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## PROCEEDINGS REPORT

# SA-DHAN CONCLAVE PRODUCT DIVERSIFICATION IN MFIS

*Building Resilient, Responsible & Client-Centric Portfolios*

22nd May 2026 | Hotel Raintree, St Mary's Road, Alwarpet, Chennai

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| Panel Discussion:<br><br>Product Diversification in MFIs: Strategies, Risks & Scale Up | **Presentation:**<br>**Manu Vatayan,** Product Manager, TransUnion CIBIL<br>**Dolly Mishra,** Joint Vice President - Market Development, TU CIBIL<br><br>**Moderator: Prof M.S. Sriram,** IIM Bangalore<br><br>**Speakers:**<br>**Ganesh Narayanan,** MD & CEO, Credit Access Grameen<br>**K.S Raman,** Executive Director, Jana SFB<br>**Kalpana Sankar,** MD & CEO, Varasakthi Housing Finance<br>**Muthukrishnan N,** Head, Emerging Financial Institutions, Sundaram Finance |
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| Panel Discussion: Gold Loans & Vehicle Loans | **Lead Presenter & Moderator:**<br>**Vipul Jain,** Head of Product & Research, CRIF India<br><br>**Speakers:**<br><br>**Raghu Pandit,** Business Head, Hinduja Leyland<br>**A.M. Karthik,** Co Group Head, Financial Sector Ratings, ICRA<br>**Swapna Sarit,** Product Head, Belstar |






# PROCEEDINGS REPORT

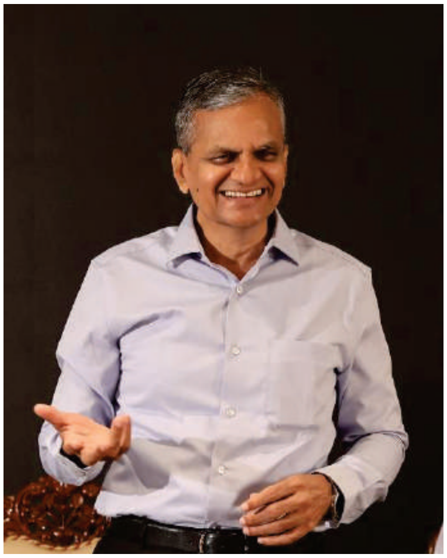



## Reflections on the Current Status of the Microfinance Sector

Mr. Jiji Mammen, CEO of Sa-Dhan opened the event by reflecting on the evolution of markets for rural credit over the years. While originally rural credit began with small non-governmental organizations (NGOs), it expanded to include for-profit microfinance lenders that became progressively regulated over the years, and to today, where there is notably high competition between a variety of lenders and credit products. Mr. Vasudevan reflected on the initial years when microfinance lenders were very open to having more people coming into the sector- as the potential for the sector was vast and untapped- to today, where hyper-competition no longer allows for such openness. He reminisced on the formative years of the sector that were marked by health philosophical debates around what role microfinance must play in the lives of low-income households, and the production of many research and thought-leadership pieces such on the financial lives of low-income households, and papers such as by Prof. M.S Shriram that argued for the need for microfinance focused on urban household needs, questioning the strong association that microfinance had with rural households, at the time.

*Jiji Mammen, ED& CEO, Sa-Dhan*

Given the last 8 quarters of systemic and widespread stress that microfinance has faced in the form of a prolonged household over-indebtedness and asset quality crisis, the initial stage-setting for the Conclave and the subsequent discussions acknowledged this situation in various ways. Speakers alluded to the aggregate lending book of microfinance reaching up to ~ INR 4.5 Lakh crore, and that was too much for households across the country to bear. The resulting reduction in the performing book to INR 3 lakh crore, is perhaps a more honest reflection of the aggregated credit absorption capacity of households being served. There was acknowledgement that despite the economic slowdown and the concomitant lack of increase in household incomes, and more recently, the negative impacts of the West Asia crisis, this particular asset quality crisis is one that was internally triggered due to unscrupulous over-lending, rather than externally triggered as seen in much of the past crises (these included the crises in Krishna-Godavari in 2005, Kolar region in 2006-07, Nanded in 2007-08, Andhra region in 2011, demonetization in 2016, and the Covid pandemic in 2020-21). Speakers also called on members to cooperate and abide strictly by the rules laid out by the Reserve Bank of India (RBI) and Sa-Dhan to prevent the entire sector from taking repetitive hits. Given the announcements of ordinances by select state governments, MFIs have faced situations where they have had to deal with state police, and such situations can be avoided if lenders



*P N Vasudevan, MD, Equitas SFB*

adhere to agreed operating standards. Speakers also called for strengthening operations rigor towards making the right lending decisions.

Many lender representatives expressed their conclusion that the microfinance business, unlike other lending businesses, has many covariate risks by design, that cannot be wished away. While some speakers described the low-income household growing its balance sheet with repeated cycles of microfinance loans, the adage used was 'with increase in incomes comes increase in aspirations', and that the speaker has seen cases of such households investing in more expensive and better education facilities for their children, or leveraged investments for their businesses, only to find that when they cross the INR 3 lakh per annum income cut-off, they no longer find themselves eligible to avail microfinance. Such households then attempt to borrow under duress and get trapped in servicing unsustainable levels of debt. While such conclusions may have issues of their own, the objective of sharing these observations was helpful to consider the role of the INR 3 lakh income cut-off as a policy tool. Another argument is that a single INR 3 lakh income cut-off applied uniformly across India has not accounted for the vast differences in repayment capacities of low-income households across regions.

