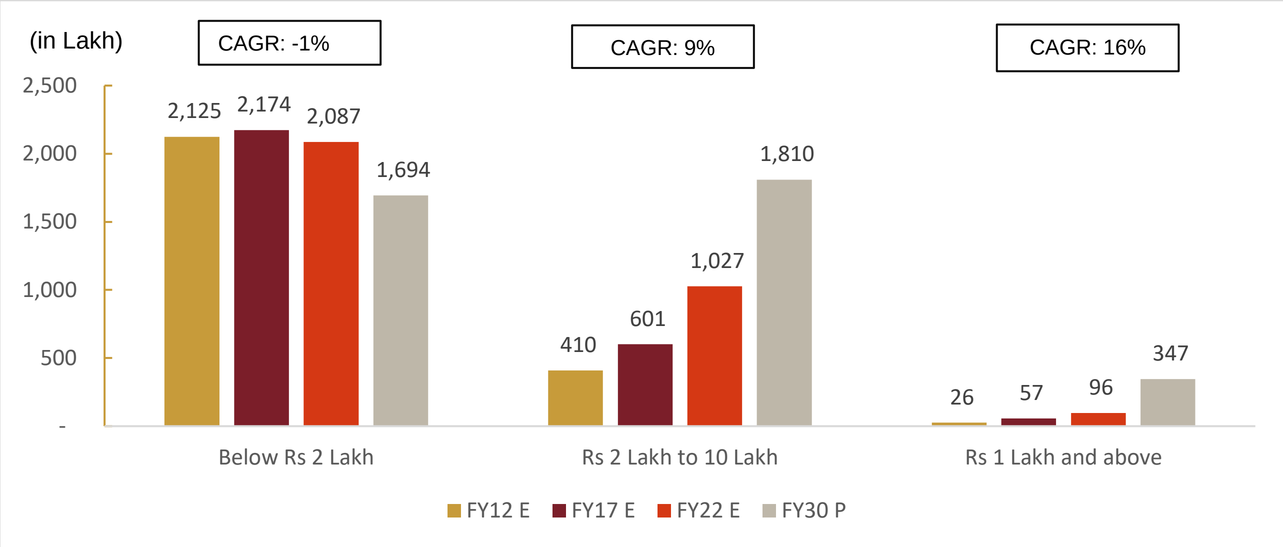
Notes: P- Projected. FY23 estimates based on second advanced estimates by Ministry of Statistics and Program Implementation FY24 – FY27 Projections based on IMF – World Economic Outlook (April 2023); Source: MOSPI, IMF, CRISIL MI&A

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.

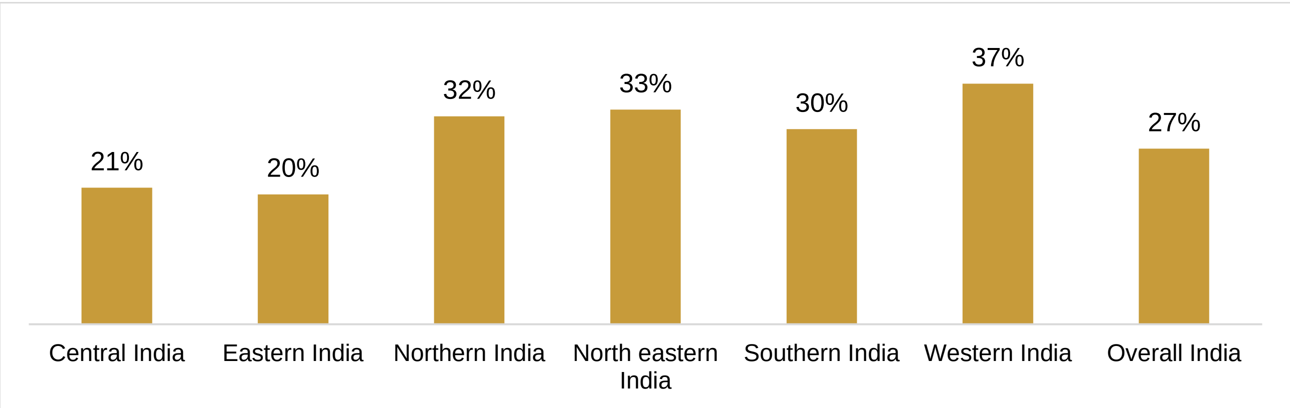
CRISIL MI&A believes that the improvement in the literacy levels, increasing access to information and awareness, increases in the availability of necessities, and the improvement in road infrastructure has led to an increase in aspirations of Middle India, which is likely to translate into increased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



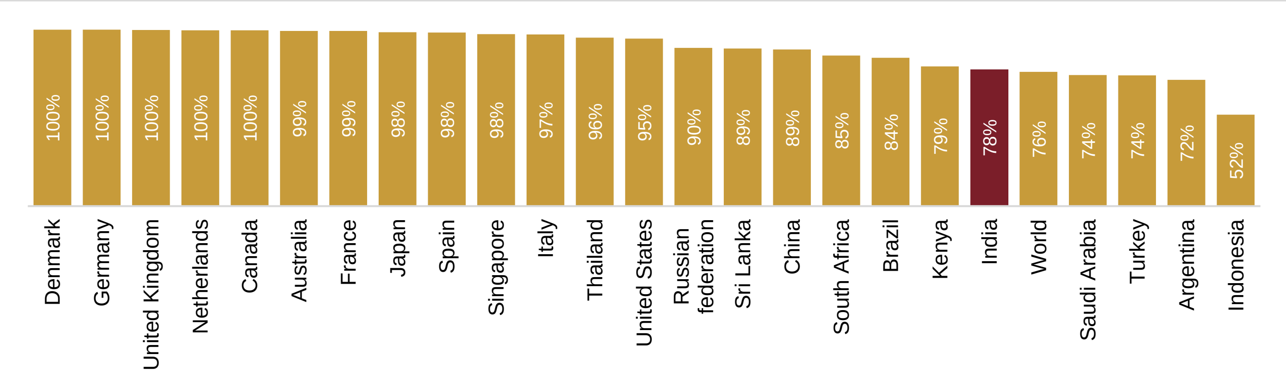
Source: National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019 Report, National Centre for Financial Education

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

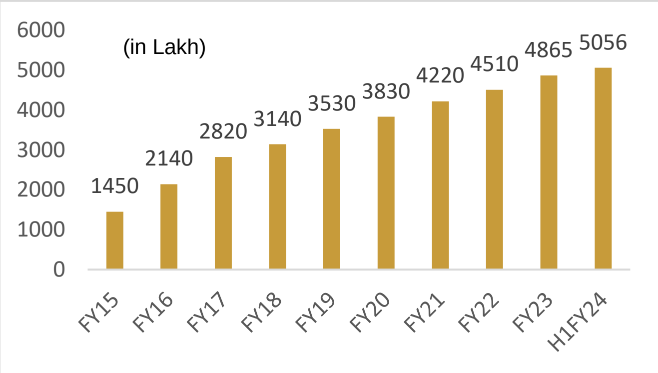
Generative AI, or Gen AI, leverages extensive training on large datasets to swiftly produce diverse content forms like text and multimedia in response to prompts. Gen AI, exemplified by ChatGPT in BFSI in banking and finance, enables efficient, conversational banking, delivering prompt and accurate responses, 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

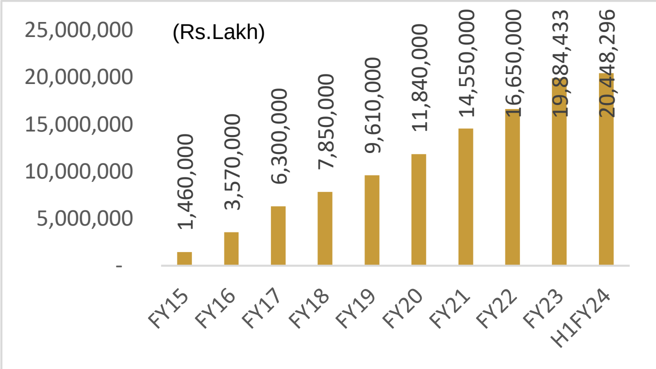
According to the World Bank's Global Findex Database 2021, the global average of adult population with a savings or current account (with a bank, financial institution, or mobile money providers) was ~76% in 2021. India's financial inclusion has improved significantly between 2014 and 2021, with the 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 September 2023, 5,060 lakh PMJDY accounts had been opened, of which 67% were in rural and semi-urban areas, with total deposits of Rs. 20,448,296 Lakh. (*Source: Pradhan Mantri Jan-Dhan Yojana: Progress Report*).

Number of PMJDY accounts



Note: As at the end of each Fiscal and as of September 2023 for H1FY24; Source: PMJDY; CRISIL MI&A

Total balance in PMJDY accounts



Note: As at the end of each Fiscal and as of September 2023 for H1FY24; 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

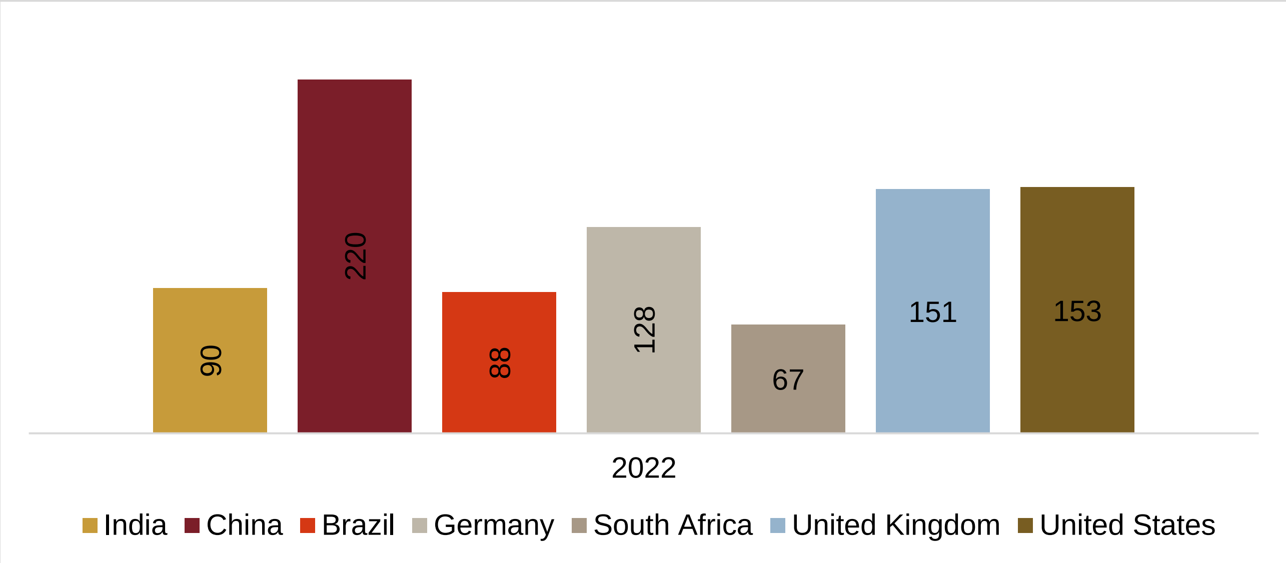
Introduced on July 1, 2017, the GST is an indirect tax regime that subsumed multiple cascading taxes levied by the central and state governments. Its implementation has spawned structural changes in the supply chain and logistics network in the country. The crux of the GST mechanism is input tax credit, 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 (%)



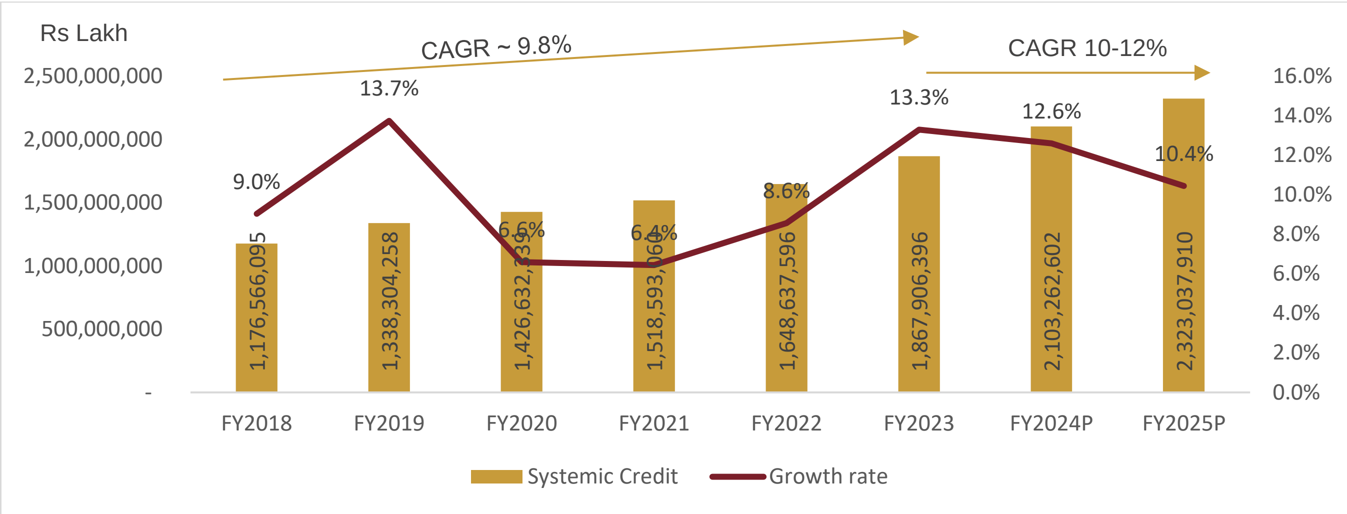
Note: Data is represented for calendar years for all countries except India. For India, numbers are for fiscal year 2021; Source: Bank of International Settlements, CRISIL MI&A

Systemic credit to grow at 10%-12% CAGR between 2023-2025

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 6.6% in Fiscal 2020. In Fiscal 2021, credit grew by ~6.4% supported by disbursements to MSMEs under the Emergency Credit Line Guarantee Scheme (ECLGS) and an uptick in economic activity post the COVID-19 lockdown. In Fiscal 2022, 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 systemic credit grew at 9% from the previous year to reach approximately Rs. 1,648,637,596 Lakh. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activity also slowly humming back to pre-COVID-19 levels.

In Fiscal 2023, Systemic credit showed strong growth on back of pent-up retail demand from sectors like housing and auto. Credit demand also grew due to strong credit demand from NBFCs and trade segment. CRISIL MI&A projects systemic credit to grow at 10-12% CAGR between Fiscals 2023 and 2025.

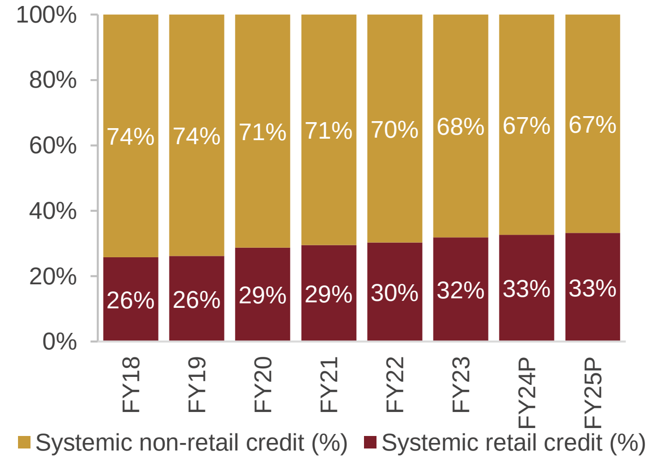
Systemic credit to grow by 10-12% between fiscal 2023 & fiscal 2025



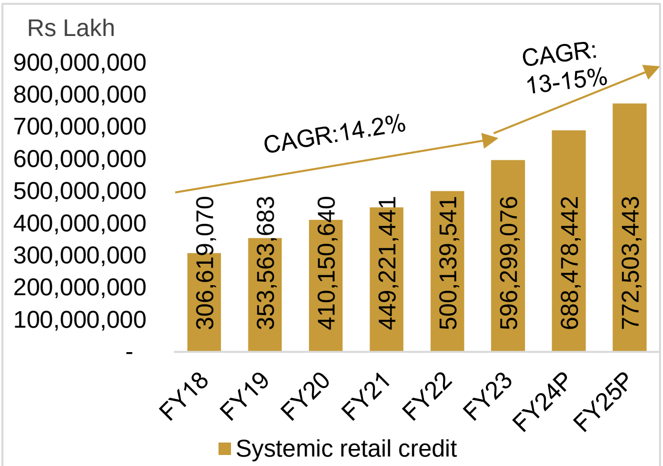
Note: P: Projected; Systemic credit includes domestic banking credit, NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC; Source: RBI, Company Reports, CRISIL MI&A

While systemic credit in India grew at a tepid rate of 9.8% CAGR annually between Fiscals 2018 and Fiscal 2023, systemic retail credit grew at a much faster rate of 14.3% CAGR during the same period. Retail credit growth in Fiscal 2020 was around approximately 16.3% which came down to approximately 9.5% in Fiscal 2021. However, post-pandemic, retail credit growth revived back to reach approximately 11.3% in Fiscal 2022. CRISIL MI&A estimates retail credit to have grown at ~19-20% year on year in Fiscal 2023. CRISIL MI&A thus expects retail credit growth to continue in the long term with banks and NBFCs' continued focus on the segment.

Retail segment is estimated to account for 32% of overall systemic credit as of Fiscal 2023



Retail credit growth to continue a strong footing in Fiscal 2024



Note: P = Projected

Source: RBI, CRISIL MI&A

Delhi, Maharashtra, Telangana, and Chandigarh have a higher credit penetration compared to other states

Delhi, Maharashtra, Telangana, and Chandigarh have a credit to GDP ratio of more than 100% as of March 2023 which indicates that credit penetration in the state is higher as compared to other states in the country. Chandigarh has the highest credit penetration of 271% as of March 2023 followed by Delhi at 240%. Maharashtra has the third highest credit penetration in Indian States at 206% which has the highest contribution to Indian GDP. Delhi and Chandigarh which are smaller states have high credit concentration, for example Chandigarh has an urban credit share of 100% and Delhi has a metropolitan credit share of 99%. Densely populated states like Bihar and Uttar Pradesh have rural credit share at 21% and 16%, respectively, which is low considering majority of the population lives in rural areas.

State-wise credit penetration (FY23)

	Credit Penetration as of March 2023	GSDP (FY21-FY22) in Rs Lakh	Percentage share in India's GDP	Rural Credit Share	Semi Urban Credit Share	Urban Credit Share	Metropolitan Credit Share
Maharashtra*	206%	188,930,000	12.70%	2%	4%	4%	90%
Chandigarh*	271%	2,790,000	0.20%	0%	0%	100%	0%
Delhi	240%	62,240,000	4.20%	0%	1%	0%	99%
Telangana	102%	67,630,000	4.50%	7%	11%	9%	74%
Tamil Nadu	94%	134,510,000	9.00%	11%	23%	14%	51%
Kerala	83%	55,090,000	3.70%	2%	50%	48%	0%
Andhra Pradesh	77%	74,690,000	5.00%	15%	25%	30%	30%
Karnataka	73%	125,220,000	8.40%	8%	12%	16%	64%
Jammu & Kashmir	71%	12,150,000	0.80%	35%	26%	21%	19%
Haryana	68%	58,880,000	4.00%	9%	15%	68%	8%
Punjab	68%	42,750,000	2.90%	18%	29%	26%	28%
West Bengal*	62%	79,270,000	5.30%	13%	10%	20%	58%
Rajasthan	62%	73,300,000	4.90%	13%	24%	25%	38%
Puducherry	62%	2,660,000	0.20%	9%	20%	71%	0%
Chhattisgarh*	61%	24,550,000	1.60%	8%	17%	26%	49%
Madhya Pradesh	60%	62,170,000	4.20%	11%	22%	18%	48%
Gujarat*	58%	124,820,000	8.40%	8%	13%	17%	62%

Uttar Pradesh	57%	112,310,000	7.50%	16%	16%	32%	36%
Manipur*	50%	2,080,000	0.10%	30%	21%	49%	0%
Goa*	48%	5,340,000	0.40%	18%	82%	0%	0%
Bihar	46%	42,810,000	2.90%	21%	24%	25%	30%
Odisha	46%	42,030,000	2.80%	19%	23%	58%	0%
Assam*	45%	22,850,000	1.50%	21%	30%	49%	0%
Jharkhand	42%	23,680,000	1.60%	17%	20%	28%	35%
Nagaland*	42%	1,800,000	0.10%	22%	46%	32%	0%
Meghalaya	41%	2,570,000	0.20%	33%	18%	49%	0%
Uttarakhand	37%	18,990,000	1.30%	21%	21%	58%	0%
Arunachal Pradesh*	37%	1,890,000	0.10%	28%	72%	0%	0%
Himachal Pradesh	34%	12,440,000	0.80%	58%	32%	10%	0%
Sikkim	28%	2,070,000	0.10%	28%	10%	62%	0%
Mizoram*	28%	1,440,000	0.10%	8%	25%	67%	0%
Tripura	27%	4,050,000	0.30%	27%	27%	46%	0%

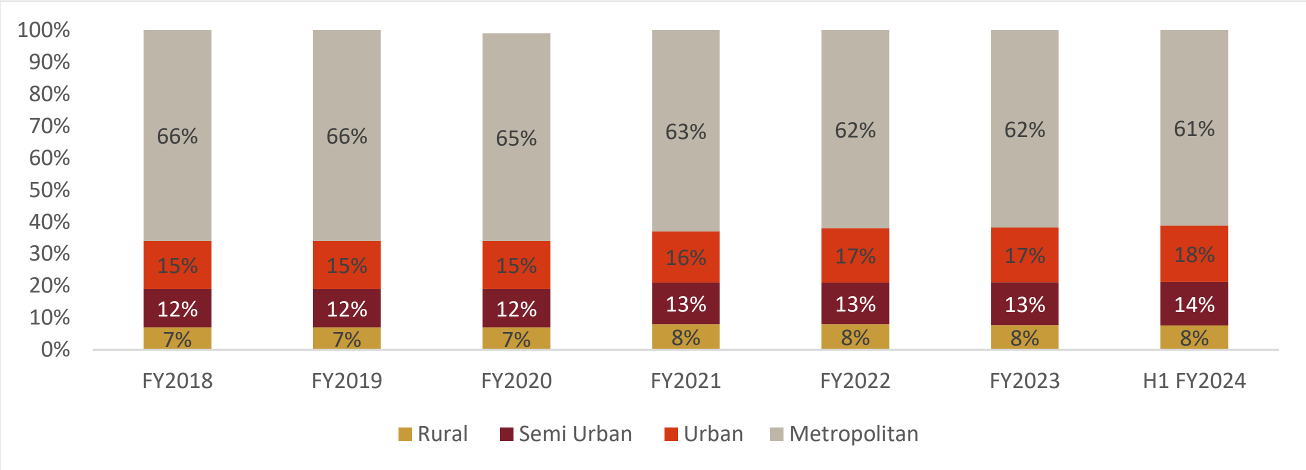
*Note: Credit penetration calculated as banking credit to states as of Fiscal 2023 divided by state GSDP (at constant prices) as of Fiscal 2022; Region wise credit % calculated as credit divided by total credit, GDP taken as GSDP at constant prices, Base Year: 2011-12., * GDSP taken for Fiscal 2021, Source: RBI, MOSPI, CRISIL MI&A Estimates*

Rural India – Under penetration and untapped market presents a huge opportunity for growth for financiers

Credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% as at March 31, 2018 to 62% as at June 30, 2023. Between the same period, credit share has witnessed a marginal rise in rural and urban areas. For semi-urban areas, credit share has gone up from 12% as of March 31, 2018, to 13% as of June 30, 2023.