There was also a sense of despondency expressed by speakers around the microfinance sector experiencing crisis every two to three years over the last one and a half decades. This unfortunately felt like a 'repetitive' feature – the ups and downs the sector has been facing, from 'business-as-usual' to a crisis triggered by local or regulatory events, to write-offs, and further to looking ahead for green shoots, to a reversal of the tightening of capital flows to the sector, and so on. The question that lay ahead was – must the sector resign to such cycles as their fate, or must something be done to get out of this repetitive cycle? There was also caution expressed, that product diversification will not be a panacea for all evils plaguing the sector, and that it comes with its own set of challenges. The reduction to 60% for qualifying assets presents an opportunity to build more diversified assets and better products. However, this relaxation has not been completely made use of, not just since 2025, but even prior to that, since 2022 (when the qualifying asset limit criterion was reduced to 75%), implying that the shift to introduce non-microfinance loan offerings does not present an easy path ahead. Hence this Conclave is to reflect on how the opportunity may be considered more thoroughly by the microfinance sector.

## Regulatory Enablers For Considering Lending Product Diversification

According to Sa-Dhan, a set of notable policy shifts are making it easier for NBFC-MFIs to diversify beyond JLG microfinance and into other credit offerings such as across customer segments like retail or MSME, and product types like gold loans and housing loans. These shifts are briefly summarized below.

### *A. Relaxations introduced by the RBI on non-qualifying assets on the books of NBFC-MFIs*

Prior to the RBI's 2022 regulatory framework for microfinance, NBFC-MFIs had to maintain at least 85% of their net assets as 'qualifying assets'. The qualifying loans themselves had detailed conditions such as income caps, loan size caps, tenure restrictions, pricing limits and borrower indebtedness caps. The RBI's 2022 regulatory framework reduced the qualifying assets requirement to 75%, but in June 2025[1], this threshold was reduced further to 60%, thereby according even greater regulatory room to NBFC-MFIs to formulate other loan products for their customers and diversify their lending books.

### *B. Progressive shift from 'group' to 'household' as the borrowing unit*

While initially developed as loans given to individuals who form groups that undertake self-monitoring through peer-pressure, the definition of what constitutes microfinance had evolved towards considering the individual borrower and their household's abilities to repay. The RBI's recent shifts in regulatory stance are both supportive of the continued relevance of NBFC-MFIs with their strong rural networks and deliberate in their attempt to push these entities towards offering curated products that serve the needs of rural households.

### *C. Recent other policy developments*

- ***Collateral-free MSME loan limit doubled to INR 20 lakh:*** The announcement by RBI in April 2026 raises the mandatory collateral-free threshold from INR 10 lakh to INR 20 lakh, with discretion up to INR 25 lakh, squarely covering NBFC-MFI ticket sizes.
- ***Unified Lending Interface (ULI) rollout:*** RBI's 2024–25 ULI launch creates consent-based, frictionless access to borrower's data, cutting underwriting time and cost for thin-file rural borrowers who have such data.
- ***Co-Lending Directions 2025:*** RBI's co-lending directions now permit co-lending beyond what was permitted within priority sector regulations. This allows NBFC-MFIs to co-originate retail and MSME loans with banks, tapping cheaper bank capital while retaining customer relationships and servicing fees.
- ***SRO guardrails on borrower indebtedness:*** The 2025 guardrails cap borrowers at 3 lenders and an INR 2 lakh household debt ceiling, tightening JLG lending while improving credit hygiene.

*Shyamasree Nandan, VP, Sa-Dhan*

[1] Review of Qualifying Assets Criteria, DoR.FIN.REC.25/03.10.038/2025-26, RBI, 6 June 2025, also reflected in the latest Master Directions

## Overlaps between Microfinance and other Loans in Microfinance Borrower Portfolios

A key question whose answer will help understand whether the microfinance borrower is willing to, is able to, and needs other non-microfinance products, is whether they already avail them, to what extent and from whom. TransUnion CIBIL (TUC) presented data[2] on key trends to note regarding microfinance and retail finance sectors – TUC's overarching observation was that there is already a small but growing overlap between retail and microfinance borrowers. First TUC noted that India's credit market has grown over 2.2x in the last 6 years driven primarily by retail loans. Retail loans have grown faster than microfinance and commercial loans since 2020 (Covid). It then discussed the extent of **overlap between microfinance and retail borrowings**, using data from their credit records engine. To do this, TUC analysed the data on microfinance borrowers across three points in time spread over 18 months and found the following overlaps. Notably, the overlap increased 10% over these 18 months from 38% to 48%.

| Time | Mar 2020 | May 2021 | Feb 2026* | Growth since Mar 2020 |
|---|---|---|---|---|
| Value (INR Lakh Cr) | 133 | 141 | 296 | |
| MFI* | 1% | 2% | 1% | 1.4x |
| Retail | 43% | 44% | 53% | 2.7x |
| Commercial** (<= INR 100cr) | 17% | 17% | 15% | 2.2x |
| Commercial (> INR 100cr) | 39% | 37% | 31% | 1.8x |

*MFI balances reported as on Jan26 | ** Commercial – Entities with aggregate credit exposure upto 100 crs | Excludes SHG trades
MFI loans include Joint Group Liability Loans which are women group oriented and are Income Generating Loans
Retail Loans include products such as Credit Cards, Personal Loans. Consumer Loans, Housing & Property Loans, Auto Loans. Two-wheeler Loans and Gold Loans
Commercial Loans include lending to entities with Working Capital, Term Loans and Business Loans

Among the cohort of microfinance borrowers who had a live consumer tradeline, 61% had a single retail tradeline while the remaining 39% had 2 or more tradelines. 54% of the cohort had live retail tradelines of more than INR 1 lakh sanctioned. High retail leverage (having 5 or more live trades) was limited to ~6% of the cohort and is largely concentrated in the INR 3 lakh+ sanctioned amount segments.