As of March 31, 2023, rural areas, which accounted 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 will also help the financiers to assess customers and cater to the informal sections of the society in these regions.

Share of rural and semi-urban credit has increased marginally between March 2018 & September 2023



Note: As at the end of each Fiscal and as of Sep 2023 for H1FY2024; Source: RBI, MOSPI, CRISIL MI&A

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

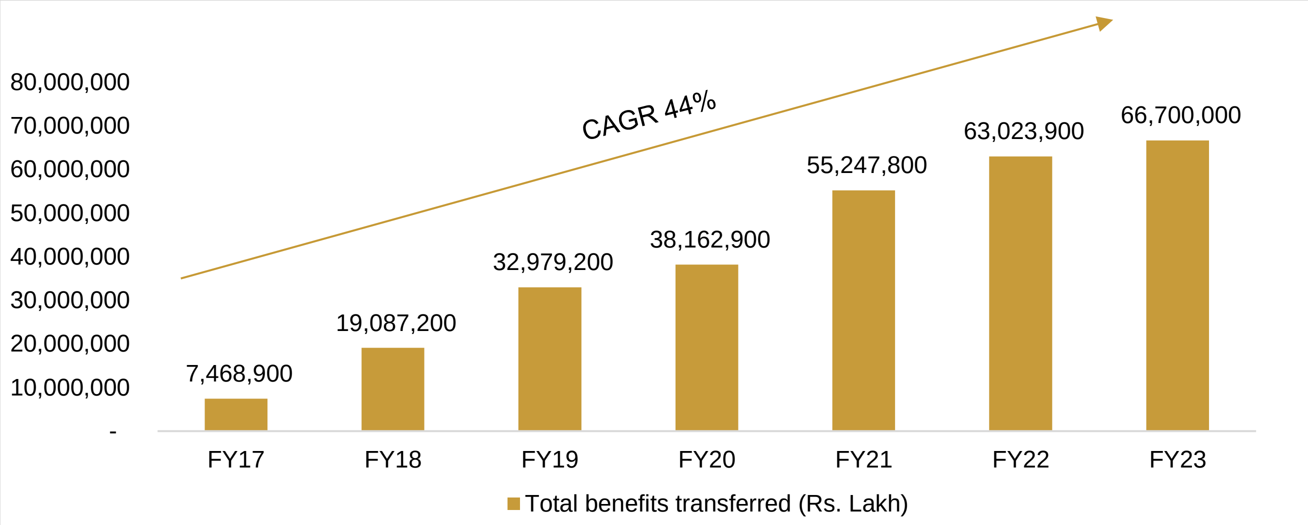
Classification	Criteria
Rural	Population less than 0.1 lakh
Semi-Urban	Population 0.1 lakh and above and less than 1 lakh
Urban	Population 1 lakh and above and less than 10 lakhs
Metropolitan	Population 10 lakhs and above

Source: RBI, CRISIL MI&A

Rural economy is becoming structurally far more resilient

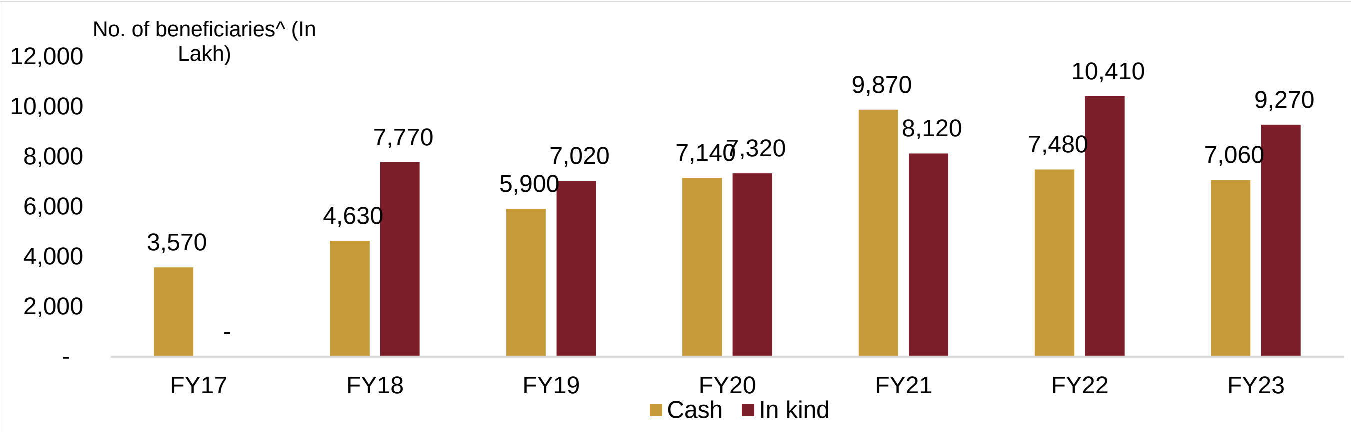
According to Census 2011, there are about 6.4 lakh villages in India, which are inhabited by about 8,930 lakh people, comprising about 65% of the country's population as of CY2021. The rural economy is far more resilient today due to increased spends under MNREGA and irrigation programmes, direct benefit 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 44% between fiscal 2017 and fiscal 2023



Source: DBT Bharat, CRISIL MI&A

Direct benefits transfer (DBT) beneficiaries



Note: ^Sum total of beneficiaries across schemes

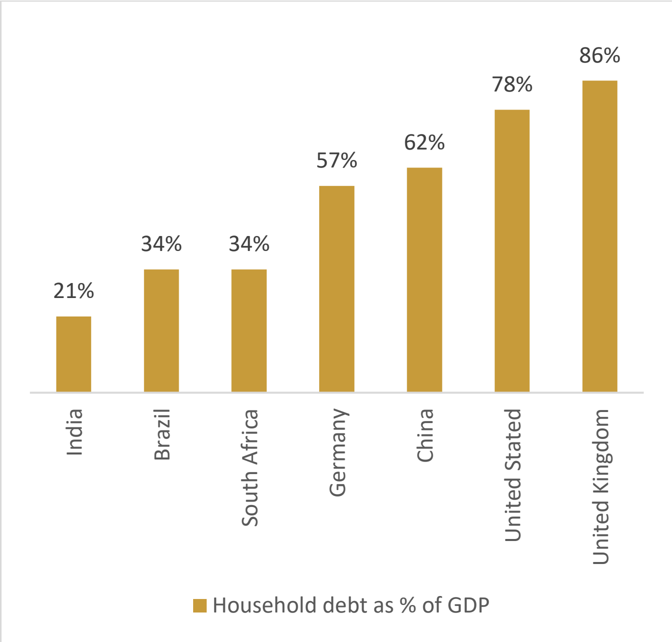
Source: DBT Bharat, CRISIL MI&A

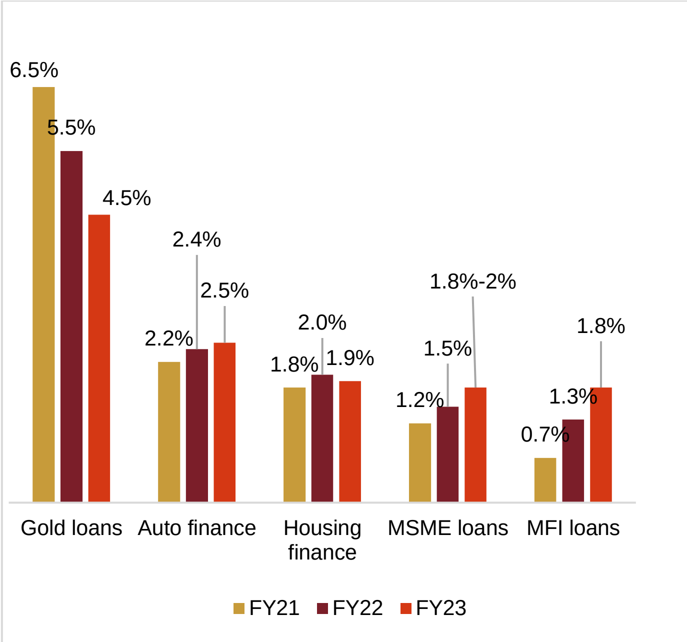
Retail credit market continue to remain profitable in the coming years

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.

India most underpenetrated in terms of retail credit indicating significant potential for growth

Retail lending is profitable for NBFCs across various asset classes as indicated by their Return on Assets



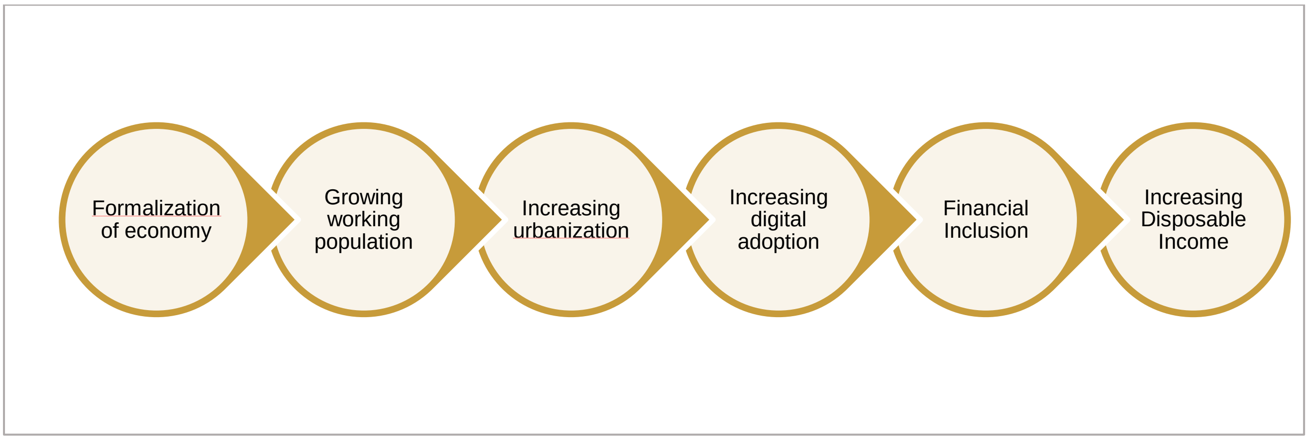


Note: E = Estimated; P = Projected, above retail credit market includes housing finance, Auto finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans

For countries except India, data is represented for calendar years. For India, data represented is for fiscal year 2022.

Source: RBI, Bank of International Settlements, Company reports, CRISIL MI&A

Factors that will support retail credit growth



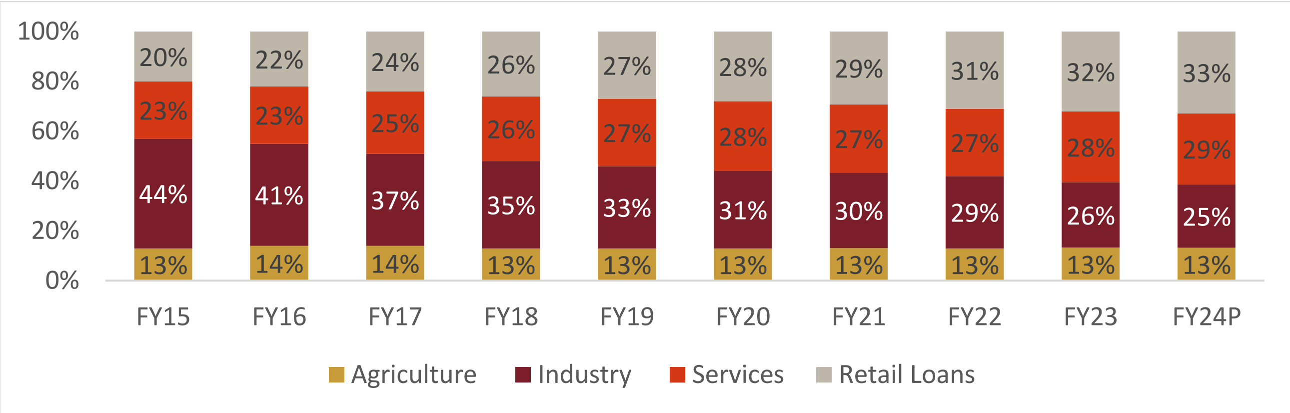
Source: CRISIL MI&A

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 2023. 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 2023 driven by demand in housing segment and pent-up demand in vehicle loans segment. Going forward, CRISIL MI&A expects personal loans and services segment to drive credit growth in Fiscal 2024. Retail Loans segment is expected to show strong growth in Fiscal 2024 on back of credit demand from housing loans, consumer durables and other retail loan segment. Going forward, CRISIL MI&A expected overall housing loan to grow at 14-16% in the fiscal 2024.

Retail loan share reached 32% as of March 31, 2023

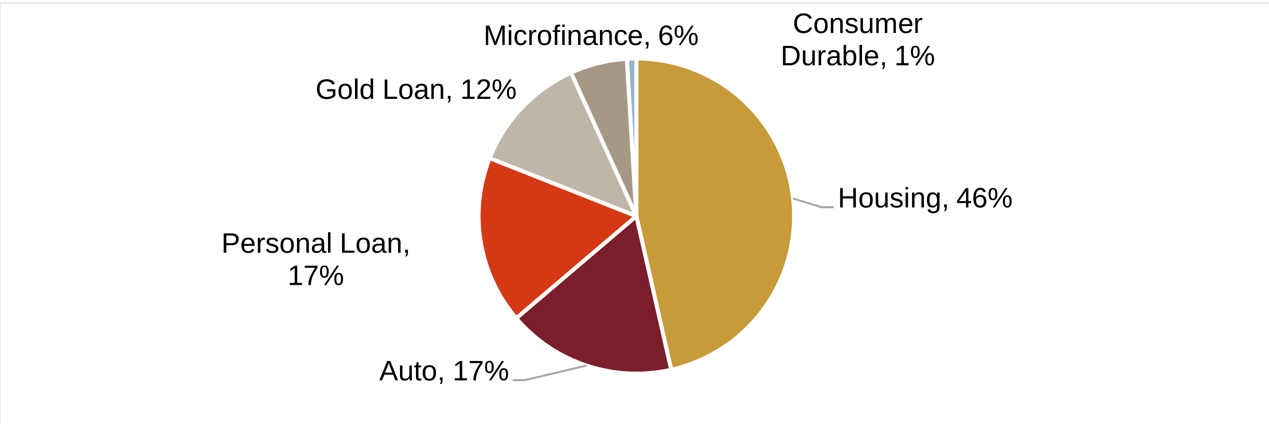


Note: P: Projected; As at end of each Fiscal 2023, P: Projected, Source: RBI; CRISIL MI&A

Housing loans accounts for 46% of overall retail loans as of March 31, 2023

As of March 31, 2023, Housing finance accounts for almost half of overall retail loans in the country followed by auto loans (17%), personal loans (17%) and gold loan (12%).

Retail credit mix as of March 31, 2023



Source: CRISIL MI&A

Overview of NBFC in India

NBFC credit to grow faster than systemic credit between Fiscals 2023 and 2025

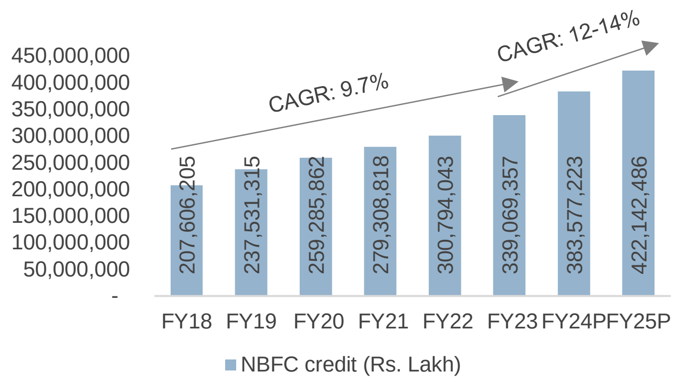
Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs not having the advantage of size, rating and/or parentage had to grapple with a liquidity 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.

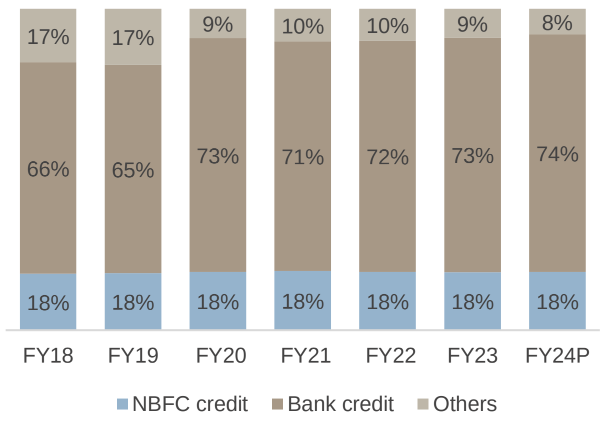
In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit recovered, with overall credit growing by 9% and retail credit increasing by 11.3% year-on-year as of March 2022. With the effect of COVID-19 waning, vaccination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

In Fiscal 2023, pace of credit further improved and is at par with pre-COVID level. Overall credit grew by estimated 13.3% and systemic retail credit grew by 19.2%. CRISIL MI&A projects NBFC credit to grow at 12%-14% between Fiscal 2023 and Fiscal 2025. The credit growth will be driven by the retail vertical, including housing, auto, and microfinance segments. Rapid revival in the economy is expected to drive consumer demand in Fiscal 2024, leading to healthy growth NBFCs. Moreover, organic consolidation is underway with larger NBFCs gaining share. Further, growth of the non-banking industry will be driven mainly by NBFCs with strong parentage who have funding advantage over other NBFCs.

NBFC credit to grow at CAGR 12-14% between fiscals 2023 and 2025



Share of NBFC Credit in Systemic Credit remained at 18% in fiscal 2023

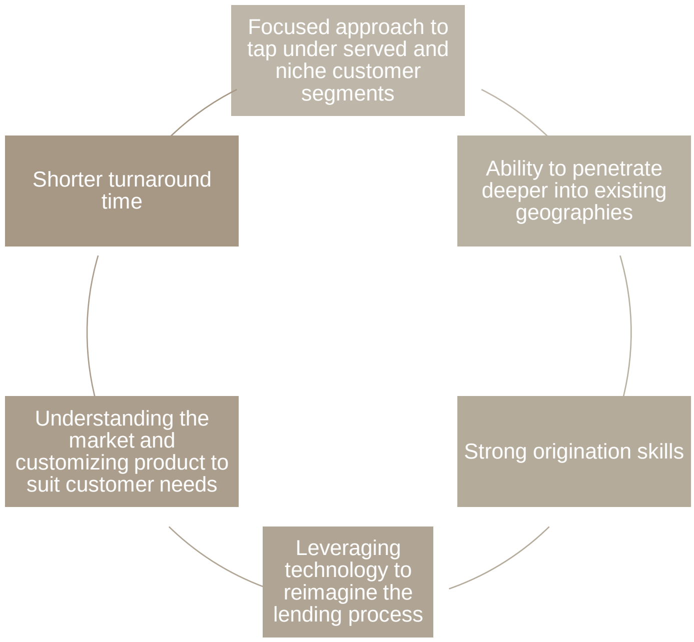


Note: P = Projected; Note: Others include Commercial papers, External borrowings, corporate bonds excluding those issued by Banks and NBFCs; Source: RBI, Company reports, CRISIL MI&A

NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs. 20,000,000 Lakh AUM at the turn of the century to around Rs. 339,069,357 Lakh at the end of Fiscal

2023. CRISIL MI&A expects NBFC credit to grow at 12-14% CAGR between fiscal 2023 and fiscal 2025. Their share in the overall credit pie has increased from 12% in Fiscal 2008 to 18% in Fiscal 2023 and projected to be remained stable in fiscal 2024. CRISIL MI&A believes that NBFCs will remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are not catered by Banks.