**Delinquency is consistently lower on retail loans as compared to MFI loans for overlap borrowers.** For the above cohort, the highest overlap was observed in Business Loans (7.3%), Gold Loans (5.5%), and Personal Loans (5.1%). Delinquency measured in 90+ days, was found to be higher on the MFI side for these borrowers (90+ at 3.7%) versus the Retail side (90+ at 2.3%), translating to ~1.6x higher risk.

| Portfolio as on - | Mar 2024 | Dec 2024 | Sep 2025 |
|---|---|---|---|
| Live MFI Borrowers | 100% | 100% | 100% |
| Overlap % (Consumer Presence) | 38% | 40% | 48% |
| Consumer Tradeline (Live + Closed) % | 28% | 30% | 35% |
| **Consumer Tradeline (Only Live) %** | 18% | 22% | 25% |

The non-NBFC-MFI lenders in the Conclave shared their candid observations and challenges. For instance, an affordable housing financier mentioned that they have only 15% of their customers as microfinance customers – they had progressively moved away from them operationally, considering them too risky to lend to. Representatives from small finance banks (SFB) said that microfinance was 10%- 27% only of their overall portfolio, as there were huge co-variate risks, and saturation.

| Sept 2025 Portfolio | | | |
|---|---|---|---|
| Product | Overlap % | Retail 90+% | MFI 90+% |
| Business Loan | 7.3% | 3.2% | 3.9% |
| Gold Loan | 5.5% | 0.9% | 2.1% |
| Personal Loan | 5.1% | 3.8% | 3.9% |
| Agri / KCC / PSL | 4.2% | 3.2% | 5.3% |
| Consumer Loan | 3.0% | 2.0% | 2.9% |
| 2-W Loan | 1.5% | 3.4% | 4.2% |
| **Overall** | 25% | **2.3%** | **3.7%** |

[2] The tables are reproduced from presentation by TUC

One of the SFBs shared that when borrowers were required to sign up for standing instructions on their specific SFB bank accounts for auto-debits for repayments, this mode had the lowest delinquency as compared to other modes such as standing instructions with accounts in other banks, or repayments via field-led collections.


*Dolly Mishra, Joint Vice President - Market Development & Manu Vatayan, Product Manager, TransUnion CIBIL*

## Potential Credit Products

The Chart lists the benefits from product diversification alongside the various challenges such diversification can pose. While the decision on which products or combinations of products to newly adopt is best left to the boards and senior managements of MFIs to take, these decisions will also have a material bearing on existing business operations for microfinance loans.

*Chart: Benefits & Challenges*

**Benefits**

- Portfolio risk reduction
- Better retention via client graduation
- Improved borrower lifetime value
- Lower-single product dependence
- Access to new funding pools
- Stronger co-lending/BC partnerships

**Challenges**

- Increased operational complexity
- Needs markedly more sophisticated underwriting
- Staff retraining and retention
- Increased technology costs
- Sharper Early Warning Systems

The sessions at the Conclave dived deep into specific pre-selected credit products that were already known to be availed by a subset of microfinance customers and therefore fulfilling an existing latent demand by the same or adjacent customer segments. These included unsecured business loans, gold loans, vehicle loans, micro-housing loans, and loans against property (LAP). While one of the speakers emphasized that unless the customer is the decision-maker about what sort of product he/she wants, in terms of amount, tenure, flexibility and timing, and unless the lender is able to synthesize such offerings, the sector may not be able to escape the vicious cycles of crises nor would it be able to truly add value to the customers' lives.

| Credit Underwriting | End-Use Monitoring | Digital Collections | Collateral & MODT |
|---|---|---|---|
| Household cashflow — not JLG guarantee. FOIR max 50% if NMI <INR 25K (RBI floor)<br>Informal income and expenses assessed via alternate data and detailed physical visit for the household. | Field visit within 1 month of disbursal and if required, schedule another visit within 3 months<br>Photograph evidence. Business asset & inventory check.<br>End use monitoring | NACH mandate registered before disbursal — no exceptions<br>UPI AutoPay as backup<br>Bounce SOP activated from Day 1 of any EMI miss | For secured business loans only, 4 non-negotiable steps:<br>1. Legal opinion<br>2. valuation report<br>3. Momorandum of Deposit of Title Deed (MODT) registration<br>4. CERSAI within 30 days |

This section carries summaries of the staging presentations and proceedings of the panel discussions for each of the 4 loan products (the last panel jointly covered gold loans and vehicle loans). For each product, the story has been told from one or more lenses, the most prevalent lens being that of a practitioner who developed (beyond a pilot) a sizeable asset under management (AUM) for the product in their respective organizations, followed by that of consulting agencies who support lenders with strategy and operations, and credit bureaus who support with credit information services to lenders both at the level of the individual borrower and at aggregator sector/ geography/ customer segment levels. Common between much of these products is the need to develop four core capabilities[3], which once built, provide strong foundations on which a variety of product offerings can now become possible.

[3] Reproduced from presentation by Mannjal Technologies

# Business Loans

Unsecured business loans and secured micro-LAPs

## Staging Presentation by Mannjal Technologies

The speaker began by stating that the progression to business loans from group loans ought to be one that is natural, rather than something that is pushed strategically to microfinance customer segments of any MFI. There does exist a subset of microfinance customers who have completed 3-5 cycles and have progressed in their livelihood-led income earning capacities in a manner that indicates both the need for and the abilities to take on business-focused borrowings. Whether such a subset forms 5, 10 or 15% of the customer base, is still to be discovered, but the demand exists. Consider the borrower with the kirana store what has grown 5 x of Stock Keeping Units (SKUs), the tailor who started a few years back with one sewing machine who today has 3 weeks of order backlog and is looking to get two new machines and hire her first employee, or the vendor who started with push carts but now has a rented shop with a fixed address, and established customer footfall. We need a methodology to identify such examples, of customers who have completed a set of microfinance loan cycles, has an established vintage for their businesses, has household income more than INR 10 lakh, has cleared credit bureau scrub checks, and whose lifestyle has seen consistent improvements – they can be characterized as '**graduating borrowers**'.