Growth of NBFCs reflects the customer value proposition offered by them



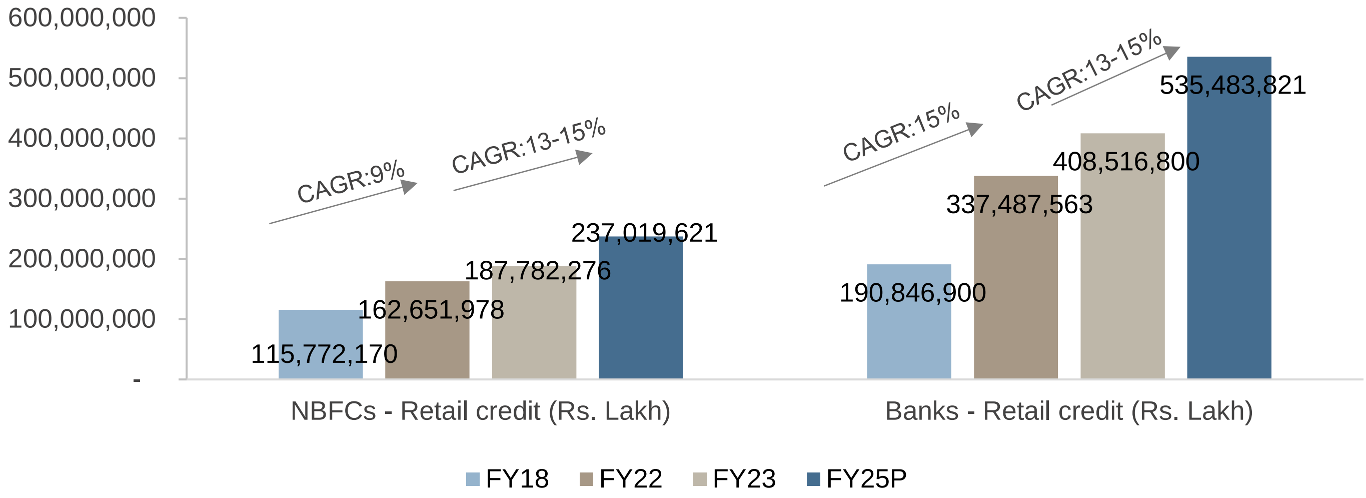
Source: CRISIL MI&A

Retail segment to support NBFCs overall credit growth

Reflecting the growing importance of NBFCs in the financial services landscape and their ability to offer differentiated solutions to meet the requirement of target customers, the market share of NBFCs in overall systemic credit has increased from approximately 16% in Fiscal 2017 to approximately 18% in Fiscal 2023.

After a moderation in growth post pandemic, NBFCs are back on track with an estimated credit growth of 12-13% during fiscal 2023. Going ahead CRISIL MI&A expects the growth trend to continue with credit growth at 13-14% during fiscal 2024. The industry will continue to witness the emergence of newer NBFCs catering to specific customer segments. The COVID-19 pandemic and consequent acceleration in both adoption of technology and change in consumer habits as well as increasing availability of data for credit decision-making has made it possible to build an NBFC lending business without investing large sums to have brick-and-mortar presence on the ground. Overall, between Fiscal 2023 to Fiscal 2025, CRISIL MI&A forecasts NBFC credit to grow at a CAGR of 12%-14%. Further, retail credit given out by NBFCs is forecast to grow at a pace of 13%-15% CAGR over the same time.

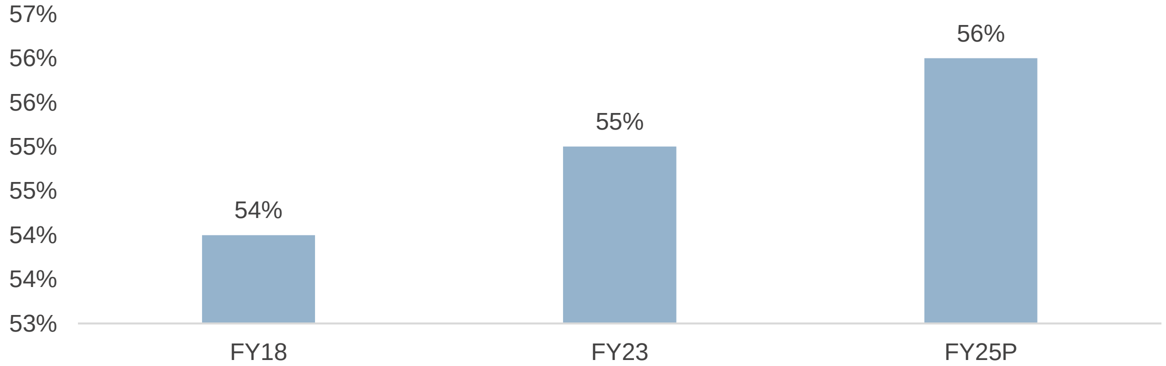
NBFCs retail credit is expected to grow at 13% - 15% CAGR in the next two years



Note: P = Projected; Retail credit above includes housing finance, auto finance, microfinance, gold loans, consumer durable finance, MSME loans, education loans & other smaller segments

Source: Company reports, RBI, CRISIL MI&A

Share of retail credit in total NBFC credit to continue to grow



Note: P = Projected; Retail credit above includes housing finance, auto finance, microfinance, gold loans, consumer durable finance, MSME loans, education loans & other smaller segments

Source: Company reports, CRISIL MI&A

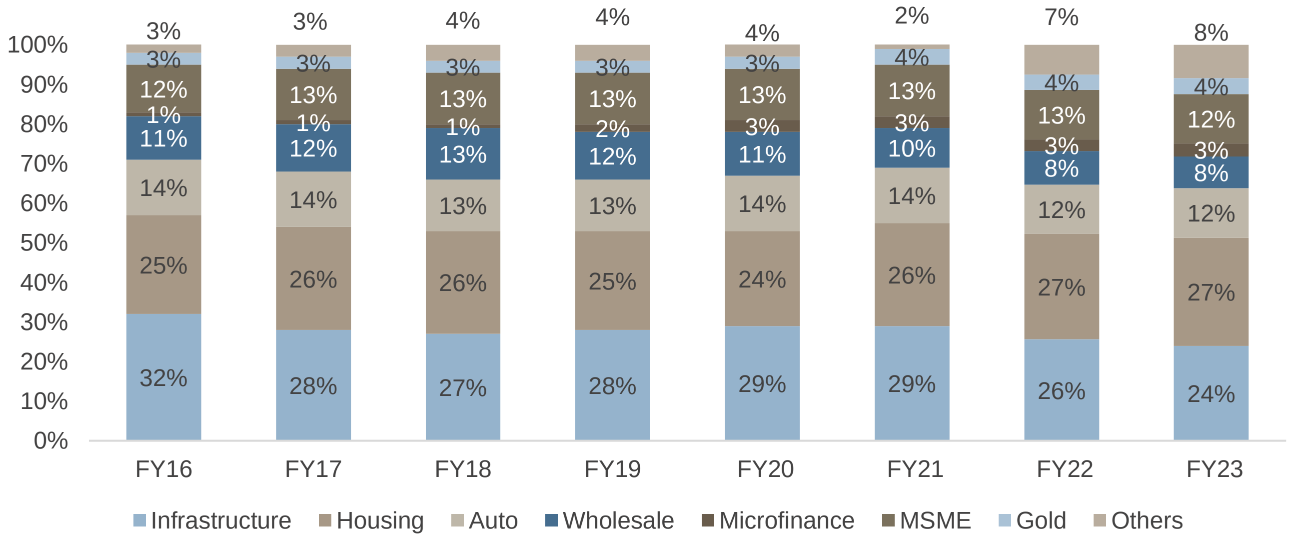
Housing and Autos to lead NBFC credit growth

With a visible recovery across most sectors and increasing demand for housing NBFC housing credit witnessed growth of 12% during fiscal 2023. Going forward, CRISIL MI&A expects NBFC housing credit will continue to see momentum and is like to grow at 12%-14% for Fiscal 2024. With continued support from the government, central bank and increase in demand for housing and deeper penetration in tier-II and -III cities, the affordable HFCs are back on healthy double digit growth trend with estimated growth of 14-16% during fiscal 2023 outpacing the credit growth in retail housing segment. Going ahead, CRISIL MI&A expects affordable HFCs to grow at 15-17% during fiscal 2024. The NBFC firms' auto finance book is anticipated to have increased by 15–17% on-year in fiscal 2023, up from a meagre 4.6% on-year increase during the previous two years. In fiscal 2024, Pent-up demand and new launches is expected to drive sales of cars and utility vehicles (UV), while the infrastructure sector will have a significant impact on the demand for commercial vehicles (CV), fleet replacement, and last-mile connectivity causing auto loans to grow at 12-14%.

Housing and infrastructure loans account for more than 50% share in overall NBFC portfolio as of Fiscal 2023

In terms of asset size wise mix, housing loans and infrastructure loans continue to account for a major chunk of overall NBFC portfolio. Microfinance loans have increased their share from approximately 2% to 3% between Fiscal 2019 and Fiscal 2023. CRISIL MI&A expects housing and infrastructure loans to maintain their share in overall NBFC credit. Further, auto, personal loan and microfinance are expected to perform better as compared to other segments in fiscal 2024.

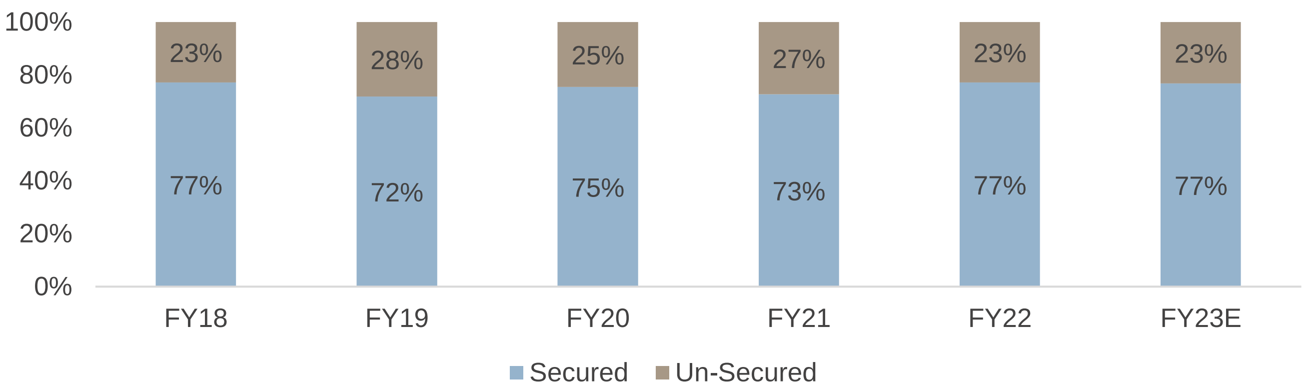
Distribution of NBFC credit across asset classes



Note: Others include education loan, consumer durable loans and construction equipment finance

Source: RBI, Company reports, CRISIL MI&A

Share of loans and advances from secured products remains high



Note: E- Estimated

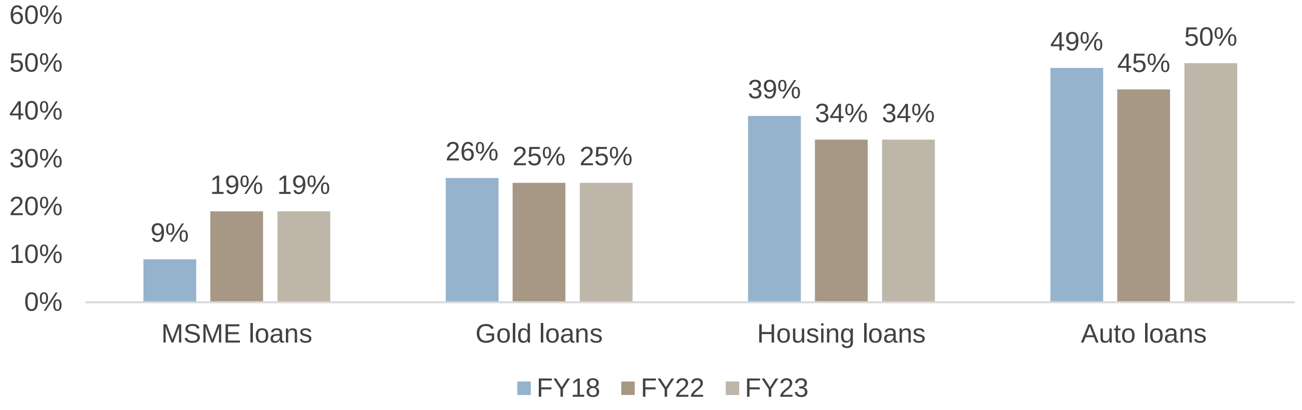
Source: RBI, CRISIL MI&A

NBFCs have a reasonable market share across segments

NBFCs have consistently gained or maintained market share across most asset classes over the last few years. Though, in certain segments such as housing finance to prime customers, they have lost market share to banks due to the decline in market interest rates. In the gold loans market, NBFCs slightly lost market share in Fiscal 2022 due to increasing focus of banks (both public and private) towards gold loans as well as RBI permitting banks to offer gold loans at a higher loan-to-value amidst the COVID-19 pandemic. Nevertheless, NBFCs continue to have a healthy market share across other segments.

NBFCs have been able to compete with banks mainly on account of their strong origination skills, extensive reach, better customer service, faster processing, fewer documentation requirements, digitalisation of customer on-boarding process, customised product offerings, local knowledge, and differentiated credit appraisal methodology. Furthermore, by catering to under banked, lower income and mass market customers who are unserved or underserved by banks, NBFCs have enhanced financial inclusion and expanded the market for formal financial services. The rapid evolution of fintechs over the last few years has added another dimension to the market served by NBFCs and has fuelled rapid growth across the landscape.

Market share of NBFCs in overall credit across select asset classes



Source: Company reports. RBI, CRISIL MI&A estimates

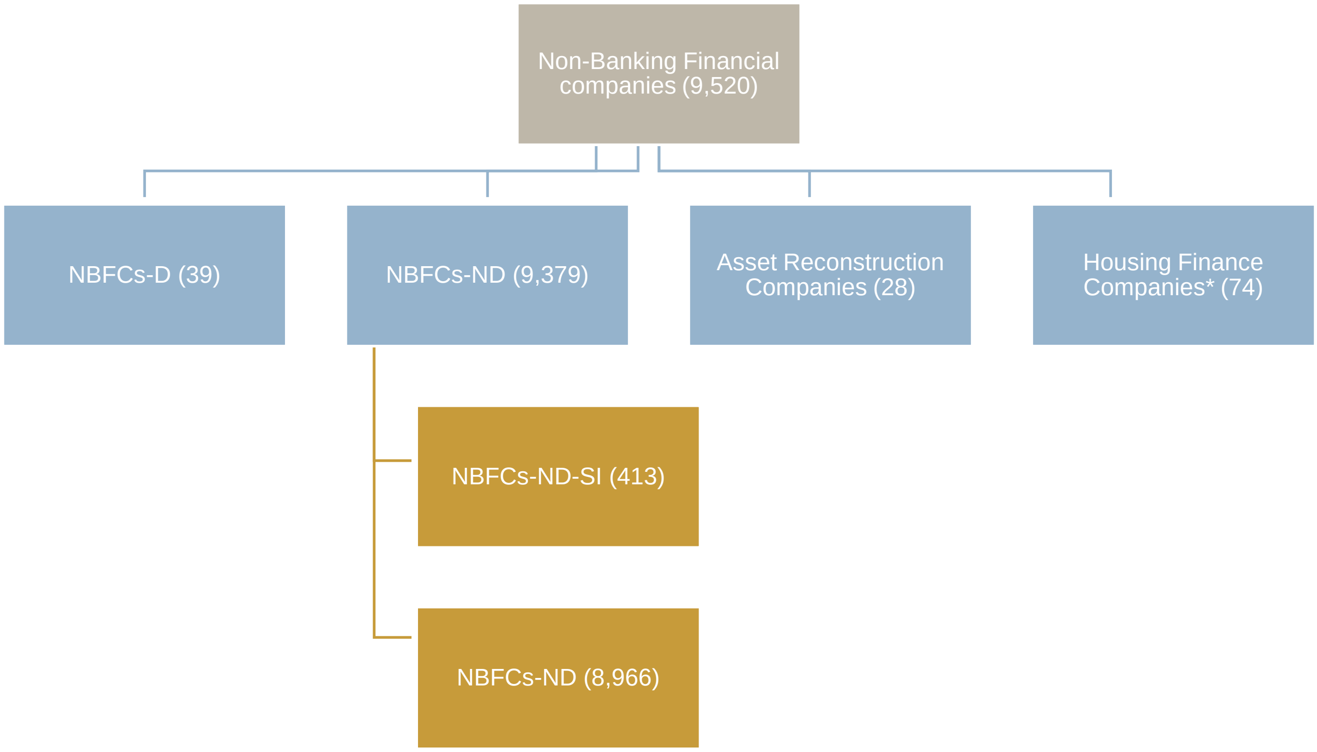
Constituents of NBFC industry in India

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



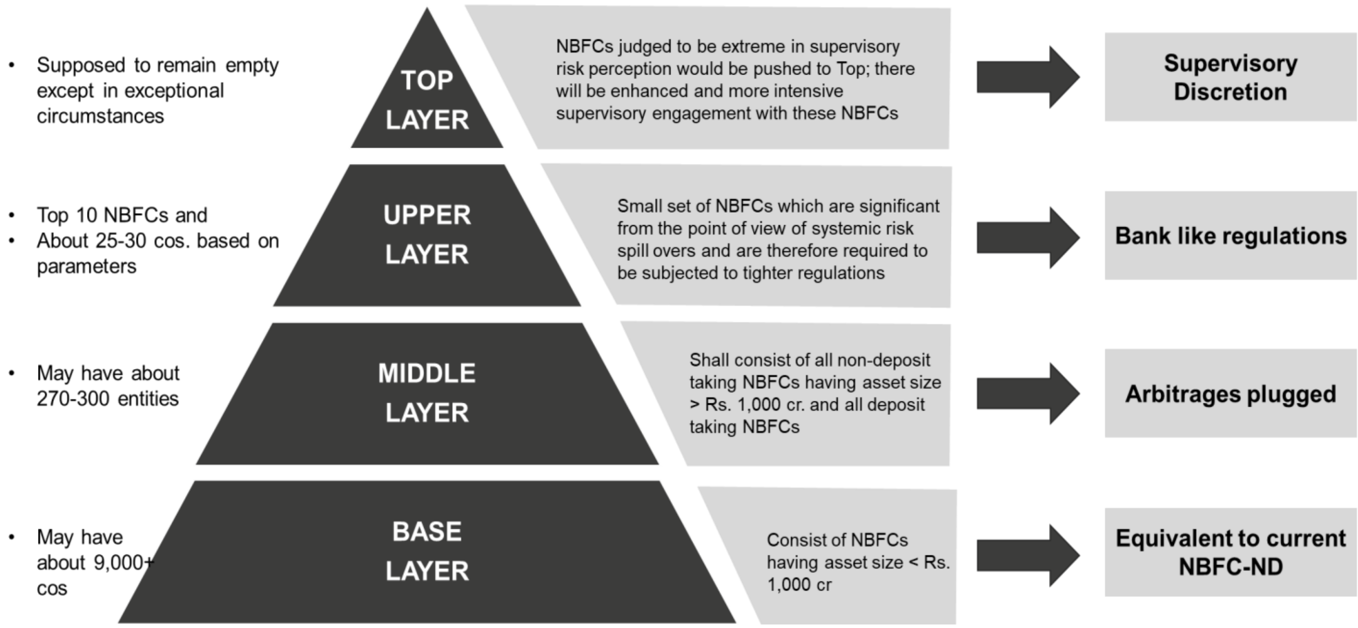
Note: (*) HFC which has more than 10,000 Lakh AUM. Figures in brackets represent the number of entities registered with RBI as of March 2023.

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

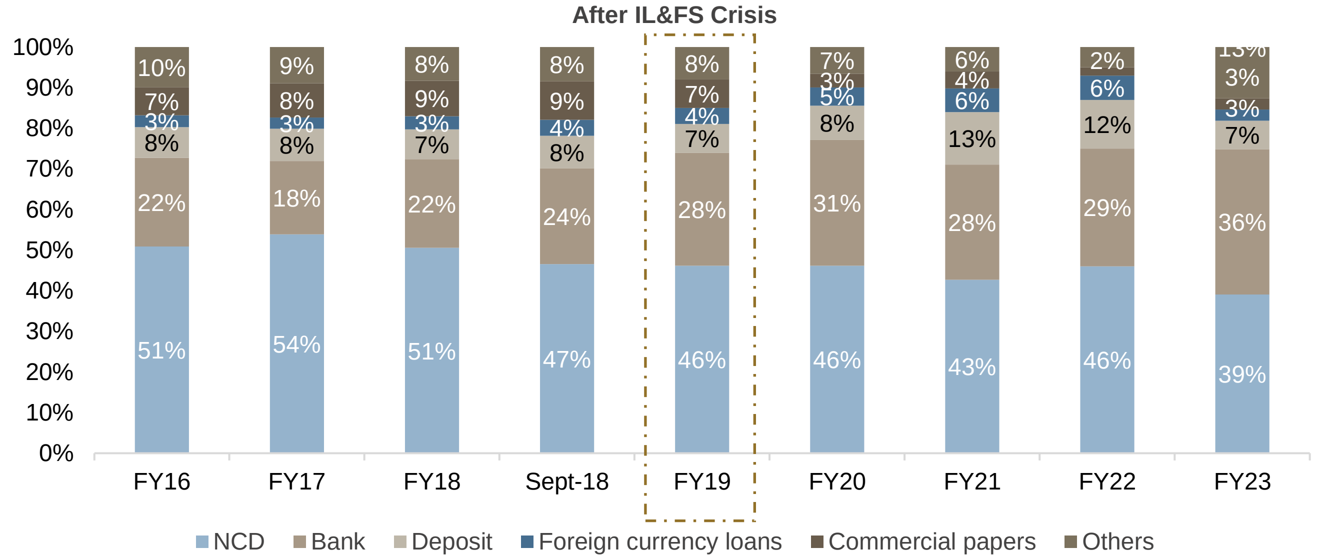
RBI issues Master Direction on Scale Based Regulation of NBFCs, 2023

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

In Fiscal 2023, NBFCs' borrowings from banks witnessed high growth resulting in an increase in share to 36% of total funding up from 29% at the end of fiscal 2022. The share of bank's lending to NBFCs have almost doubled during last 10 years. During fiscal 2023, with interest rate tightening and repo increasing by 250 bps to 6.50%, the cost of debt market borrowing increased leading to high-risk premium for lower rates NBFCs, leading to banks term loans becoming the preferred source of borrowing. This was also supported by improved credit growth during fiscal 2023 across all segments leading to higher demand of bank credit from NBFC. Going forward, CRISIL MI&A believes that funding access would gradually improve for NBFCs who are able to demonstrate strong performance & strong parentage. However, reliance on bank funding and funding from other NBFCs and small finance banks is expected to remain high in fiscal 2024.

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



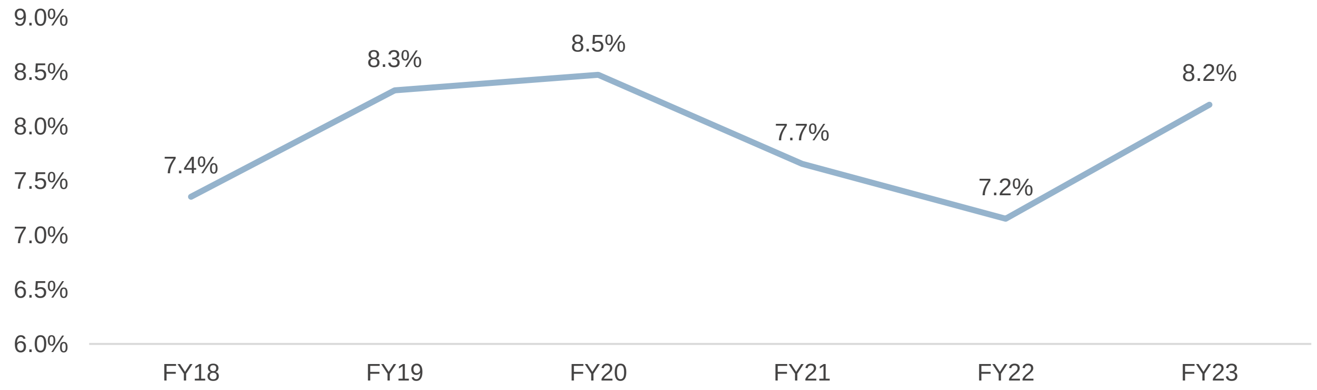
Note: Based on sample set of NBFCs accounting for more than 80% of overall borrowings of NBFCs as of March 2023; For Fiscal 2023, NCD includes Debt Securities and NCDs, Bank includes Banks and National Housing Bank, and Others include Related Parties, Foreign Institutions, External Commercial Borrowings,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

Source: Company reports, CRISIL MI&A

NBFC borrowing cost increased in fiscal 2023 with reversal in interest rate cycle

Soaring inflationary pressures have resulted in the RBI reversing its accommodative monetary policy stance. As of February 2023, the benchmark repo rate has already been increased 250 bps to 6.5% from a base level of 4.0% on October 2020. As per CRISIL MI&A estimates, the rise in interest rate is anticipated to lead to NBFC debt being repriced at a higher cost. However, the borrowing cost for NBFCs in fiscal 2023 is still below pre-Covid-19 level.

Increased borrowing cost for NBFCs in fiscal 2023

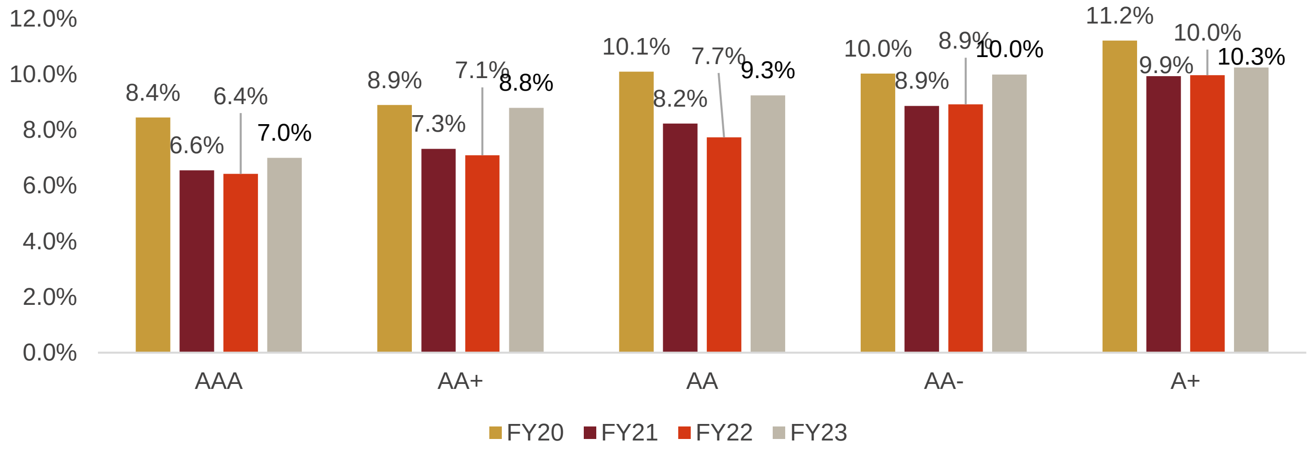


Note: Data represents cost of borrowing of players, which cumulatively accounts for 85% of overall NBFC AUM

Source: Company reports, CRISIL MI&A

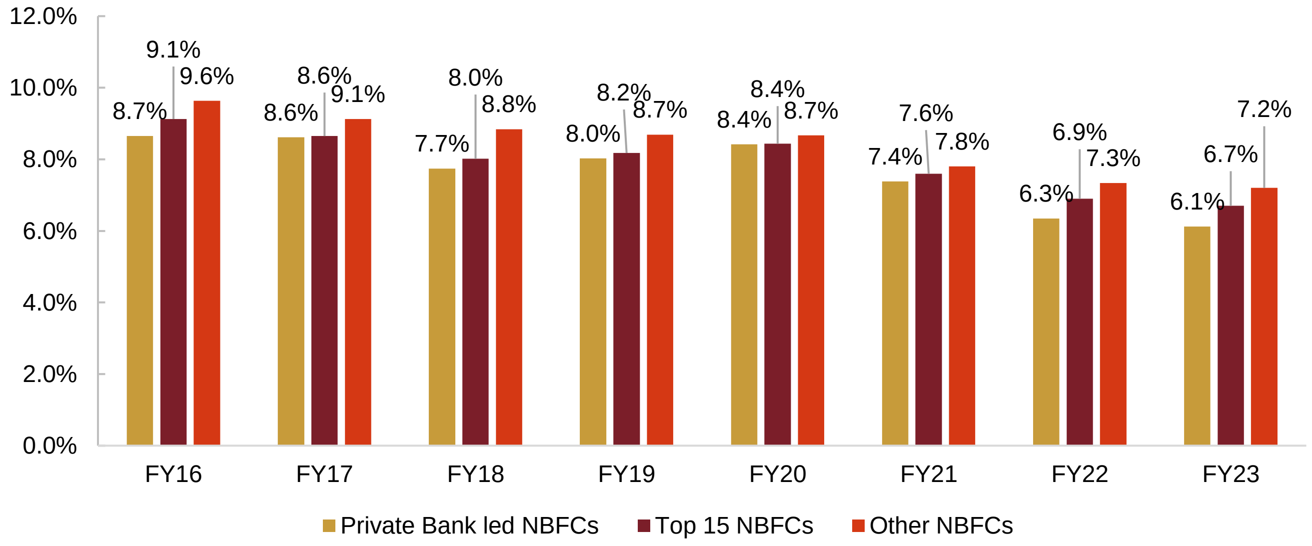
For AAA rated entities, the cost of borrowings remained well below 7% as of Fiscal 2023 and has reduced from approximately 9%-10% in Fiscal 2016. For A+ and above rated companies as well, the cost of borrowings has been below 10.3% in Fiscal 2023. Cost of borrowing has remained high for BBB category NBFCs.

Average Cost of borrowing trend by Ratings category



Source: CRISIL MI&A

Cost of borrowings trend by NBFC type



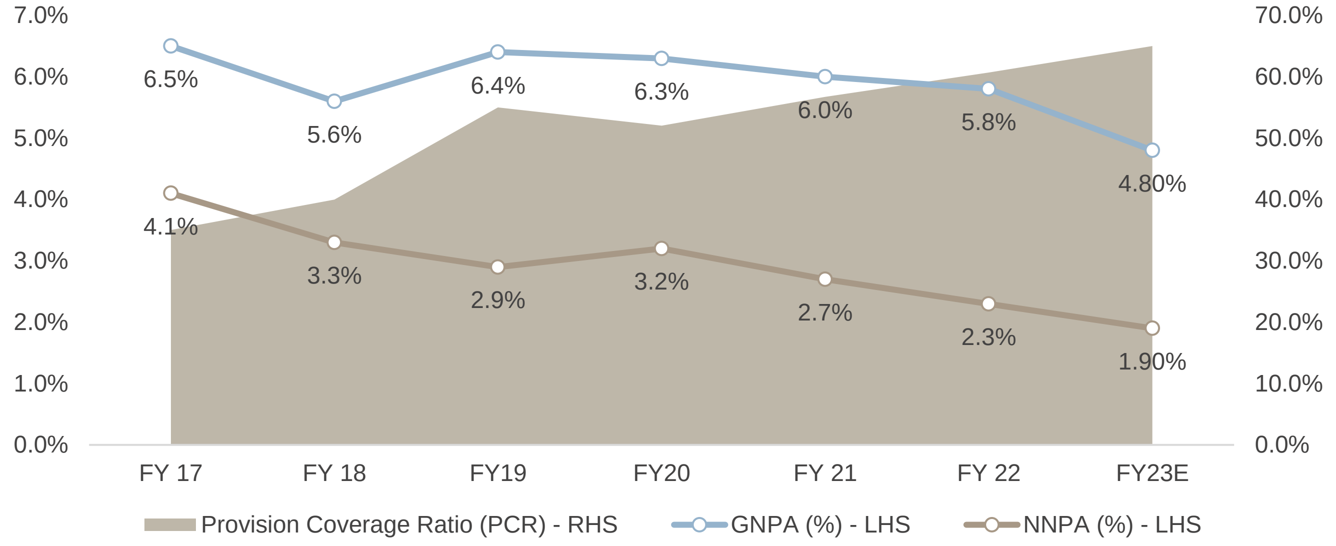
Note: The private bank led NBFCs are Axis Finance, Fedbank Financial Services, HDB Financial Services, ICICI Home Finance and Kotak Mahindra Prime; Top 15 NBFCs include are selected on the basis of consolidated AUM as of fiscal 2023; DHFL is excluded from top 15 NBFCs and other NBFCs.

Source: Company reports, CRISIL MI&A

Asset quality improved on account of efficiency in collection process and improvement in economic activity in Fiscal 2023

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. On the other hand, microfinance loans have shown lower historic correlation with macroeconomic cycles. 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 improved significantly at the end of Fiscal 2023



Note: E = Estimated

Source: RBI, CRISIL MI&A

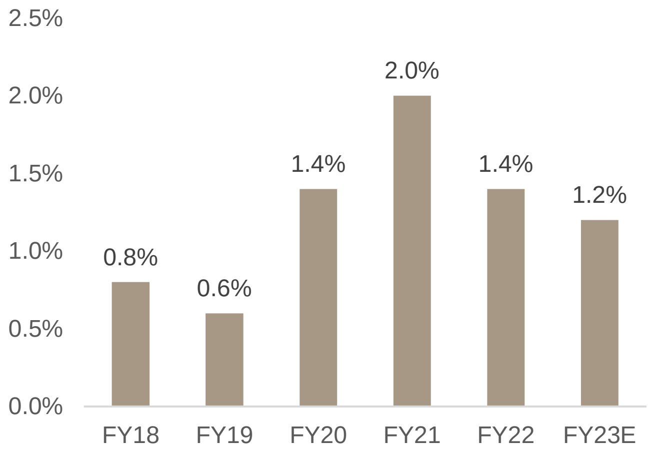
Asset quality metrics improved in Fiscal 2023 for two reasons. First is the RBI's follow-up circular dated February 15, 2022, deferring the implementation of the NPA upgradation norm till September 30, 2022. This provides a reasonable transition time for NBFCs to recalibrate processes, revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation. Second is the expected improvement in macro-economic activity, which will act as a tailwind. The behaviour of loans restructured post-COVID 19 will, however, need to be closely watched, in light of cost push being felt by industries across the board.

Credit cost further declines, and profitability improved in Fiscal 2023 despite increase in borrowing costs

In Fiscal 2023, credit cost further declined on account of gradual recovery across sectors with the waning impact of pandemic and improving collection efficiency aiding it. Despite the increase in borrowing costs, the overall profitability of NBFCs improved in fiscal 2023, primarily on account of lower credit costs due to contingency provisioning buffers created over the course of the previous two Fiscals.

Profitability ratios of NBFCs

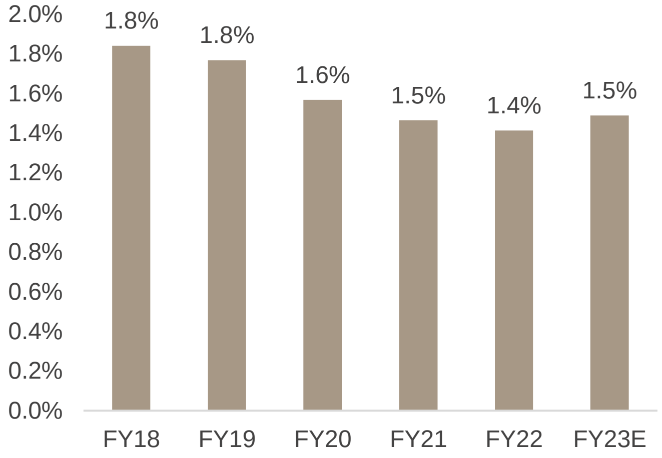
Reduction in credit costs for NBFCs in fiscal 2023



Note: E: Estimated

Source: CRISIL MI&A

Profitability (RoA) improved on account of decline in credit costs in fiscal 2023



Note: E = Estimated

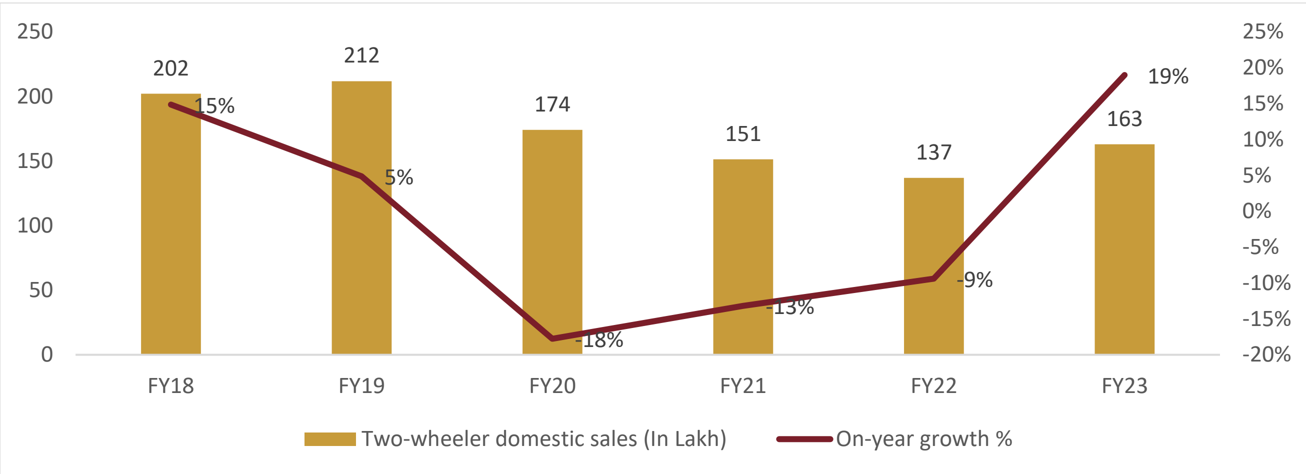
Source: CRISIL MI&A

Two-Wheeler Loans

Two-wheeler industry witnessed recovery in fiscal 2023

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. Under two-wheeler segments, scooters grew at a faster pace than motorcycles as urban sentiments are recovering faster due to increased mobility driven by reopening of offices and educational institutes. 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 19% on-year growth in fiscal 2023



Source: SIAM, CRISIL MI&A

Two-wheeler volumes are projected to improve by ~9-10% in fiscal 2024 after robust growth of 19% in fiscal 2023. This improvement in sales is expected to be driven by both motorcycle and scooters which are expected to record a ~9-10% growth each. Motorcycle sales will be driven by improving income sentiments, pick up in rural incomes with real rural wages turning positive. Furthermore, the normal monsoon prediction is likely to have a positive impact on the demand for motorcycles. Scooter sales will be driven by continued shift on account of scooteriation with reduction in FAME subsidy restricting further rise in electric sales.

However, despite the projected growth, the volumes in fiscal year 2024 are still expected to remain lower than the peak achieved in fiscal year 2019. The reason for this decline is attributed to significant price hikes witnessed in the two-wheeler segment over the past few fiscals, 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% since fiscal year 2019 due to the implementation of safety norms, BS-VI compliance, and higher input costs.

Two-wheelers sales to improve in fiscal 2024 due to:

- Continued demand recovery post reopening of offices and educational institutions post pandemic
- Normalisation of economic activities
- Rural demand recovery due to normal monsoon and increased consumer spending
- Robust festive season demand
- Multiple models launches in EV by leading OEMs
- Softening inflation
- Incomes catching up with price hikes and inflation

Headwinds in demand recovery could be:

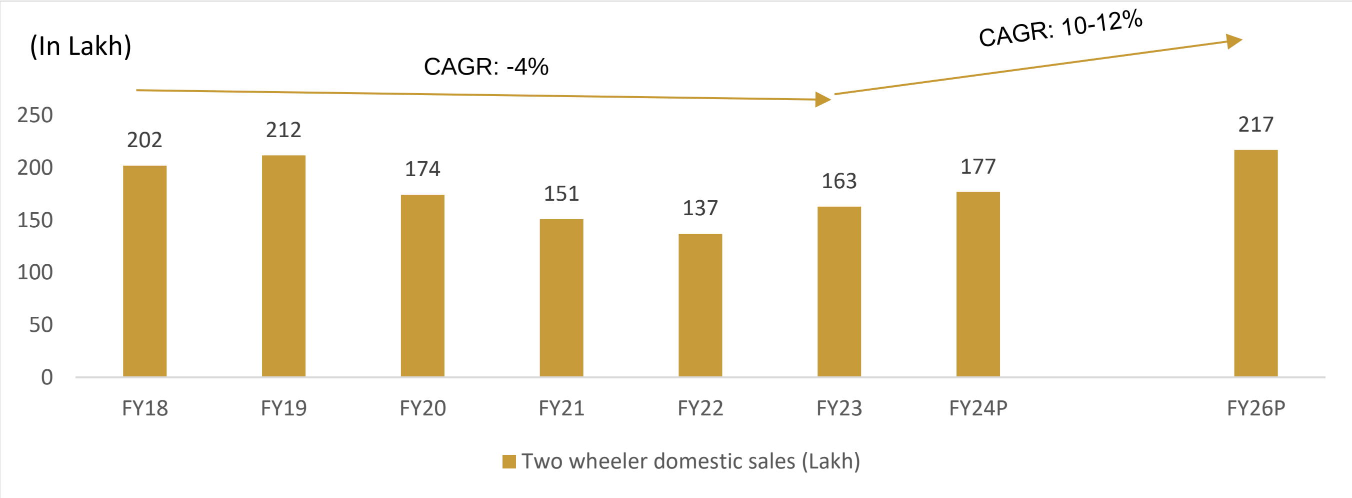
- El nino impact on monsoon and rural income sentiments
- Price hikes due to OBD 2 norms leading to 3-5% increase in of asset cost
- Reduction in FAME subsidy that has made EVs more expensive are expected to impact EV penetration

In the long-term, CRISIL MI&A expects domestic two-wheeler sales to record a compound annual growth rate (CAGR) of 10-12% from fiscal 2023 to fiscal 2026 post a robust recovery in fiscal 2023. 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 ~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.