*Ojas Mody,*
*Head, Credit & Risk, Mannjal*

Business loans to them can be unsecured or secured. Unsecured business loans can be in ticket sizes of INR 1-1.5 lakh in rural, and 5-8.5 lakh in semi urban areas. Larger ticket size loans will be secured, via products such as micro-LAPs, where buckets for loan sizes can be INR 5-6 lakhs, INR 10-12 lakh, and INR 12-20 lakh, with tenures ranging in 4 to 7 to 10 years respectively. Loans above INR 20 lakh will be another category but that is kept out from this discussion.

Unsecured business loans are typically given to borrowers who have established income tax filings, salary incomes and are bankable – the opportunity for microfinance lies with borrowers who are not bankable, and hence, for whom we need the '**assessed income underwriting**' approach. This requires 'hard' on-ground 'touch and feel' actions by the lender, in the form of multiple physical visits, use of multiple reference points, and backed with alternate data on estimating income streams of the borrower. Alternate data here includes UPI transaction patterns, inventory levels and restock frequencies, locality, the target customer that the business is serving, their purchasing habits, electricity bills and appliances used (proxies for lifestyle and family demographics). While all of this is raw data, they must also be carefully rationalized with industry level data. For instance, if a customer claims to have 50% gross margins, this needs to be backed by alternate data, on which suitable adjustments must be made. The ability to run 'assessed income underwriting' is a core skill that the microfinance lender's teams need to build in order to offer business loans. Besides, this capability looks at not just incomes but also '**cashflow assessments**' for the household. This includes expenses to meet the needs of the household members – education, medical, insurance covers, and investments in chits, bank deposits and others. In addition, the assessment will need to include credit bureau checks for household members, fixed obligations to income ratios (FOIR) and free cashflows, turnover ratio, and banking habits (to check whether borrower is paying existing digital loans). It is important to avoid disbursing unsecured business loans to an individual who is mid-cycle of an existing microfinance loan and to instead place such loans only after the completion of the existing loan, so as not to jeopardize future payments on the existing loan.

For secured business loans, the assessment norms will remain the same, but these afford a little bit of flexibility for their end use, for instance the loan being used for new expansion of existing business, or debt consolidation. The operating processes will also include collateral collection, verification and management, safe storage of original documents, legal and technical vendor empanelment, and mortgage registration. Typically detailed standard operating procedure (SOP) documents will need to be created at each state level to accommodate state level differences in processes for mortgage registration and updated / revised regularly to reflect latest changes. Activities around handling collateral and deriving Loan-To-Value (LTV) ratios will take up substantial time in the underwriting process.

| Unit Economics[4] | Unsecured BL | Secured BL |
|---|---|---|
| Loan Amount & Tenure | INR 1.5 Lak, 3 yrs | INR 10 Lakh, 7 yrs |
| **Revenue** | | |
| Gross Yield | ~24% | ~18% |
| Cost of Funds | -14.50% | -11% |
| NIM p.a | ~9.5% | ~7.0% |
| Credit Costs | -2.50% | -1.50% |
| Operating Costs | -4.00% | -3.00% |
| **Profitability** | **~3.0%** | **~2.5%** |
| Break-even ECL (at cohort level) | 8.50% | 19% |
| Key increase in ROE | CGTMSE Cover | Co-lending |

A key aspect of business loan underwriting is that of **'end use monitoring'** of the loan post the disbursement, to be verified by multiple visits over the life cycle of the loan and capturing progress. The diversion of funds away from the intended use is a serious reason for early NPAs for this asset class. Further, lenders will need to require borrowers to inculcate a digital repayment habit, through NACH and UPI. Investing in this process will not just restrict portfolio delinquency but also help in capturing data on Sustainable Development Goals (SDG) metrics if the lender is seeking or has plans to seek funding from development finance institutions.

**The opportunity and challenges:** While there may appear to be many non-microfinance lenders offering business loans, and hence the space may look crowded, there are strong advantages that MFIs have, in terms of an emotional connection or familiarity with the borrower, and deep last mile distribution capabilities that others cannot build overnight.

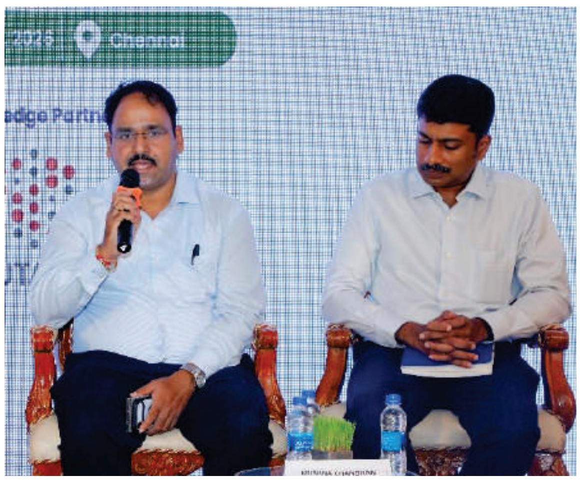
Challenges include a) asset liability management (ALM), b) technology issues, and c) obtaining buy-in from management boards. ALM is easier for housing finance companies offering micro-LAPs because they have access to refinance from the National Housing Bank (NHB), but it will be challenging for MFIs if offering longer tenure loans. To prevent asset liability mismatches from spiraling out of control, the entity can begin by building its book via co-lending arrangements with SFBs and HFCs, and only later transition to building own book. Technology may turn out to be the biggest hurdle, as existing systems within MFIs are not ready for vendor management and for the rigor needed for assessing incomes; hence getting change management right becomes crucial. Expected Credit Loss (ECL) levels will look like, and what the mitigation strategies will be for sound ALM (including CGTMSE or co-lending). .

**Path forward:** Mannjal suggested that it may be wise to start with unsecured business loan as a new product, get teams acquainted with processes, build capabilities and strategies to close income mismatches at the borrower level, get CGTMSE cover so that it removes the pressure on credit costs, and only later, progress towards secured business loans. For smaller entities for whom co-lending arrangements may not pan out at the beginning of this journey, the path forward will be to start with own book, and on the back of that to build partnerships. Partnerships here will be structural to the success of the product and not strategic.