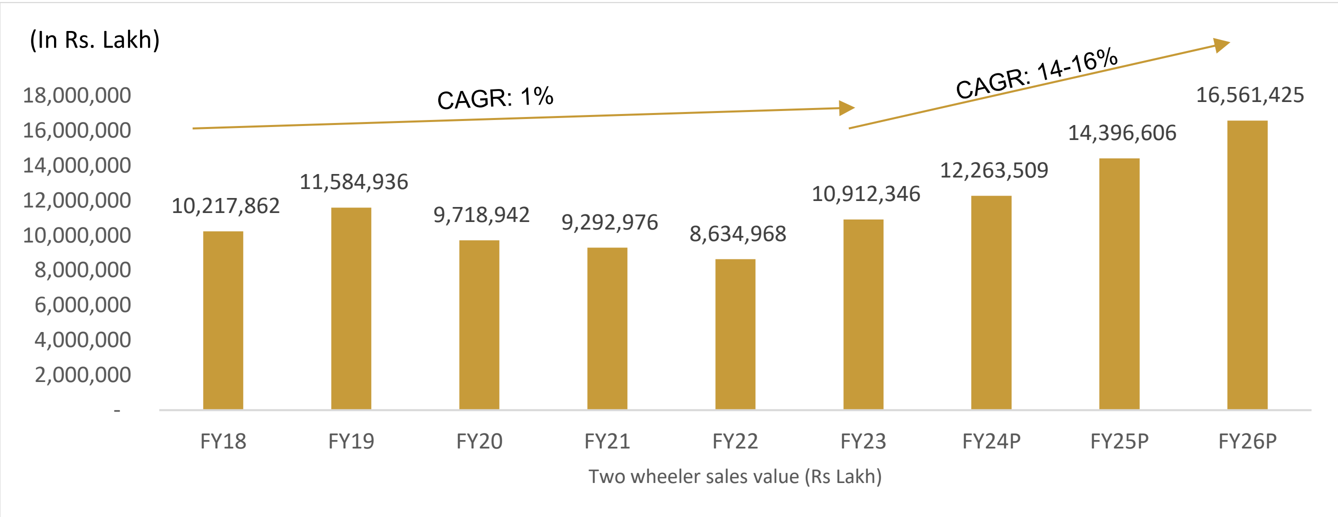
Growth in two-wheeler industry sales volume



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



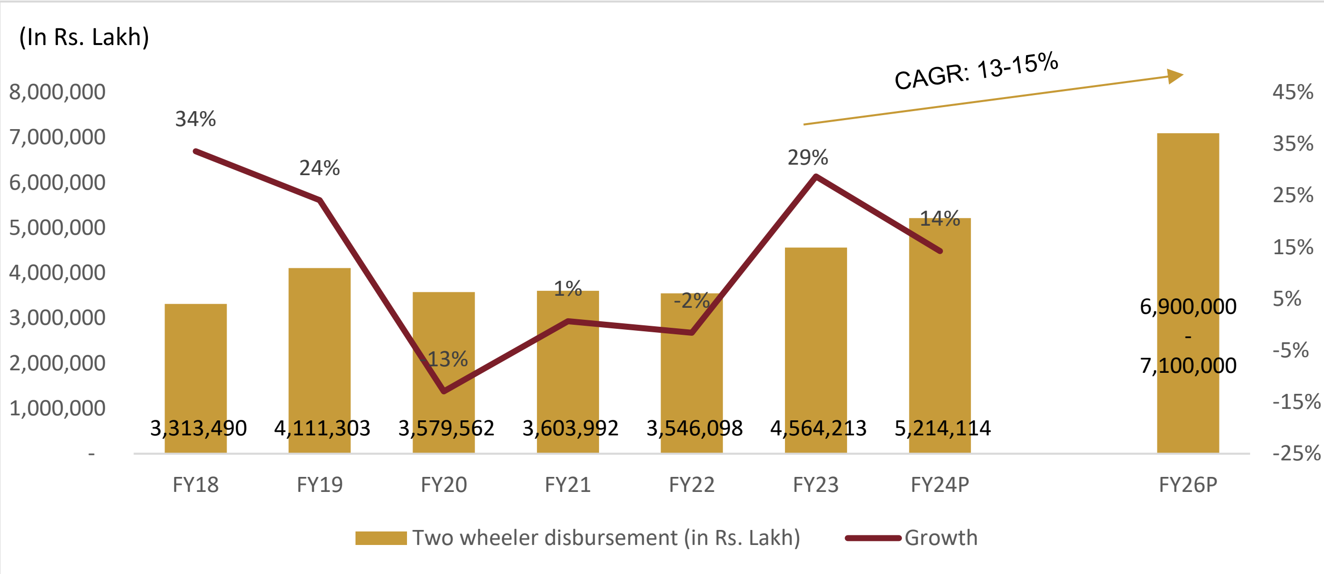
Note: P: Projected
Source: CRISIL MI&A

Two-wheeler disbursements expected to grow at a 13-15% CAGR from fiscal 2023 and fiscal 2026

Two-wheeler loan disbursements increased by 19% CAGR between fiscals 2015 and 2020, 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 sales increased 19% on year in fiscal 2023 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 13-15% CAGR from fiscal 2023 to 2026, 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 fiscal 2023 after being under pressure in previous years, expected to continue recovery in fiscal 2024

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 2023, motorcycles account for ~63% of overall two-wheeler volumes whereas scooters account for ~30-% and the rest is moped and EVs. In fiscal 2024, farm family income is expected to decline marginally. However, other sources of income such as MNREGA, remittances will improve leading to uptick in incomes.

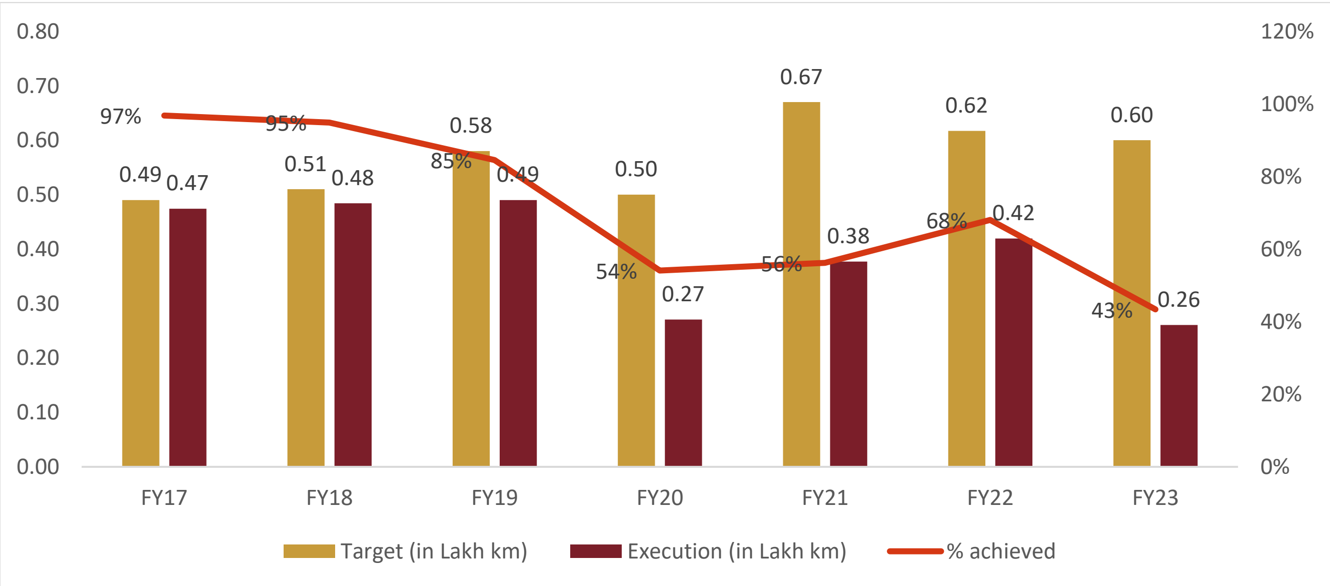
Income per farm family has been analyzed which includes income from cultivation, MGNREGA and dairy accounting for around 45-50% of the total rural income. In fiscal 2023, it increased by ~10% due to higher acreage, productivity, and increased government procurement. Income from MGNREGA reduced by ~9% on-year whereas income from dairy increased on-year on account of increased production and realization. The remaining share of the rural income comes from activities such as construction, poultry, and other informal jobs where income levels are expected to have contracted.

Looking at the non-farm income, 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 June 2023, 6.45 Lakh km road length was sanctioned under PMGSY-I out of which 6.22 Lakh km road has been completed. Under PMGSY-II, a total of 0.50 Lakh km road length was sanctioned and 0.49 Lakh kms has been completed as of June 2023. Under PMGSY-III, a total of 1.02 Lakh km road length was sanctioned, and 0.62 Lakh km has been completed as of June 2023.

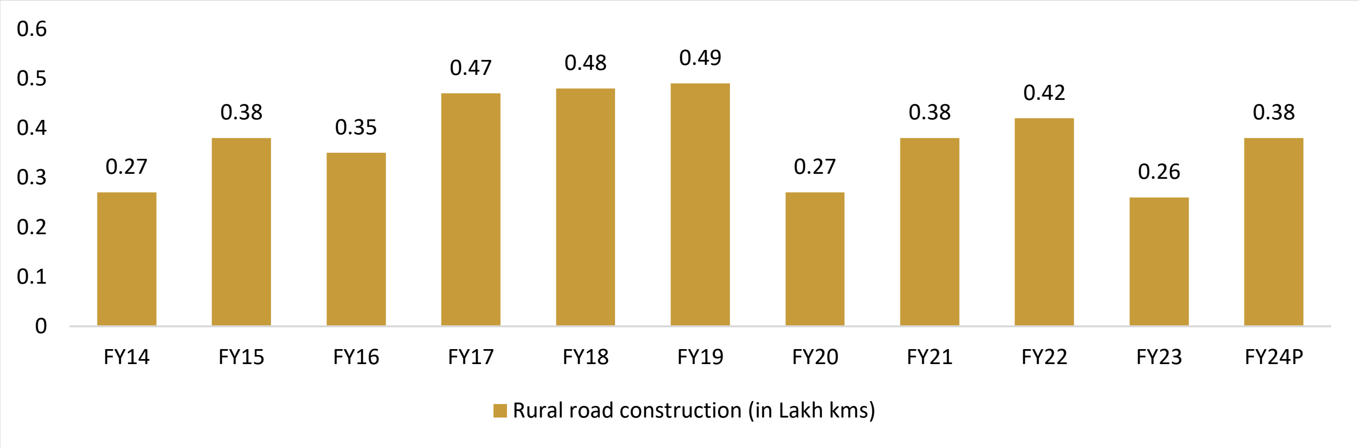
Rural road construction (in kms) was almost half in fiscal 2020 at ~0.27 Lakh kms construction, as compared with ~0.49 Lakh kms in the previous year. Fiscal 2021, saw construction of ~0.37 Lakh kms, while fiscal 2022 construction was ~0.42 Lakh kms. In fiscal 2023, rural road construction remained muted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

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



Source: Ministry of Rural Development, CRISIL MI&A

Rural road construction



Note: –Execution for fiscal 2024 is Target set by government

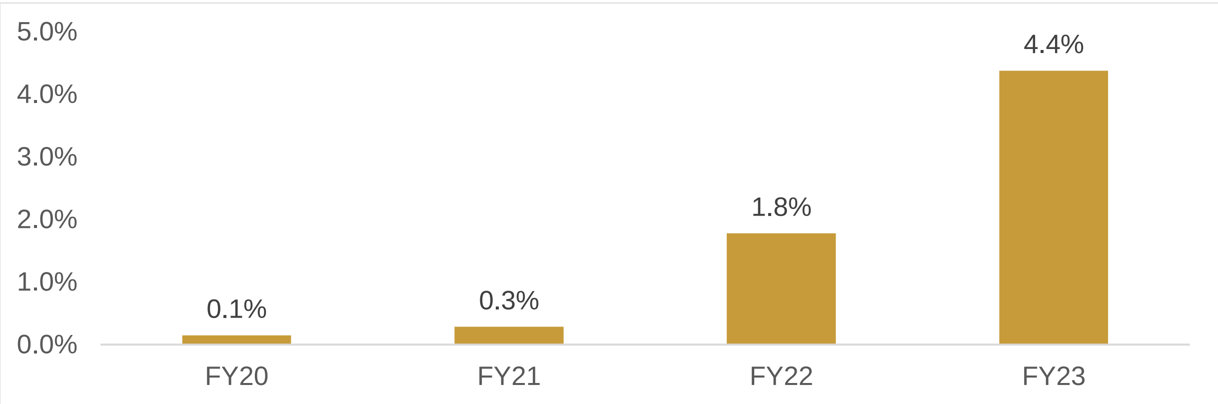
Source: Ministry of Rural Development, CRISIL MI&A

Electric two-wheelers to contribute ~27-32% of domestic two-wheeler sales by fiscal 2028, 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 2023, total electric two-wheelers (eTW) sales were recorded at 7.26 lakh units vs. 2.52 lakh units sold in fiscal 2022 (188% growth on year). 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 4.5% in fiscal 2023 and we expect electric two-wheeler penetration to grow to 4-6% in fiscal 2024. On account of exhaustion of FAME subsidy in fiscal 2024 and no plans of continuation announced by the Government yet, Electric vehicles uptake is estimated to see a speed bump in fiscal 2024 on account of the jump in total cost of acquisition until battery prices cool off and OEM's launch cheaper variants of their offerings. Also, reduction in FAME subsidy w.e.f. from 1st June 2023 to act as a speed breaker to EV sales in fiscal 2024.

By fiscal 2028, even though, cost of acquisition is expected to marginally inch up due to lack of subsidy, localization of batteries coupled with wider availability of scooters, economies of scale and launch of lower priced variants with smaller battery packs are projected to offset it which will lead to Total ownership cost being more lucrative for EV scooters even in FY28. Therefore, CRISIL expects e-TW penetration to be ~27-32% by fiscal 2028. Shift in consumer preferences, increasing e-TW demand and penetration, and higher cost of acquisition are expected to further support the two-wheeler finance industry.

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 accounts for 65-75% of the overall demand. Scooter demand picked up faster than motorcycle segment in FY23 as the urban mobility is recovering to normal with offices and educational institutions reopening post Q3 and Q4 of FY22. Urban demand sentiments continued improvements in Q1FY24 with reopening of offices and educational institutions. Going forward, in the urban areas, demand is expected to be aided from multiple ownership and an increase in demand from Tier 2 cities.

Key Industry Parameters

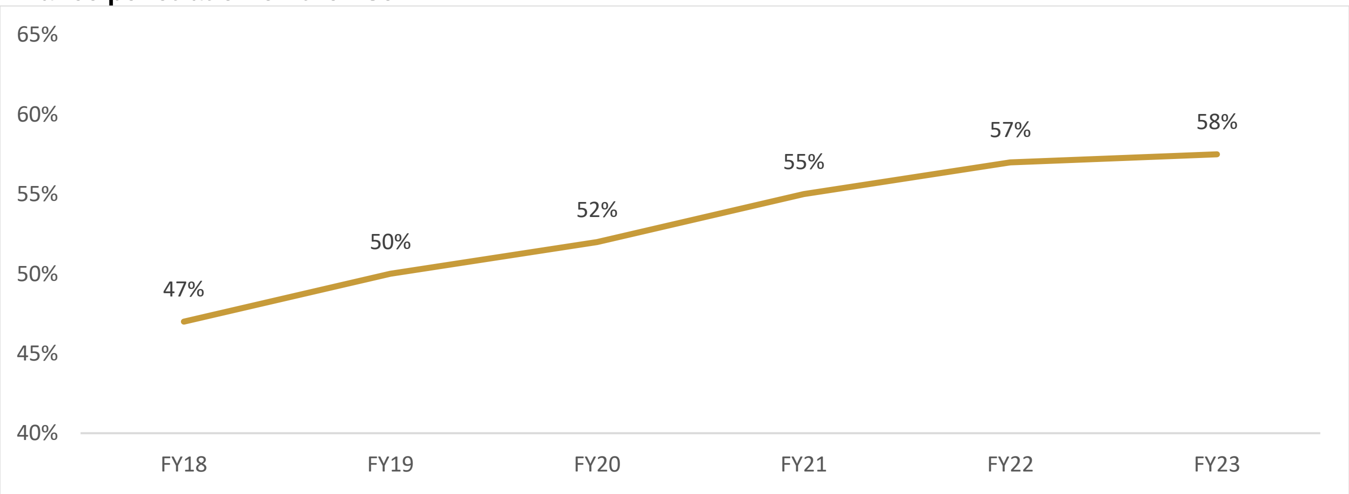
Finance penetration estimated at ~58% in fiscal 2023

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 2023 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

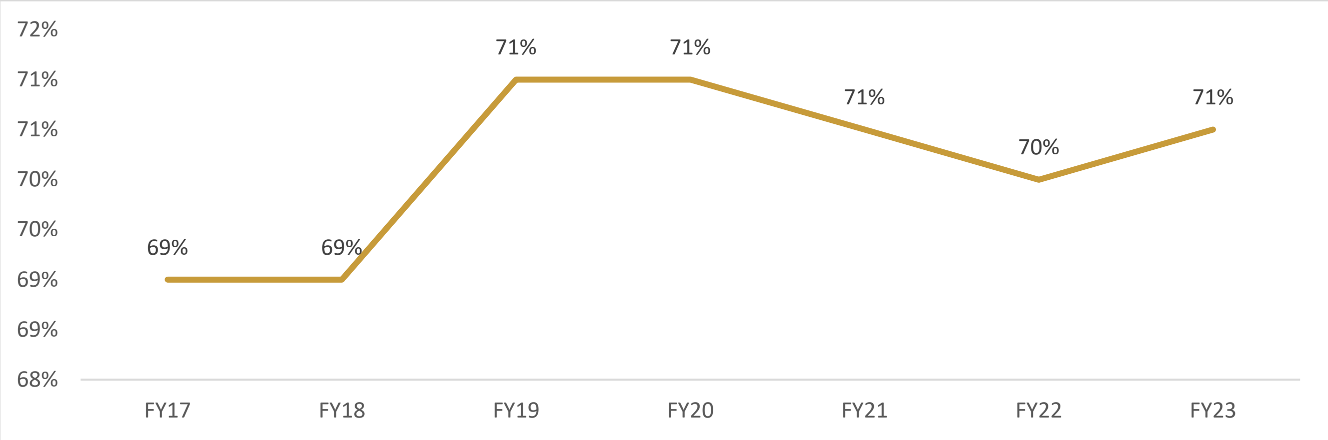


Source: CRISIL MI&A

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, 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. In FY23, retail sales of two-wheelers improved by 25% on year on a lower base of FY22. This led to increase in LTV in fiscal 2023. Going forward, LTVs are expected to increase further as demand sentiments improve.

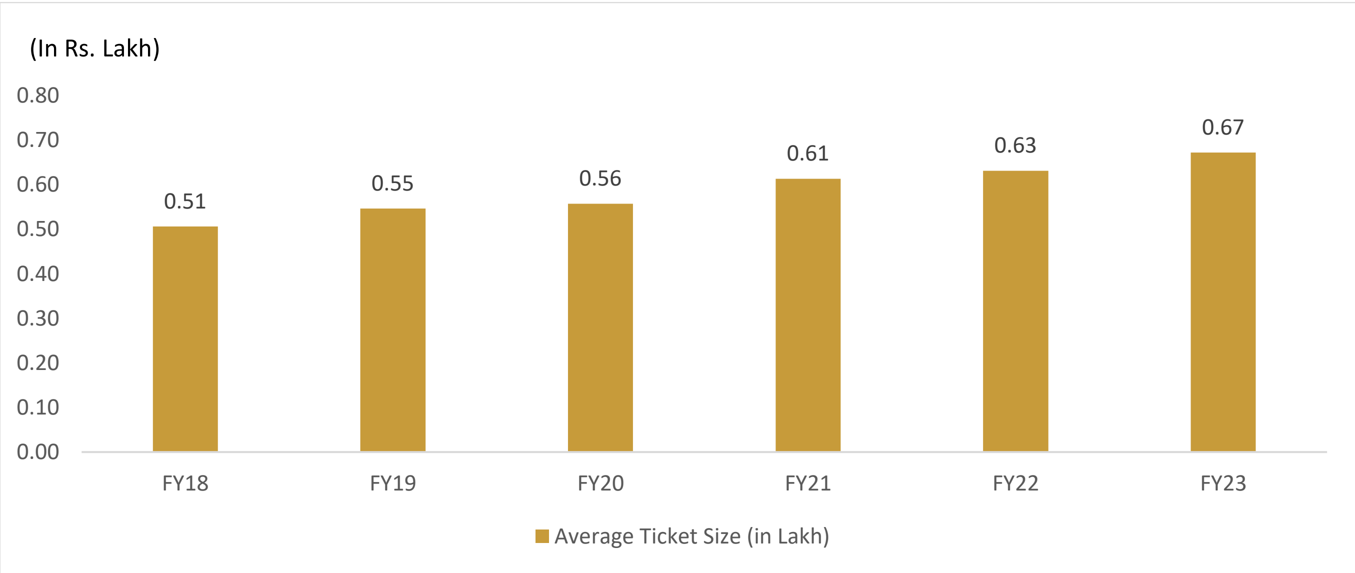


Source: CRISIL MI&A

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 3-5% 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%

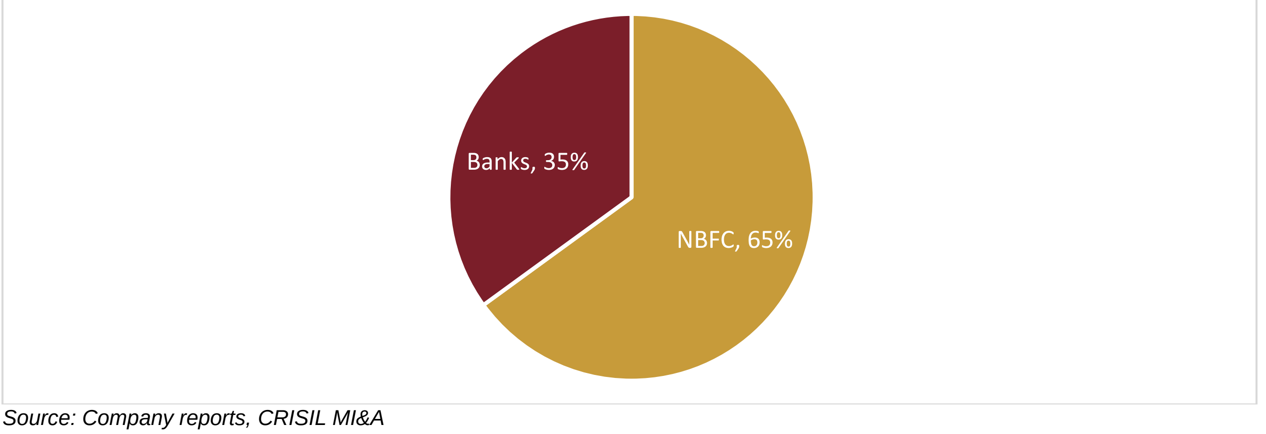
(ii) For NBFCs:

- 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 2023. 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 2023)



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.

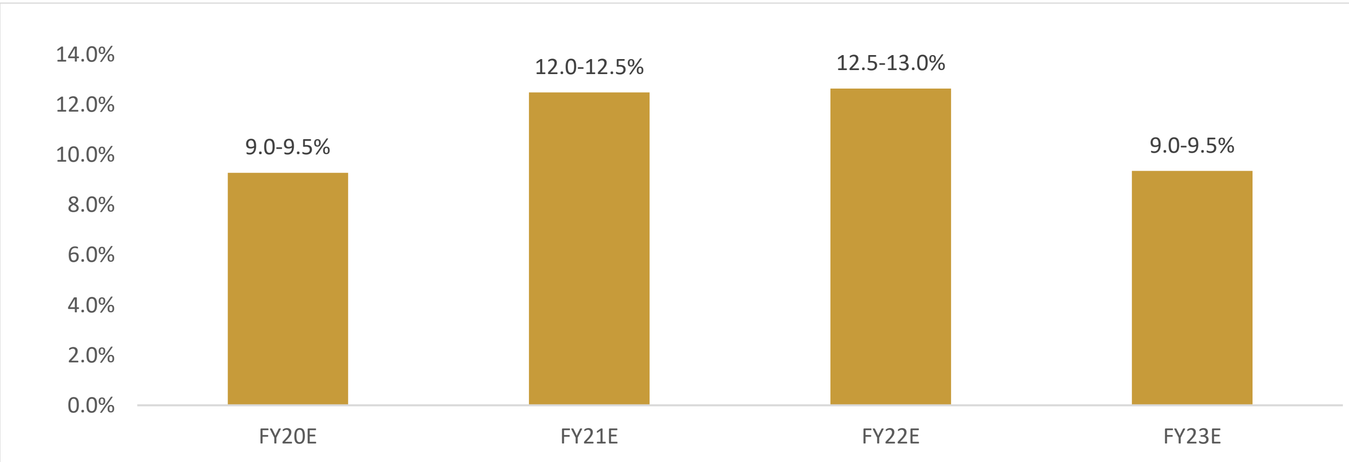
Better LTV and schemes by NBFC players

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 returned to pre-pandemic levels in fiscal 2023

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 to a projected moderate downfall in the fiscals 2024 and 2025. However, 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	FY24P	FY25P
NIMs	17.03%	16.65%	16.15%	16.81%	17.39%	17.81%
Opex	6.00%	5.90%	6.05%	6.20%	6.10%	6.10%
Credit costs	4.70%	7.00%	6.50%	5.00%	4.80%	4.70%
RoA	4.24%	2.51%	2.41%	3.76%	4.35%	4.70%

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.

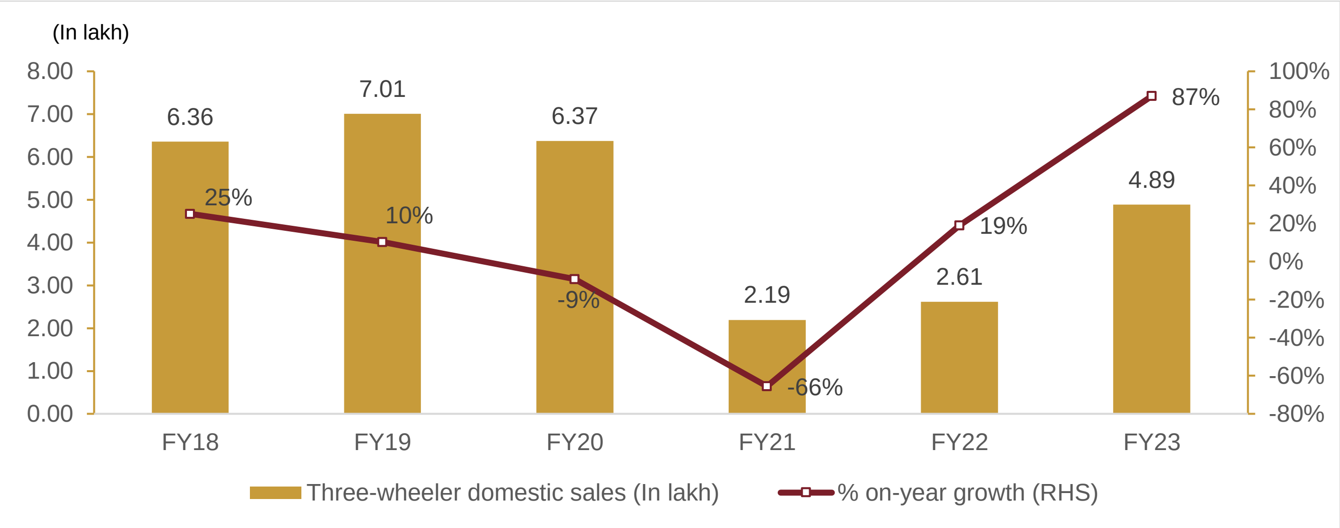
Three-Wheeler Loans

Three-wheeler Industry witnessed strong recovery in fiscal 2023

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, the sales increased by a massive 87% on-year due to improving demand sentiments and normalization of economic activities and public mobility. Going forward, CRISIL expects the demand for three-wheelers will continue with increasing traction towards electric three-wheelers as well in Fiscal 2024.

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 has increased to 82% in Fiscal 2023. 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 87% on-year growth in fiscal 2023



Source: SIAM, CRISIL MI&A

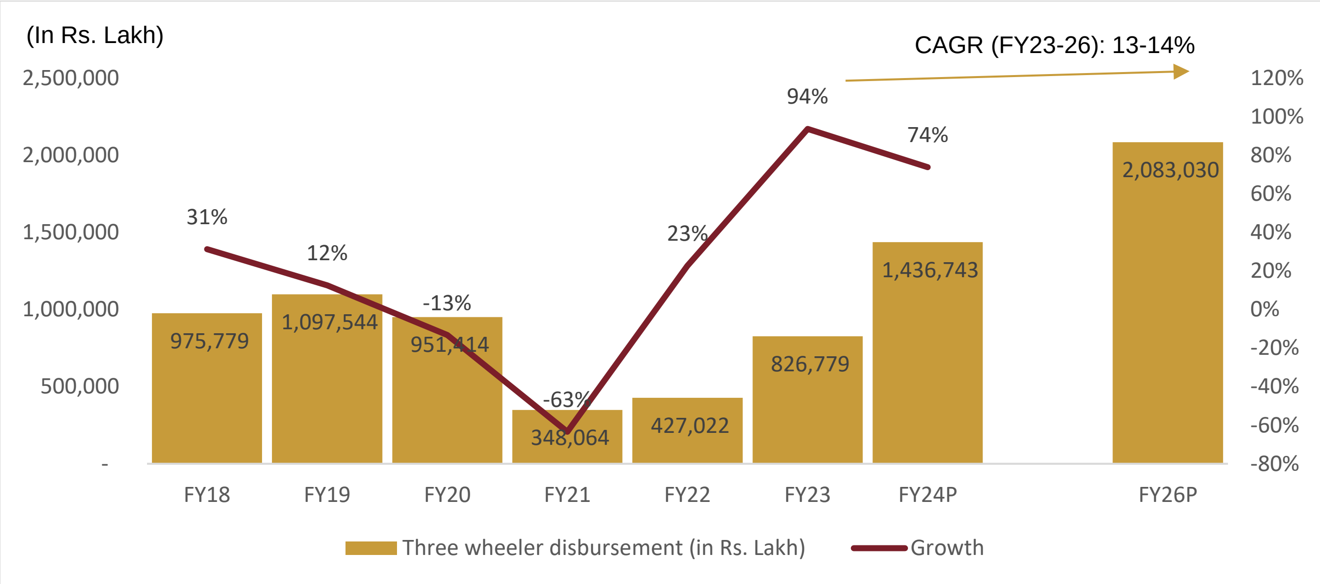
As per the reports of Federation of Automobile Dealers Association (FADA), three-wheeler sales recorded an exponential growth of 66% on-year as of H1FY24, consistently registering exceptional growth every month. The growth was led by positive market sentiments and increasing demand of electric three-wheelers in India. Around 5.3 lakh three-wheeler units have already been sold during first half of fiscal 2024, outperforming previous best of H1FY19 which recorded sale of 3.6 lakh units of three-wheelers. This remarkable success in the 3W category highlights the industry's strong comeback.

Three-wheeler disbursements to inch up this fiscal, catch up with pre-Covid rage

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 have witnessed robust growth of 94% led by higher demand, growth in sales and higher finance penetration.

CRISIL MI&A expects three-wheeler disbursements to grow at 13-14% CAGR from fiscal 2023 to 2026, driven by improvement in urban sentiments along with increase in three-wheeler EV penetration. EV penetration is expected to increase in fiscal 2024 supported by the increase in charging stations, lower cost of acquisition and newer model launches from OEMs.

Three-wheeler disbursements recorded a robust 94% growth in fiscal 2023; momentum to continue in fiscal 2024



Source: CRISIL MI&A Estimates

Key Industry Parameters (Three-wheelers)

Finance Penetration to improve over the long term:

Finance penetration as of Fiscal 2023 is estimated at 96% and is expected to improve marginally in the near term.

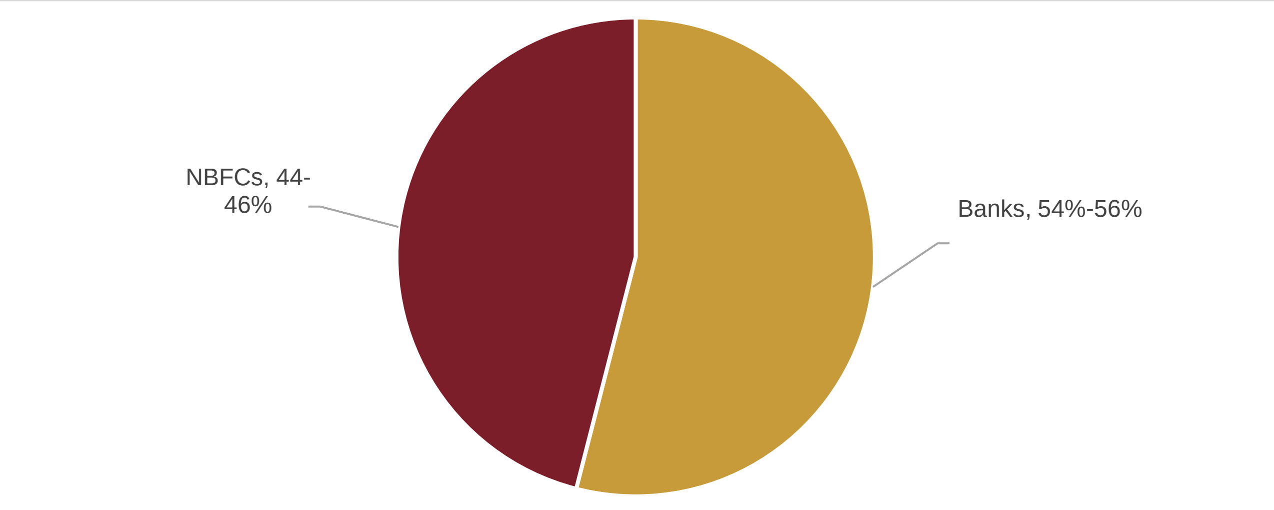
LTVs to improve gradually in the near term

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 (FY2023)



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

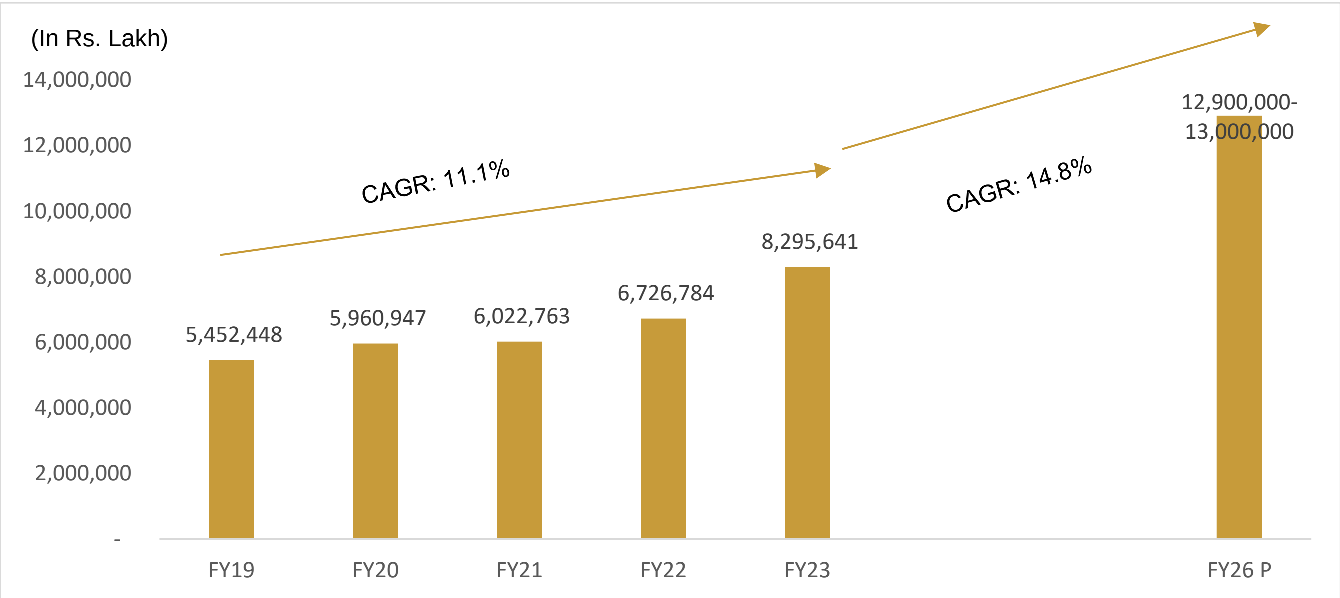
Used car market to grow at a faster rate in coming years

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. 8,300,000 Lakh at end of March 2023.This market size includes loans provided by banks and NBFCs for used cars, which has grown at a CAGR of ~11% between fiscals 2019 and 2023. CRISIL MI&A projects the overall industry growth to be faster at 14-15%, 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 reach Rs. 13,000,000 Lakh as of March 2026

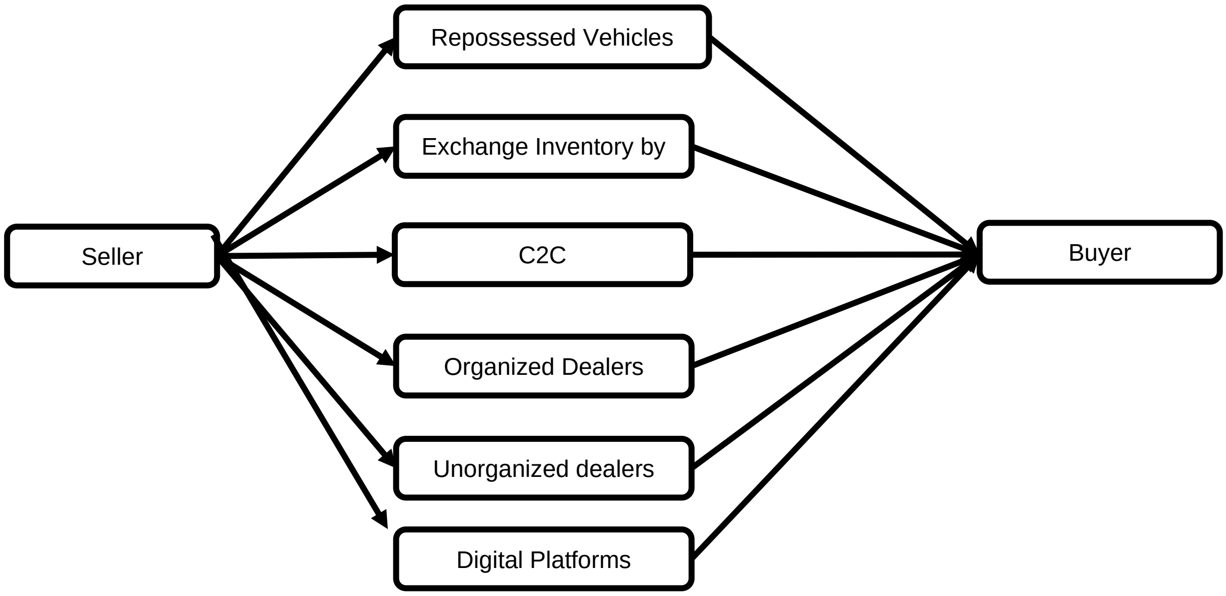


Source: Industry, CRISIL MI&A Estimates

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. As Fiscal 2024 progresses, the used car industry has gradually 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.

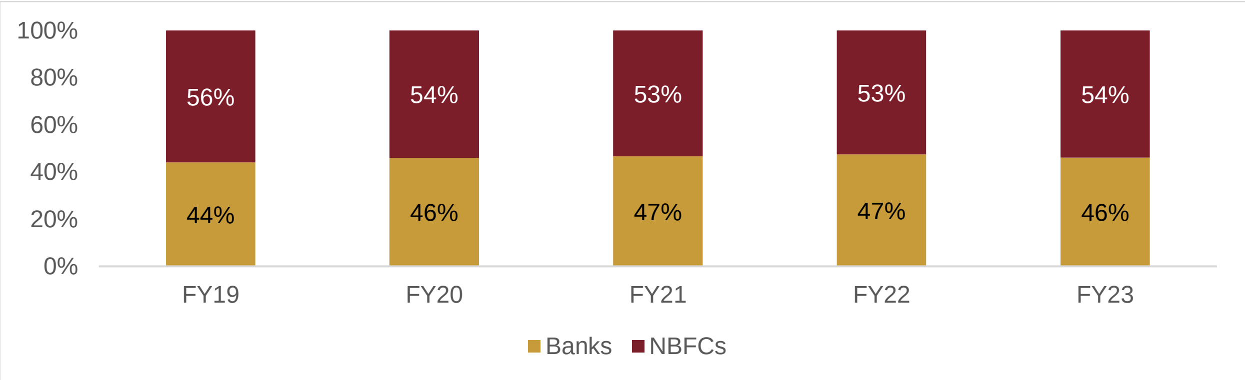
Escalating Ownership Costs of New Vehicles

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 (2023)

As of Fiscal 2023, 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 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 2023



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 and 2.2% as of March 2023. Going forward CRISIL MI&A expects the asset quality to improve and moderate 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 formalisation 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 7.5-9%, Opex ranging between 2.5-3.5%, with profitability, i.e. return on assets hovering around 2.4% to 3.5%. CRISIL MI&A estimates the profitability of this segment to grow in fiscal 2023, owing to better credit costs and increased interest yields. Going forward, in fiscal 2024, borrowing costs are projected to stabilize or show a slight upward movement. The overall profitability of used car loans is anticipated to remain stable, driven by sustained higher interest income.

MSME Loans

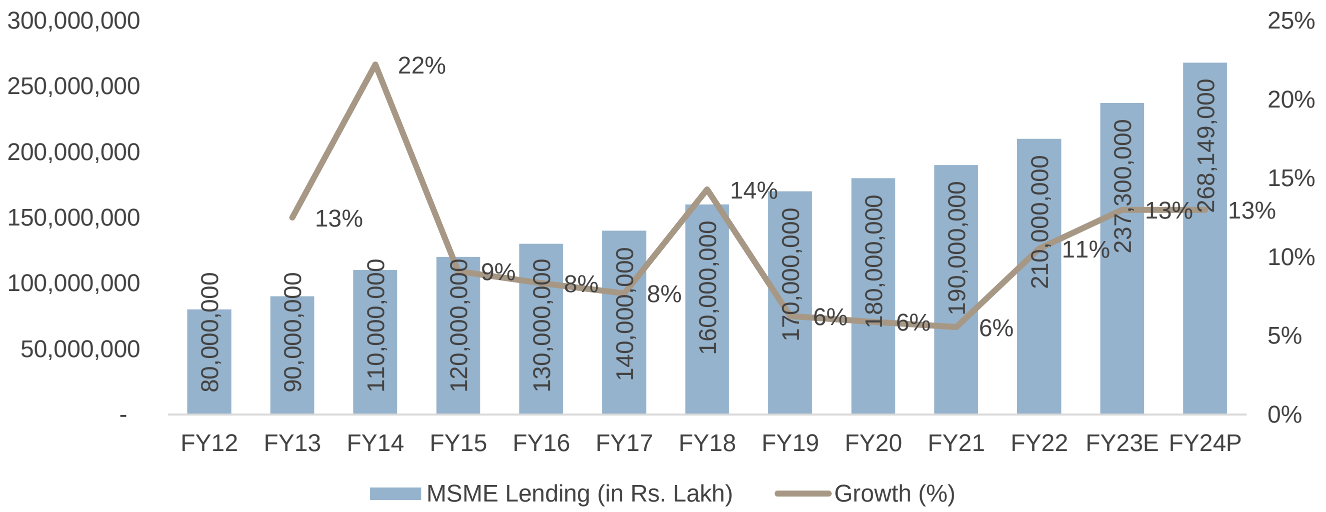
Overall MSME lending has grown at a CAGR of 10% in the past decade

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 ₹ 237,300,000 Lakh as of March 2023. 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.

CRISIL MI&A estimates loans to MSMEs to have grown at a CAGR of 10% during Fiscal 2012 to Fiscal 2023, which is similar to the nominal GDP growth in this period. This can be attributed to various events during this time span that has impacted MSMEs – demonetisation of high-value currency loans in November 2016, the implementation of GST subsequently, the economic slowdown in Fiscal 2020 followed by the COVID-19 pandemic. In Fiscal 2023, with recovery in economic activity, MSME lending is estimated to have grown at a 13% growth rate year-on-year. In addition, in Fiscal 2024, CRISIL MI&A projects the MSME overall industry growth to be at 13% - 15% owing to budgetary push and rise in entrepreneurship in India.

MSME credit outstanding estimated at ₹ 237,300,000 Lakh as of March 2023

(in Rs. Lakh)



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.