[4] Reproduced from presentation by Mannjal Technologies

## Panel Discussion

**Moderator:**
**Jagadeesh Ramadugu, MD & CEO, Pragati Finserv**
**Speakers:**
**Sushanta Tripathy, Executive Head, CRISS Financial Ltd**
**Shirish Panda, Business Head, Piramal Finance**
**Krishna Chandran, VP, Muthoot Microfin**



The panel began by stating upfront that product diversification is not an option, it is a necessity for growth prospects. It discussed where lenders are today, why lenders must enter into secured or unsecured business loans in the first place, what the execution challenges are, and how MFIs can scale responsibly and profitably.

## Entity Snapshots

**Muthoot Microfin:** This entity has ~ INR 14,000 Cr AUM and has built unsecured business loan book of INR 2800 Cr over the last 10 months, constituting more than 20% of the AUM. It also has a growing book of MSME LAP as well as a gold loan book, with the latter being built in partnership with other entities. It is still early days for product diversification at Muthoot Microfin, with the company aiming to tap into the existing customer base to identify and serve their additional needs beyond microcredit. An analysis of credit bureau data indicates that the entity's customers have ~INR 30,000 Cr of non-MFI loans with other lenders. The company aims to capture this potential market on priority through diversified product offerings.

**CRISS Financial (henceforth CRISS):** This entity is largely into unsecured business loans and micro-LAPs. It is a 100% subsidiary of Spandana Microfinance (with 100% microfinance book) and will shortly be merging with its parent. It was formed much before the RBI relaxation on qualifying assets. Being a separate subsidiary focused, to begin with, on micro-LAPs, it had the luxury of developing the product and institutional capabilities from scratch as it is a very complex product (now has 90+ branches dedicated to it). Current book is INR 340-350 cr. Once the merger is completed, the entity may consider serving Spandana's microfinance customers (across the parent's ~1200 branches, with each branch serving 60-70 villages, and 40-50 customers per village). It is possible that there may be 2-5 customers in each village who may need a micro-LAP.

**Piramal Finance (henceforth Piramal):** Piramal is well-known for its pharmaceuticals, but after selling its subsidiary Abbot Pharma, it had significant funds, with which it began engaging in real estate funding. Post its acquisition of DHFL in 2021, from 2022, it started experimenting and developing expertise in the secured lending space, via partnerships and the BC model. Today, it is a much more diversified NBFC with a large rural business loan book, both unsecured and secured, and with substantial own-branch network. It now has 177 branches through direct, and 185 branches through partnership models. It has also rebranded its microfinance business unit as the rural lending unit and sees itself growing into a Bharat-focused NBFC with > INR 1 lakh cr AUM using rural lending as a core strategic lever.

## Proceedings

- One of the panelists began, by cautioning that lending microfinance to everybody does not address the needs of financial inclusion. Care must be taken to ensure the customer gets the opportunity to dictate terms on interest rate, tenure and flexibility, before we can claim that we are engaged in 'impact finance'. A word of caution was also expressed on the use of the term 'graduation'- who decides which customer is worthy of graduating – is it the customer or the organization? It ought to be the former, and not the latter.

- The opportunity today for an NBFC lies in going to the village and understanding what the needs of the customer are. While 80% of Indians reside in rural areas, 90% of these customers would be having their own house, rely on gold and moneylenders if they need to borrow – and herein lies the opportunity. The branch networks too exist – the only thing lacking is expertise.

- For smaller MFIs, talent and technology could be brought in if capital can be secured, and the latter is the largest challenge. Obtaining either equity or longer-term patient debt must be prioritized in order to be able to build new business lines. But this will not happen immediately, and hence partnerships will be needed as essential steppingstones, before full-blown expansions become possible.

- These product lines will not breakeven in 12 months like in the case of microfinance. Hence, this is a patient game. Irrespective of which product the lender chooses to develop, it must start with a small corpus, and start with thinking differently about the customer, instead of aiming for a 20-30% market share in a short span of time. There must be adequate deployable capital for a 3-to-5-year span from the promoting institutions.

- While small entities tend to have stronger connections with the local markets and better customer trust, larger NBFCs have the technology muscle, stronger governance, deeper pockets, larger capital base, and lower costs of capital. For small entities, any plan to engage in secured loans gradually using existing shorter tenure wholesale borrowings without attracting long term capital, will turn out to be very challenging. The question is whether a 'marriage' is possible between larger and smaller entities. These are today in the nature of co-lending partnership models. For small entities looking for balance sheet strength to originate against, their entry could be via co-lending for their microfinance operations, and to then evolve into individual enterprise loans, where they need to build income assessment competencies. For the larger entity here, who may be much more well-established in using the account – aggregator consent manager workflows, it needs to build that competency with the smaller entity before it can take them in the AA journey. The competency of a partner who is stronger in technology can come in handy for smaller entities.

- JLG loans are simple, based on process and community-linkages, and does not involve any underwriting by the loan officer (the requirement is only to establish that the woman borrower exists and that she passes the bureau checks and gets 'pre-approved'). But these newer products under consideration are entirely different. The time and energy spent by the credit manager on business loan assessments is tremendous – for an INR 5-7 lakh loan, it takes at least an hour for the visit that involves many checks at the business premises of the customer, a set of tele calls need to be done with local senior officials such as the school headmaster, and the nature of incomes needs to be assessed.

- The variety and diversity of income-generating livelihood activities is vast and hence it may not be possible to templatize everything. Therefore, the credit manager needs to build savviness around each assessment and look for refining declared data and proxies (ex: account statements for any other immediately availed loans that do not yet reflect in credit bureau data), undertake triangulations to establish what is likely happening, and so on. Each assessment is a judgement-driven case.

- There are added complexities with mortgages in rural India. A property may have 3-4 people staying in it, all their bureau records must be checked; if the property is in multiple names, all their no-objection certifications need to be obtained, irrespective of whether they stay at the premises or not. For the property assessment, 4-5 people are implicated, namely the loan officer, the credit manager, technical person, legal person, and final approver. Specialized skills will hence need to be developed for credit underwriting. The current skills in microfinance will not be sufficient to handle it.