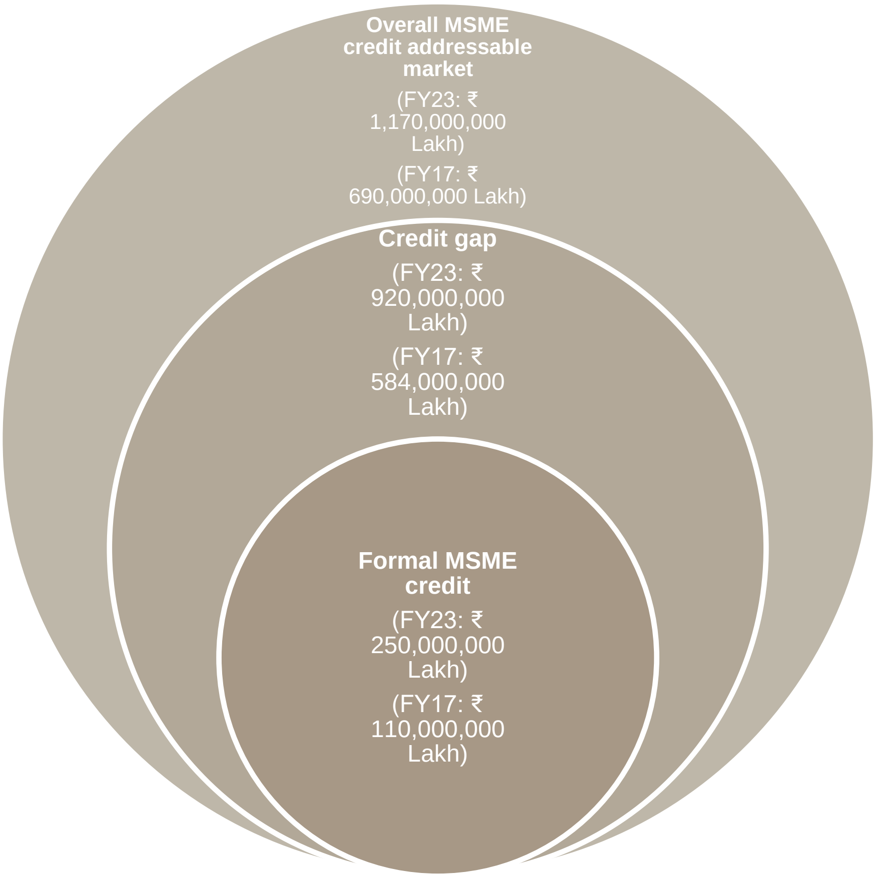
NBFCs have managed to carve out a strong presence in MSME loans due to their focus on serving the needs of the customer segment, faster turnaround time, customer service provided and expansion in geographic reach. Over the years, the MSME portfolio of NBFCs have grown at a faster rate than the overall 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 ₹ 920,000,000 Lakh as of Fiscal 2023.

Credit Gap estimated at ₹ 920,000,000 Lakh as of Fiscal 2023



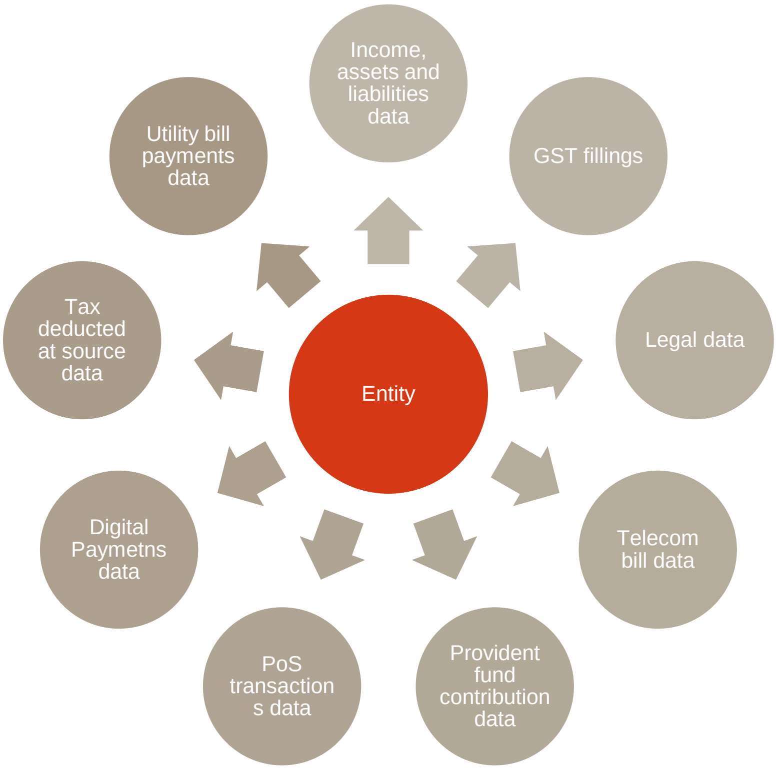
Note: Overall formal MSME credit given above includes all kinds of secured and unsecured loans given to MSMEs across ticket sizes by organised lenders.

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 ₹ 6,060,000,000 Lakh in fiscal 2023. Within UPI, the quantum of person-to-merchant payments has zoomed from ₹ 62,000,000 Lakh in Fiscal 2021 to ₹ 307,000,000 Lakh in Fiscal 2023. 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

With the availability of multiple data points and technological advancement, TAT for lending to MSMEs has been continuously declining. This too is expected to drive the demand for MSME loans.

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 ₹ 240,000,000 Lakh as of March 2023. 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.

Key Industry Parameters for overall MSME loans

	NBFCs	Public sector banks	Private Banks
Average ticket size	₹ 8 lakhs	₹ 13 lakhs	₹ 23 lakhs
Market size for overall MSME (Rs Lakh)	₹ 43,820,000	₹ 66,430,000	₹ 123,970,000
Average GNPA (as of March 2023)	4.9%	3.8%	1.4%

Source: CRISIL MI&A Estimates

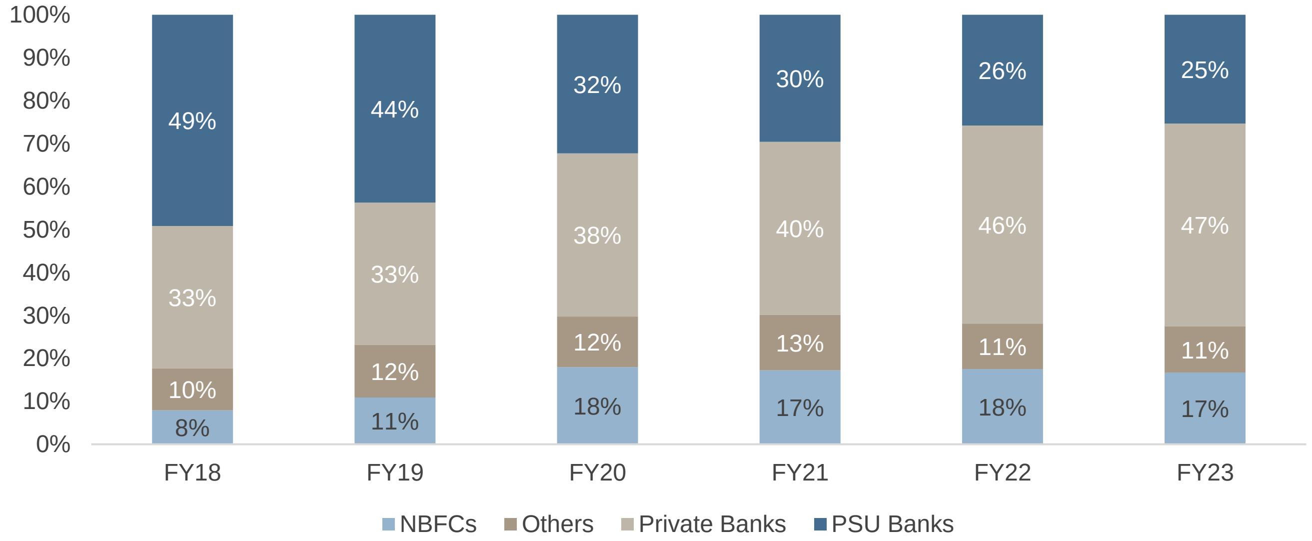
Within NBFCs, there are players that operate at relatively higher ticket sizes and offer both secured and unsecured business loans. These NBFCs offer loans at the most competitive rates among other NBFCs, target customers that are relatively better in terms of credit profile and have lower cost of borrowings 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.

NBFCs increasing their presence in the overall MSME loans segment

NBFCs have managed to carve out a strong presence in MSME loans segment 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 2023, the cumulative market share of NBFCs in MSME loans outstanding is estimated to be around 17%. Bajaj Finance is the largest unsecured loans provider among NBFCs in India with outstanding loans of ₹ 11,350,000 Lakh as of September 30, 2023.

Over the years, the MSME book of NBFCs has grown at a similar rate compared with the portfolio at a systemic level, clocking a CAGR of 34% over Fiscals 2018 and 2023. Market share of NBFCs remained stable between Fiscal 2018 and 2019 due to demonetisation and the NBFC liquidity crisis but has increased subsequently. Going forward, CRISIL MI&A expects the market share of NBFCs in this segment is expected to continue to remain in the same range.

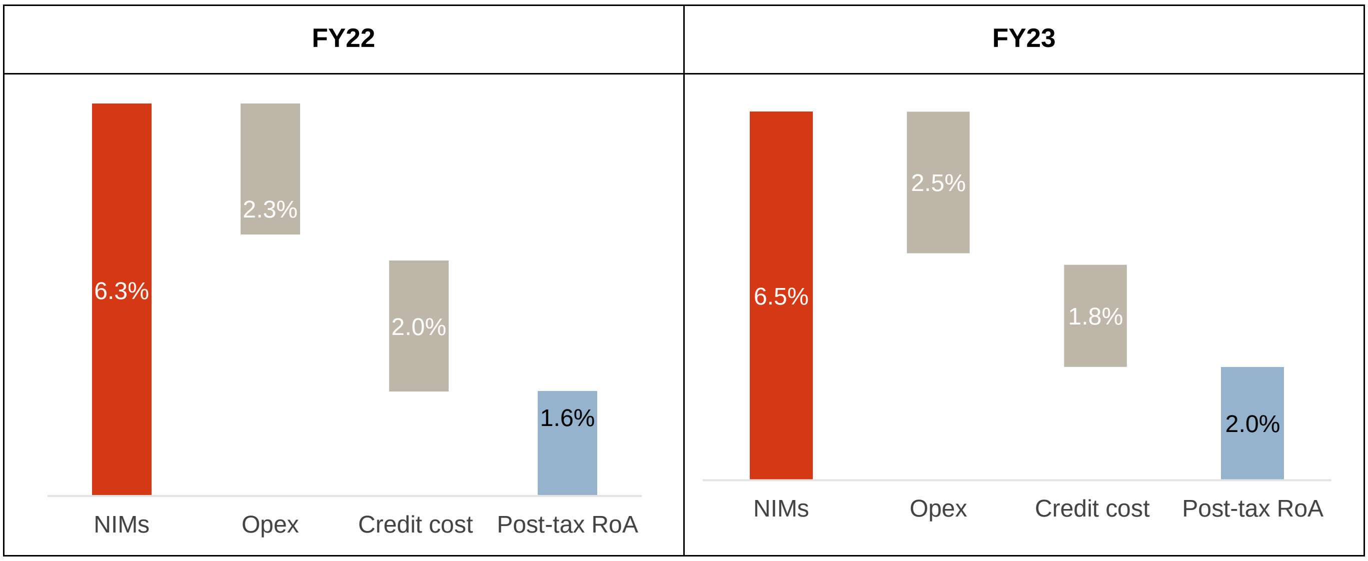
NBFCs share in overall MSME loans at 17% in Fiscal 2023



Source: CRISIL MI&A Estimates

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 10-11%, net interest margins ("**NIMs**") for this segment are in the range of 6-7%. 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.



Source: CRISIL MI&A estimates

Asset quality for overall MSME at 3.2%; 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 3.2%. 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.

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 117,113,772 Lakh as of March 2023.

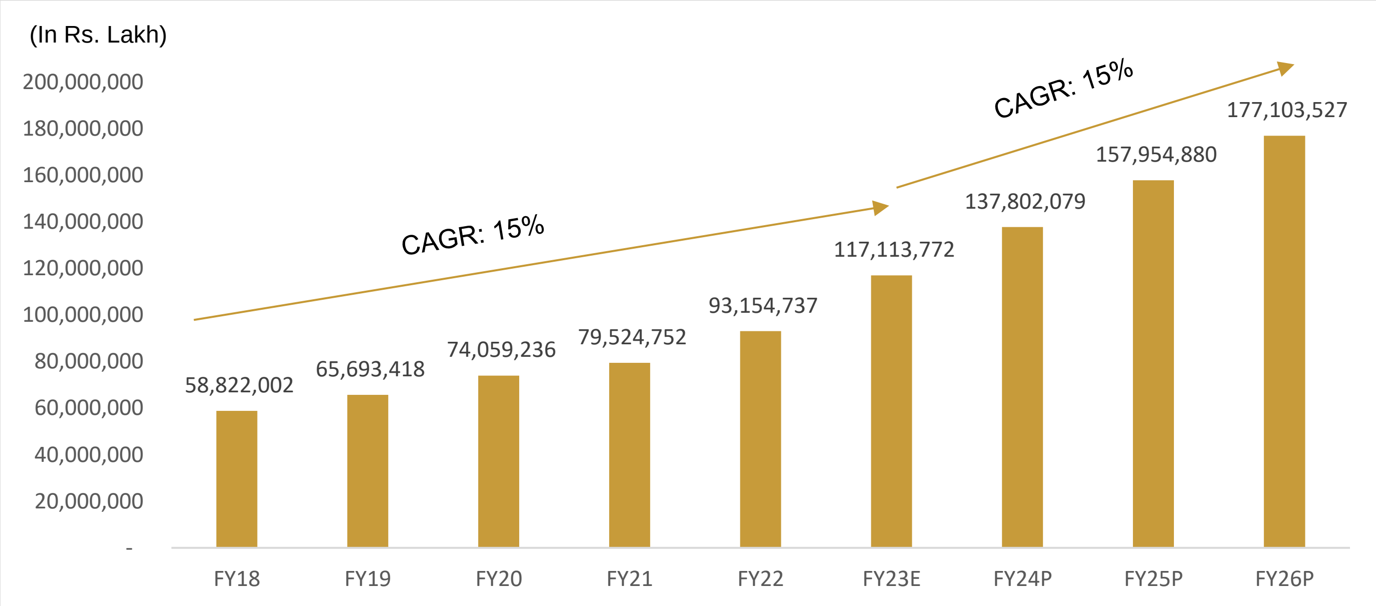
Small business loans grew at a fast pace, registering a CAGR of 15% over fiscal 2018 and 2023. Over the years, more data availability and government initiatives like GST has led to increasing focus of lenders, especially the NBFCs, on the underserved segment of MSME customers as lending to this segment 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. The segment recovered during the last three quarters of fiscal 2022, as the impact of the second wave was contained, leading to 17.1% growth in the small business loans in fiscal 2022. Improvement in demand from MSMEs was supported by the central government's decision to extend ECLGS to March 31, 2022 (extended further to March 31, 2023) and increase in the guarantee to Rs 45,000,000 Lakh from Rs 30,000,000 Lakh (subsequently increased further to Rs 50,000,000 Lakh).

Small business loans registered fastest growth in overall MSME loans at a robust 25.7% in fiscal 2023 to reach Rs. 117,113,772 Lakh while mid-corporate loans grew at 11% and overall MSME loans grew at 13% in fiscal 2023. 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 2023 and 2026



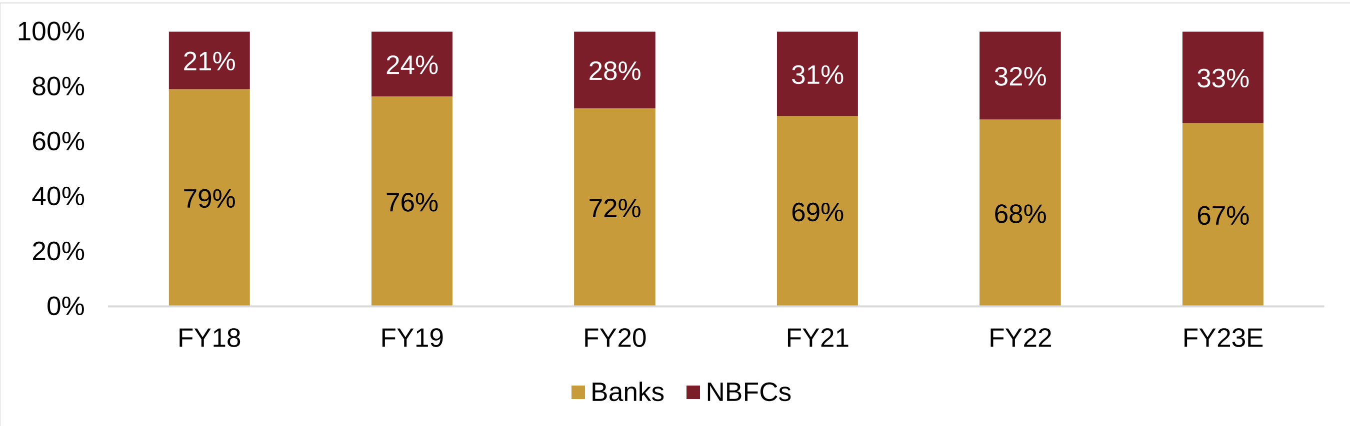
Note: E-Estimated, P-Projected; Source: CRISIL MI&A

Going forward, small business loans are expected to grow at 15% CAGR between fiscals 2023 and 2026 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 2023, the cumulative market share of NBFCs in small business loans outstanding has increased from 21% in fiscal 2018 to 33% in fiscal 2023.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

Asset quality for NBFC Small Business Loans improved in fiscal 2023

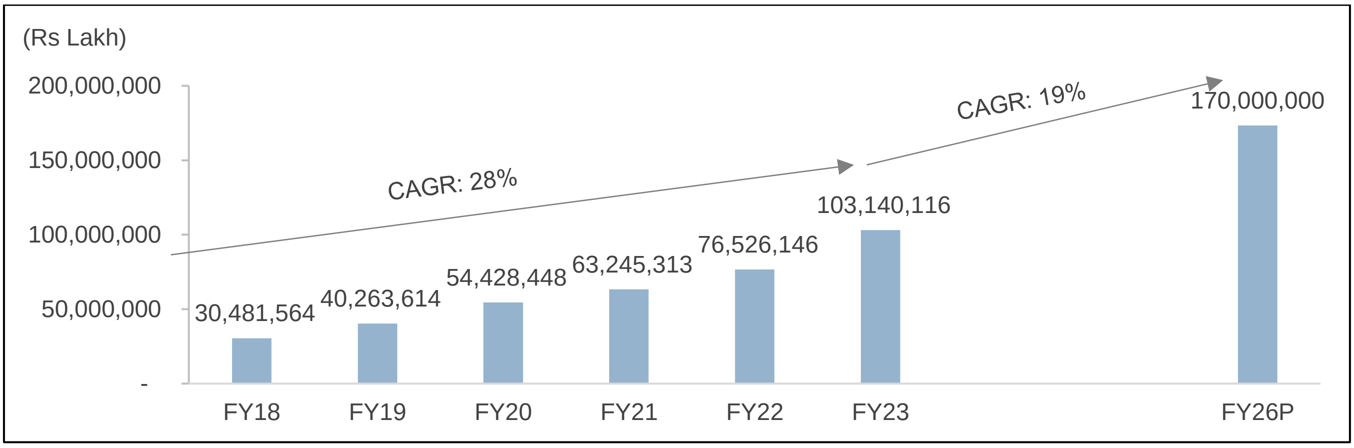
GNPAs in small business loans below Rs 100 Lakh for NBFCs hovered in the range of 2.0-4.0% before fiscal 2021. Overall GNPA in fiscal 2021 and fiscal 2022 increased to around 5.0% and 5.7% respectively due to the impact of the Covid-19 pandemic on MSMEs. However, NBFCs' asset quality improved to 4.2% in fiscal 2023 with continued improvement in economic activity, better collection efficiency, and faster credit growth. CRISIL MI&A estimates the asset quality to be range bound in fiscal 2024 at 4.0-4.5%.

Personal Loans

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

Personal loan outstanding stood at Rs 103,140,116 Lakh in fiscal 2023 and is likely to touch ~Rs. 130,000,000 Lakh in fiscal 2024. 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 2019 and 2023, is expected to grow in the range of 25-27% in fiscal 2024.

Personal loan outstanding to cross Rs 170,000,000 Lakh 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.

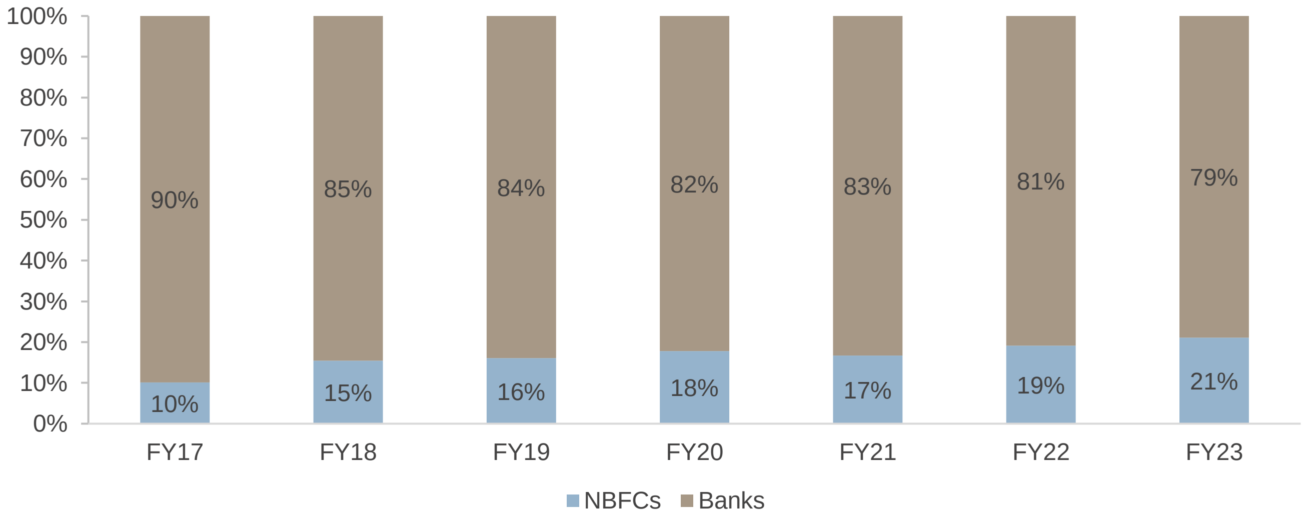
Where banks are offering pre-approved loans to their existing customers, NBFCs on the other hand are trying to increase their focus by diversifying portfolio through cross sell. New age digital NBFCs are focusing on acquiring and lending to customers which are largely underserved by the incumbents like 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 growth to a significant 57% leap in fiscal 2023. The credit growth of banks on a higher base was healthy at 32% in fiscal 2023 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 2024. 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 fintechs and NBFCs deepening their market penetration, the share of small-ticket personal loans (STPLs) is gradually increasing. The share of STPLs, which are loans below Rs 1 Lakh, has risen gradually over the past few years. The volume of these transactions grew to 86% of the total transactions in fiscal 2023 from 83% in fiscal 2022. But in terms of value, these loans grew to 12% of total disbursements in fiscal 2023 from 10% in fiscal 2022. NBFCs and fintechs focus more on this bucket of personal loans and thus drag the overall average ticket size lower.

NBFCs account for 29% of the market share in terms of value but have 88% share in terms of the volume of transactions leading to a declining ticket size trend in the last few years.

The average ticket size is ~Rs 0.28 Lakh for NBFCs and Rs 4 Lakh for banks vis-à-vis an overall average of ~Rs 0.76-0.77 Lakh. Hence, NBFCs are taking the average ticket size lower with their strong reach and network.

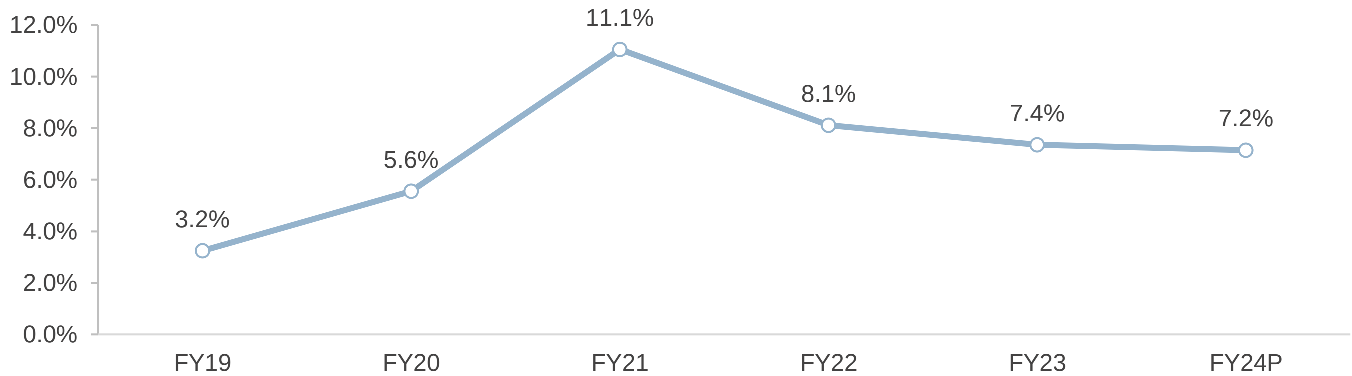
Fintechs have been rapidly expanding their base in the personal loan segment by offering small ticket and low duration loans to younger, low-income, and digital-savvy customers with insufficient credit history. With the rapid adoption of technology amongst financiers and customers, personal loans form the majority segment of disbursements in digital lending. The loans disbursed are as low as Rs 0.05-0.2 Lakh for aspirational customers. Fintechs primarily rely on the customer's mobile phone data to assess their repayment ability. Algorithms track and analyse mobile phone data for specific insights on a customer's liquid cash flow as well as repayment history, along with spending habits.

NBFCs and fintech's risk management processes and data analytics capabilities have evolved over the years along with underwriting norms and monitoring mechanisms.

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 7.35% as of March 2023, improving from 8.57% as of March 2022. They are expected to improve further at 7.10-7.20% in fiscal 2024 driven by further improvements in collection efficiencies. Also, lenders wrote off bad loans when the probability of default was higher, coupled with healthy growth in loan book will lead to an improvement in GNPAs. Given the unsecured nature of segment, asset quality will always be a key monitorable.

GNPAs estimated to further improve in fiscal 2024



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 2021 and 2022 and 2023. 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 36% between fiscals 2021 and 2023 amongst the peer set

In terms of AUM, Hero Fincorp had the highest AUM amongst the selected peer set, at Rs 3,780,000 Lakhs, at end of fiscal 2023, followed by TVS Credit and Muthoot Fincorp, which had an AUM of Rs 2,060,200 Lakhs and Rs. 1,761,507 Lakhs, respectively. In terms of growth, Arman Financial, TVS Credit & MAS Financial has reported a higher AUM growth of 35.7%, 35.6% & 22.7% CAGR between fiscal 2021 and 2023 respectively. Manba Finance has reported the sixth highest AUM growth rate CAGR of 12.3% between fiscal 2021 and fiscal 2023 to reach Rs. 63,368 Lakhs.

In terms of disbursement, Manba Finance has reported a fifth highest growth of 36.1% CAGR between fiscal 2021 and 2023 among the peers for which data is available. Muthoot Fincorp faced a marginal decline in AUM (-2.9%) but saw positive trends in disbursements. In terms of Capital Adequacy, Manba Finance had a CRAR of 33.7%, at end-fiscal 2023.

AUM and Disbursement for Players (Fiscal 2023)

Player	AUM (Rs. Lakh)				Disbursement (Rs. Lakh)			
	FY21	FY22	FY23	CAGR (FY21-23)	FY21	FY22	FY23	CAGR (FY21-23)
Arman Financial	17,128	21,122	31,529	35.7%	9,210	18,318	28,186	74.9%
Baid Finserv	24,905	26,314	30,086	9.9%	5,500	8,300	11,300	43.3%
Berar Finance	67,181	83,198	94,705	18.7%	58,539	74,156	84,252	20.0%
Hero Fincorp	2,512,100	3,023,100	3,780,000	22.7%	1,382,200	1,854,300	2,583,700	36.7%
Manba Finance	50,217	49,580	63,368	12.3%	24,600	30,190	45,545	36.1%
MAS Financial	537,240	624,680	809,256	22.7%	NA	NA	NA	NA
Muthoot Fincorp	1,868,938	1,732,313	1,761,507	-2.9%	3,874,460	3,515,400	4,003,983	1.7%
TVS Credit	1,120,000	1,391,100	2,060,200	35.6%	862,700	1,253,300	2,165,200	58.4%

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

Source: Company reports, CRISIL MI&A

Capital Adequacy for Players (Fiscal 2023)

Player	Capital Adequacy Ratio			
	FY21	FY22	FY23	Avg. (FY21-23)
Arman Financial	48.8%	29.1%	32.6%	36.8%
Baid Finserv	47.4%	51.0%	50.7%	49.7%
Berar Finance	20.5%	28.8%	26.3%	25.2%
Hero Fincorp	19.7%	15.6%	20.6%	18.6%
Manba Finance	28.8%	34.2%	33.7%	32.3%
MAS Financial	26.9%	26.4%	25.3%	26.2%
Muthoot Fincorp	16.9%	19.4%	21.3%	19.2%
TVS Credit	18.5%	18.6%	18.8%	18.6%

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

Source: Company reports, CRISIL MI&A

Manba Finance had second highest AUM per branch in fiscal 2023 among peers

Manba Finance had the second highest AUM per branch at Rs. 2,640.3 Lakhs followed by Berar Finance at Rs. 823.5 Lakhs, at end of fiscal 2023 among the players for which data is available. Amongst the peer group, Hero Fincorp had the highest AUM per employee at Rs. 1266 Lakhs at end of fiscal 2023 followed by MAS Financial at Rs. 701.3 Lakhs at end fiscal 2023 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 31% from 14 in fiscal 2021 to 24 in fiscal 2023, albeit a smaller base. Further, Manba Finance has also witnessed the highest disbursement per branch at Rs. 1,897.7 Lakh in fiscal 2023 followed by Muthoot Fincorp at Rs. 1,106.4 Lakh among the peers for which data is available.

Branch Operational Metrics for Players (Fiscal 2023)

Player	Number of Branches			AUM per Branch (Rs. Lakh)		
	FY21	FY22	FY23	FY21	FY22	FY23
Arman Financial	239	291	336	71.7	72.6	93.8
Baid Finserv	NA	32	37	NA	822.3	813.1
Berar Finance	95	114	115	707.2	729.8	823.5
Hero Fincorp	NA	NA	NA	NA	NA	NA
Manba Finance	14	18	24	3,586.9	2,754.4	2,640.3
MAS Financial	99	125	149	5,426.7	4,997.4	5,431.2
Muthoot Fincorp	3,652	3,657	3,619	511.8	473.7	486.7
TVS Credit	NA	NA	NA	NA	NA	NA

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

Source: Company reports, CRISIL MI&A

Employee Operational Metrics for Players (Fiscal 2023)

Player	Number of Employees			AUM per Employee (Rs. Lakh)		
	FY21	FY22	FY23	FY21	FY22	FY23
Arman Financial	1,889	2,413	2,805	9.1	8.8	11.2
Baid Finserv	155	161	178	160.7	163.4	169.0

Berar Finance	NA	NA	NA	NA	NA	NA
Hero Fincorp	1,829	2,099	2,985	1,373.5	1,440.3	1,266.3
Manba Finance	800	903	1,062	62.8	54.9	59.7
MAS Financial	719	946	1,154	747.2	660.3	701.3
Muthoot Fincorp	16,551	16,873	17,899	112.9	102.7	98.4
TVS Credit	15,782	17,158	19,198	71.0	81.1	107.3

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

Source: Company reports, CRISIL MI&A

Disbursement Operational Metrics for Players (Fiscal 2023)

Player	Disbursement per Branch (Rs. Lakh)			Disbursement per Employee (Rs. Lakh)		
	FY21	FY22	FY23	FY21	FY22	FY23
Arman Financial	38.5	62.9	83.9	4.9	7.6	10.0
Baid Finserv	NA	259.4	305.4	35.5	51.6	63.5
Berar Finance	616.2	650.5	732.6	NA	NA	NA
Hero Fincorp	NA	NA	NA	755.7	883.4	865.6
Manba Finance	1,757.1	1,677.2	1,897.7	30.8	33.4	42.9
MAS Financial	NA	NA	NA	NA	NA	NA
Muthoot Fincorp	1,060.9	961.3	1,106.4	234.1	208.3	223.7
TVS Credit	NA	NA	NA	54.7	73.0	112.8

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

Source: Company reports, CRISIL MI&A

Manba Finance had third highest Yields and fourth highest NIMs in FY2023 among peers

Berar Finance exhibited a substantial increase in Yield on Advances, reaching 23.2%, coupled with a gradual rise in Cost of Funds and NIMs in Fiscal 2023. In Fiscal 2023, Manba Finance had third highest yield on advances and fourth highest NIMs at 22.6% and 10.1% respectively among the peer group.

Profitability Metrics for Players (Fiscal 2023)

Player	Yield on Advances (%)				Cost of Borrowings (%)			
	FY21	FY22	FY23	Avg. FY21-23	FY21	FY22	FY23	Avg. FY21-23
Arman Financial	30.7%	34.3%	35.9%	33.6%	12.3%	10.8%	12.3%	11.8%
Baid Finserv	16.9%	17.2%	17.8%	17.3%	13.6%	12.1%	10.7%	12.2%
Berar Finance	21.2%	21.0%	23.2%	21.8%	14.2%	14.9%	16.0%	15.0%
Hero Fincorp	15.6%	15.0%	16.3%	15.6%	7.3%	6.3%	6.6%	6.7%
Manba Finance	20.7%	19.6%	22.6%	21.0%	13.3%	12.1%	11.4%	12.3%
MAS Financial	12.3%	12.3%	13.3%	12.6%	9.0%	8.5%	9.4%	9.0%
Muthoot Fincorp	18.4%	17.9%	19.3%	18.5%	10.8%	9.2%	8.8%	9.6%
TVS Credit	19.8%	19.4%	21.6%	20.3%	7.8%	6.4%	7.3%	7.2%

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

Source: Company reports, CRISIL MI&A

Profitability and Leverage Metrics for Players (Fiscal 2023)

Player	Debt to Equity Ratio				NIM %			
	FY21	FY22	FY23	Avg. FY21-23	FY21	FY22	FY23	Avg. FY21-23
Arman Financial	1.20	1.26	1.40	1.29	13.8%	14.1%	13.4%	13.8%
Baid Finserv	1.19	1.10	1.10	1.13	8.9%	9.5%	10.2%	9.5%
Berar Finance	4.16	2.33	2.35	2.94	7.4%	7.1%	9.7%	8.1%
Hero Fincorp	4.33	5.42	6.31	5.35	7.7%	8.3%	9.4%	8.5%
Manba Finance	2.63	2.59	3.57	2.93	8.5%	8.7%	10.1%	9.1%
MAS Financial	2.81	3.16	3.88	3.28	4.5%	4.3%	4.8%	4.5%
Muthoot Fincorp	5.58	5.14	4.58	5.10	6.6%	6.9%	7.5%	7.0%
TVS Credit	6.49	6.96	6.84	6.76	11.9%	12.6%	13.8%	12.8%

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

Source: Company reports, CRISIL MI&A

Manba Finance had fourth highest RoA 2.2% in FY2023 amongst the peers

In fiscal year 2023, Manba Finance had the fourth highest Return on Assets (RoA) at 2.2% among its peers. The company achieved the fifth highest Return on Equity (RoE) standing at 9.5%.

In terms of Operating Expenses, TVS Credit has the highest Opex at 8.4%, owing to increase in its touchpoints and employee base. Berar Finance saw Opex rise from 4.8% fiscal 2021 to 6.0% fiscal 2023, while RoE and RoA declined from 11.9% and 2.1% in fiscal 2021 to 6.4% and 1.6% in fiscal 2023, respectively. For Manba Finance, the Opex stood 7.6% at end of Fiscal 2023.

Profitability Metrics for Players (Fiscal 2023)

Player	RoE (%)				RoA %			
	FY21	FY22	FY23	Avg. FY21-23	FY21	FY22	FY23	Avg. FY21-23
Arman Financial	6.4%	12.1%	15.3%	11.3%	2.7%	5.3%	6.3%	4.8%
Baid Finserv	5.6%	6.2%	6.9%	6.2%	2.3%	2.8%	3.1%	2.7%
Berar Finance	11.9%	8.6%	6.4%	9.0%	2.1%	1.8%	1.6%	1.8%
Hero Fincorp	1.5%	3.9%	9.0%	4.8%	0.3%	0.7%	1.3%	0.7%
Manba Finance	6.6%	6.4%	9.5%	7.5%	1.7%	1.7%	2.2%	1.9%
MAS Financial	13.3%	12.5%	14.1%	13.3%	2.9%	2.8%	2.9%	2.9%
Muthoot Fincorp	16.1%	10.4%	12.5%	13.0%	2.5%	1.5%	2.0%	2.0%
TVS Credit	6.6%	7.0%	16.8%	10.2%	0.9%	0.9%	2.1%	1.3%

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

Source: Company reports, CRISIL MI&A

Operational Metrics for Players (Fiscal 2023)

Player	Cost to Income Ratio				Opex %			
	FY21	FY22	FY23	Avg. (FY21-23)	FY21	FY22	FY23	Avg. (FY21-23)
Arman Financial	37.3%	40.7%	39.3%	39.1%	5.6%	6.4%	5.8%	5.9%
Baid Finserv	33.5%	33.2%	32.8%	33.2%	3.1%	3.2%	3.8%	3.3%

Berar Finance	51.6%	62.5%	55.6%	56.6%	4.8%	5.5%	6.0%	5.4%
Hero Fincorp	41.6%	47.1%	45.5%	44.7%	3.9%	4.7%	5.1%	4.6%
Manba Finance	73.5%	75.4%	66.5%	71.8%	7.6%	8.3%	7.6%	7.8%
MAS Financial	15.7%	20.5%	20.9%	19.0%	1.1%	1.2%	1.4%	1.2%
Muthoot Fincorp	65.2%	68.0%	64.7%	66.0%	5.1%	5.1%	5.3%	5.2%
TVS Credit	53.2%	52.4%	52.5%	52.7%	7.3%	7.8%	8.4%	7.8%

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

Source: Company reports, CRISIL MI&A

Manba Finance had third lowest credit cost amongst peers in fiscal 2023

Manba Finance had the third lowest credit cost of 0.7% after Muthoot Fincorp with credit cost of 0.3% and Arman Financial with credit cost of 0.5% in fiscal 2023. In terms of asset quality, Manba Finance has witnessed an increase in gross nonperforming asset (GNPA) from 2.6% to 3.7% between fiscal 2021 and 2023, along with net non-performing asset (NNPA) rising from 2.2% to 3.1% during the same period.

Other players such as Hero Fincorp also experienced fluctuations, with GNPA decreasing from 7.8% in fiscal 2021 to 5.6% in fiscal 2023, and both NNPA and Credit Cost 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, NNPA, and Credit Cost throughout the period.

In terms of asset quality, Manba Finance is among the top five financier among the peers with Gross Non-Performing Asset (GNPA) of 3.7% in FY2023

Asset Quality and Credit Cost for Players

Player	GNPA (%)			NNPA (%)			Credit Cost %		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Arman Financial	6.7%	7.7%	2.6%	1.0%	1.7%	0.6%	6.1%	2.4%	0.5%
Baid Finserv	3.5%	3.3%	2.9%	1.6%	1.0%	0.6%	1.0%	1.4%	1.7%
Berar Finance	2.5%	3.0%	4.6%	1.7%	2.2%	3.0%	1.7%	1.0%	2.8%
Hero Fincorp	7.8%	8.4%	5.6%	4.6%	4.6%	2.8%	5.1%	6.2%	3.3%
Manba Finance	2.6%	5.1%	3.7%	2.2%	4.4%	3.1%	0.5%	0.5%	0.7%
MAS Financial	1.9%	2.3%	2.2%	1.5%	1.7%	1.5%	1.6%	0.6%	0.8%
Muthoot Fincorp	1.9%	2.8%	2.1%	1.0%	1.6%	0.6%	0.3%	0.3%	0.3%
TVS Credit	5.0%	3.7%	4.4%	3.4%	1.9%	2.6%	4.2%	4.1%	3.4%

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

Source: Company reports, CRISIL MI&A

Manba Finance had highest share of Two-wheeler loan followed by Berar Finance

Manba Finance had the highest share of Two-wheeler loans at 96% of AUM followed by Berar Finance at 95% of AUM at end of fiscal 2023. While TVS Credit had 27% of the AUM in Two-wheeler loans in fiscal 2023, Muthoot Fincorp had total share of 8% of the AUM in Two-wheeler including of housing loans at end fiscal 2023.

Product wise AUM mix for Players (FY2023)

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	93%
	Vehicle Loans	7%
Berar Finance	Two-Wheeler Loans	95%
	Other Loans	5%
Hero Fincorp	Retail Individual Loans	62%
	Retail Business Loans	20%
	Corporate Loans	13%
	Other Loans	5%
Manba Finance	Two-Wheeler Loans	96%
	Others (including SME Loans)	4%
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	9%
	Tractor Loans	30%
	Used Commercial Vehicle Loans	11%
	Business Loans	3%
	Consumer Durable Loans	6%
	Personal Loans	14%

Source: Company reports, CRISIL MI&A

Share of Secured Loans for Players (FY2023)

Player	Share of Loans Secured/Unsecured	
	Secured Loans	Unsecured Loans
Arman Financial	19.3%	80.7%
Baid Finserv	71.0%	29.0%
Berar Finance	99.4%	0.6%
Hero Fincorp	58.9%	41.1%
Manba Finance	NA	NA
MAS Financial	74.2%	25.8%
Muthoot Fincorp	79.1%	20.9%
TVS Credit	74.8%	25.2%

Note: NA: Not Available

Source: Company reports, CRISIL MI&A

ALM Position of various peers (Fiscal 2023)

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	2,049,171	1,963,892	1,452,697	2,031,504	596,474	-67,612	141.1%	96.7%
Manba Finance	51,806	27,102	39,997	22,232	11,809	4,870	129.5%	121.9%
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	1,516,786	1,302,302	1,094,718	1,124,776	422,068	177,526	138.6%	115.8%

*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*

Source: Company reports, CRISIL MI&A

Credit Ratings of various peers (Fiscal 2023)

Player	Credit Ratings
Arman Financial	CARE BBB+ (03-Jan-2023)
Baid Finserv	CARE BBB (04-Oct-23)
Berar Finance	CARE BBB (30-Aug-23), ICRA BBB (07-Dec-23)
Hero Fincorp	CRISIL AA+17-Oct-23), CARE AA+ (29-Aug-23), ICRA AA+(15-Sep-23)
Manba Finance	ACUITE A- (23-Jan-23), CARE BBB+(31-Oct-23)
MAS Financial	CARE A+ Stable Positive (18 Jan 2024), ACUITE AA- Stable (07 Sep 2022)
Muthoot Fincorp	CRISIL AA- (29-Nov-23), BWR AA-(26-Aug-22)
TVS Credit	CRISIL AA (16-Nov-23), ICRA AA (06-Dec-23)

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

Parameter	Formulae
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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