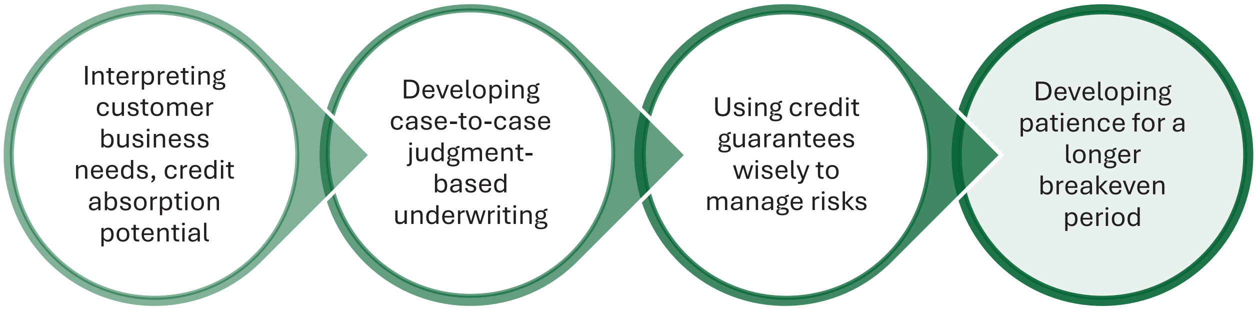
- Tech challenges include that of marrying new software with existing legacy software to get a 360-degree view of the customer and to run analytics on borrower behaviors.

- Collection teams could be different from those for the microfinance book.

- Opinions were divided on whether AA is helpful or not. One view was that given the prominence of cash as income streams, outputs from AA may not be very insightful. The other view is that bank account transactions data from AA journeys provides insights into how the customer has behaved in the past, and data on many other liabilities (loans taken by the customer). It can also be used as a monitoring tool along with bureau scrub data. For instance, evidence of bounced debit attempts can provide useful early warning signals for the collections team.

- In 5 years', various panelists predict that microfinance will comprise 33% of overall book, bankable customers taking unsecured loans will form another 33%, and the remaining 33% will be loans to the 'missing middle', customers who have the abilities to avail secured loans such as LAPs and gold loans.
- The pros and cons of co-lending Vs BC models were debated as routes for partnerships between smaller 'originators' and larger 'holders' of loan books. Larger lenders will be wary of smaller entities seeking partnerships if they do not have tech and governance systems in place. Hence in such cases, it is prudent to go for co-lending of the smaller entity's microfinance book with the larger entity, and whatever capital comes through that can be used for building new capabilities in other loan products, post which co-lending or BC partnerships can then become possible for those loan books. The BC model has the advantage of working in situations where the smaller entity has ALM mismatches and capital constraints.
- **Risk protection via CGTMSE cover:** Piramal described their story of deciding to avail CGTMSE cover for their entire loan book (and not just for riskier loan pools), and how that ensured that during the NPA crisis in 2025, 81% of its current outstanding was covered under CGTMSE. Hence, high levels of derisking are indeed possible if planned during the good times. However, there are notable entry barriers to availing CGTMSE cover – the entity has to be profitable for atleast 2 out of the past 3 years, and it must have a certain credit rating. Also, availing the cover will require that product-pricing be updated to reflect the guarantee fee costs. The assumptions for ECL provisions for each of the NPA buckets will look very different once CGTMSE or CGFMU cover is obtained. 0.5-0.6% of provisioning expense can be saved in the process, and during a delinquency event, the entity will not need to exceed this quantum of provisioning.

*Key Points to Note: Business Loans*



# Micro-Housing Loans

## Staging Presentation by the Habitat for Humanity International (HHI) / Terwilliger Center for Innovation in Shelter

Nearly 3 billion people lack access to housing that is both safe and connected to basic services like energy, water and sanitation. 300 million people are currently experiencing homelessness. Housing is the largest part of the built environment which contributes 38% of all GHG emissions. Globally, 96,000 affordable homes need to be built worldwide every day from now until 2030. While this is a global estimate, a majority of this need is in low-income housing, and hence HHI believes that this space is ready for innovation.

**About HHI:** The Terwilliger Center for Innovation in Shelter Is a part of HHI and is a non-profit organization based out of the US operating in 70 countries. They work with market players and not with communities directly, helping different actors in the value chain of housing to develop different products. It has been working with Sa-Dhan on a low-income housing finance product.


*Nupur Maroti,*
*Habitat for Humanity International*

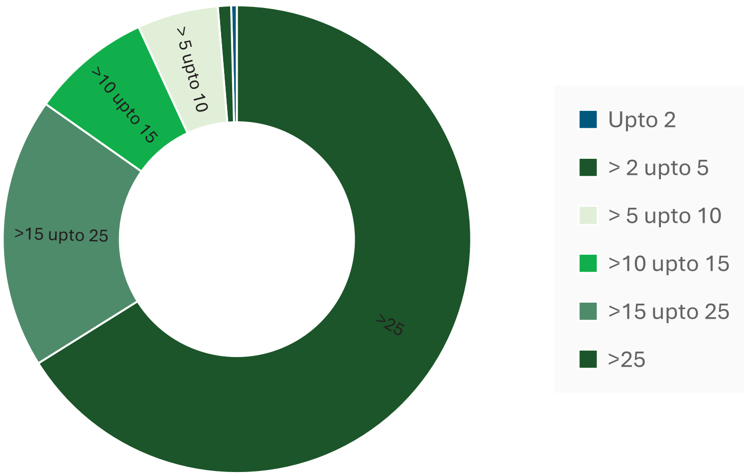
HHI is interested in supporting MFIs to serve their customers in creating resilient good-quality micro assets. HHI believes that MFIs are the right channel as they have very high rural penetration and have graduating clients within their customer base. It is also established, albeit anecdotally, that 25-30% of microfinance loans are diverted to home improvement purposes. Currently this cannot be established strongly as the data is not captured to suit this requirement. MFIs can report only individual and group loans to credit bureaus but they do not capture and report end-use cases in a sufficiently correct manner. HHI called on MFIs in the room to capture these data points as these will help to analyse whether the portfolio of loans that went into own-house construction/ improvement perform better than other end-use cases. If such a conclusion can be drawn, it will help tremendously to impress upon the NHB that MFIs are indeed lending for house-building and hence must be permitted to be eligible for NHB schemes. Additionally, climate resilient housing loan portfolios can help to open doors to capital coming in from green impact funds.

HHI called on MFIs to consider starting with small, secured loans that will help low-income households build homes. Simple adjustments to the house, cross ventilations, simple design techniques, upgrades to homes in a very sustainable manner— can all help to create climate-resilient green loan portfolios that can attract certain pools of impact capital.

If we take the data from PM Awaz Yojana as a proxy for data on low-income rural housing, the target is to build 30 million units by 2029, with a value of USD 266 billion. If 21% of these houses are built using loans, then the credit demand comes to USD 56 billion. If current supply continues as is, then only 18% of the low-income housing need will be met by 2029. Additionally, loans for home improvement, extensions, and renovations are to be considered separately, and when taken altogether, the aggregate need for low-income housing is 3-4x of this estimate.

The current definition of affordable housing is such that lenders go towards larger ticket loans. The '< INR 10 lakh' ticket size loan is served by only a few financial institutions in India today – this segment is also well-understood by MFIs. This is the 'missing middle' in housing (the INR 1-10 lakh loan size). See Chart below[5].

*Housing Loan Disbursements to Individuals by HFCs, Across Ticket Sizes in INR Lakh, 2024*




The opportunity is great, but challenges exist- inadequate capital funds, asset–liability mismatches that are difficult to manage, the lack of skills and capacity of staff and operations are those on the supply side, while on the demand side, legal constraints and income informality make it difficult.

While Sa-Dhan has helped to obtain priority sector lending status for the WASH sector, HHI is striving to work with Sa-Dhan to obtain permissions for these loans originated by MFIs to be considered under refinance and credit guarantee schemes in vogue today. In order to make a strong case for this, HHI calls on MFIs to start creating a small portfolio focused on low-income housing which can, over the next 2 years, help to make the case to the RBI and NHB for the said permission.

The Terwilliger Center has invested in around 66 lending institutions globally. Across the last 12 yrs, the housing portfolio has performed much better than other portfolios in those institutions – the same is very much expected to be the case in India too given the sentimental nature of relationship the borrower has to their lived homes. Hence, MFIs interested in solving for the < INR 10 lakh housing finance segment can take a few steps towards that direction –

a) Start reporting the end-use for unsecured loans, especially in cases where it is being deployed for home improvement

b) Selectively choosing a set of customers to whom you can give such loans on a pilot basis to check how they perform. One may start with INR 1-2 lakh ticket sizes, then 2-5 lakh, and loans that run upto 10 yrs for a <1% of the portfolio. As customers graduate to different loans within the entity or with others, the 'graduation' (improvement to the formality) of collateral will happen too.

c) Start collecting 'soft' collateral. These are essentially documents that cannot be used by the lender upon delinquency but are nonetheless known to serve as deterrents.

[5] Reproduced from presentation by Habitat for Humanity International (HHI) / Terwilliger Center for Innovation in Shelter; data from Report on Trends and Progress in Housing Finance, NHB, 2024

## Panel Discussion

**Moderator:**
**Natarajan R, Chairman & MD South India Finvest Pvt Ltd**
**Speakers:**
**Amit Sharma, MD & CEO, Satin Housing Finance**
**Alphina Jos, DMD, BWDA Finance**
**Manikandan KP, Senior Advisor, Terwilliger Center for Innovation in Shelter**

The moderator opened the discussion provocatively, stating that in an industry where there is rampant willful default behavior, either on the own volition of the borrower, or driven by how lenders have lent unscrupulously, no amount of process excellence may ever work.

## Entity Snapshot

Satin Housing finance: Satin is a INR 12000 cr AUM MFI that has built ~ INR 1300 cr AUM in housing finance. It built a housing finance company as part of the group, hence Satin now has a non-trivial secured lending book, out of which 10-12% is comprised of housing. Most housing loans are taken for the purpose of construction, Satin does not give loans for 'lifestyle funding', or loans given to people who already have a house. Cross-selling (of lending to microfinance customers) is therefore strictly only in two senses – one, that the operations team has ground knowledge, which is an important prerequisite for micro-housing, and two, there are established customers who have completed 4-5 microfinance loan cycles, hence 'graduating', and are likely good candidates for housing loans. But Satin Housing Finance has a separate entity for distribution, assessment, and other processes, and hence operates parallel to Satin's microfinance entity. The average ticket size is INR 12 lakh, and Satin caters to the INR 10-40 lakh loan market in semi urban and urban areas and the INR 1-5 lakh loan market in rural areas, which together make up the INR 1200 cr book.

BWDA Finance: This entity has been in the micro housing lending business for many years now but has not scaled the asset class (3-7% of overall portfolio) due to various challenges. Most of its portfolio is in the INR 1-3 lakh range, although it also lends up to INR 5 lakh. Loans are mainly given for renovation, repair and maintenance. There is incidence of repeat loans by the same customer. For example, the customer starts with a loan for a small renovation and then takes an additional INR 1 lakh for constructing an extra room and so on. Tenures range up to 60 months and interest rates are around 19%, considerably lower than competitors. BWDA also focuses on '< INR 50,000' loans for BWASH (related to water, sanitation and hygiene efforts by BWDA), which is also a type of home improvement. BWDA had a substantial housing portfolio before Malegam Committee related rules were introduced by the RBI in 2011, post which, it was wound this down. Currently, with the help of HHI, BWDA has undertaken a full-fledged market study and is looking to entire the market at the INR 1-10 lakh segment. Its focus is on retaining existing customer base with lower ticket size loans to cater to a larger number of beneficiaries rather than to expand into higher ticket size loans. It has a captive customer base with people completing up to 10 cycles. Housing has been identified as a core need. While difficulties in accessing capital is a major current challenge for BWDA, it has put in place professional teams and tech and AI driven predictive systems centrally, and are ready to scale. An app has been developed by a service provider for their field staff to capture details.

## Proceedings

- The possibilities for 'cross-selling', that is, selling non-microfinance loans to microfinance customers, was described as a 'mirage' by one of the panelists, implying that the opportunity seems to be overstated generally. Customers take around 5-6 cycles with microfinance before they are ready to take around INR 1.5 to 2 lakh.
- Housing loan tenures are higher than microfinance loans, and the filtering of customers is very stringent, with 90% getting rejected due to lack of clarity on property ownership documents. The non-availability of legal titles and the difficulties with identification of properties remains a huge challenge.

- Women co-ownership is another big challenge. While microfinance borrowers are mostly women, and given that repayment discipline has been demonstrated much better by female than male borrowers (the same loan created pari passu in name of female, demonstrated more serious repayments), the lender is interested in lending to women for housing loans. But in rural areas, most property registrations are in men's names. Even if the lender attempts to undertake a joint addition of names, the cost of this step is very high, and hence the woman can come in only as a co-borrower. In the process, the outcome is not financial inclusion but a lot of exclusion, as opined by a panelist.

- The INR 1-10 lakh ticket size is a very good market for home loans. But since borrowers in this segment have very unstable income streams, the 90 day NPA classification norm may turn out to be too onerous on them given these are secured loans. Hence, a more realistic NPA norm would be helpful for this asset class and customer segment.

- Another big challenge in housing finance is that lately, the number of customers have not increased while the book sizes have, because of top-up loans being taken for business purposes and due to a growing prevalence of 'balance transfers', where in the middle of the loan tenure, the borrower is sought after by higher rated NBFCs or banks to shift their remaining loan outstanding to them, thus reducing the interest cost for the borrower. The initial lender, who took all the efforts to underwrite and onboard the unbankable 'risky' customer and took on their full credit risk, is left in the lurk. The only way for them to manage the asset-liability mismatch is to use foreclosure charges to retain the said borrower. Hence, the panelist opined that balance-transfers need to be disallowed as a practice.

- Underwriting can include rules such as loan ticket size to be in the range of INR 1-5 lakh, EMI should not be more than INR 10-15,000 (especially in cases where the borrower already has other lender exposures), the household must have double incomes (where both the husband and wife have separate income streams they can call their own), and the borrower must have completed atleast 3-5 loan cycles so that by then they would have consistent income from current livelihoods that came into existence with the support of microloans. Placing a cap of INR 20,000 on cash-based income streams and not lending to households with monthly income less than INR 25000, are important steps suggested by panelists. The LTV is usually not more than 35-40%. Upon default, property can be sold only to locals in the region.

- A word of caution shared was that borrowers in this segment appear to not be sensitive to the interest rate as they consider loans in terms of absolute cash outflows needed for repayments (INR lakhs per year). Hence, lenders should tread with caution and educate the customer about true costs.

- One panelist strongly felt that for this product, 'scorecard' based lending will not be fruitful and that a physical personal discussion with the customer as a core due diligence step is irreplaceable.

- The nation-wide adoption of the Prime Minister's Swamitva Yojana[6] that is underway, will provide a strong impetus for the broader viability of low-income housing loans for MFIs.

- An important scaling related Issue will be that the lender has to invest heavily in legal and technical capabilities.

- It is always beneficial for MFIs to hold housing loan portfolios on own books (the 4-5 yr period), and with the 60:40 rule, this now becomes possible without the need for using the subsidiary route to building the book.

[6] PM SVAMITVA Yojana (Survey of Villages Abadi and Mapping with Improvised Technology in Village Areas) is one of India's largest rural property-rights reforms. Its objective is to create clear ownership records for residential properties in rural inhabited ("abadi") areas through drone-based surveys and to issue legal property cards to villagers.

- Typical tenure – for INR 50 lakh is 12 yrs, while for INR<10 lakh, it is around 7 years, and for INR 1-5 lakh, it is 5-6 years. Shorter the tenure the better it is for the lender but it also implies higher EMI burdens for the borrowers. At 22% interest rate, for a longer tenure micro-housing loans, the interest outgo for the borrower becomes very high.

- **Foreclosure behavior in the housing loan asset class:** These loans typically get closed by the borrower at half the tenure, however lenders keep the tenure in full at the time of origination, to keep the EMI cost comfortable for the borrower. A 10-yr loan gets closed in 3-6 yrs. Hence, what the MFI needs is liability with duration not as low as 2 years but a bit greater (3-5 year tenures).

- **Pricing strategy:** For houses that are self-built, with increments made, of INR 300-800 for ~1500 sqft, the cost will come to ~ INR 4.5 lakh – 12 lakh. If the customer is able to bring in INR 1, 2 or 3 lakh on their own for construction, then the loan falls into the INR 1-10 lakh segment. PM Awas Yojana and allied schemes, if availed, can cover another INR 2-3 lakh. Hence, the loan reduces to INR 1 to 8 lakh range. The microfinance lender can set a loan size cut off at a point that it is comfortable with.

- **NHB's role in supporting this segment:** Housing finance is a difficult sector to operate in because it is a capital-intensive business. There were ~120 HFCs under NHB in 2016. The number has since declined because of industry consolidation, mergers, license cancellations, and some companies exiting housing finance. Current credit outstanding in India was ~ INR 33 lakh cr in housing finance (2024 figures). HFCs have NHB refinance, but such refinance is limited to only a certain percentage of liability book. There are also other challenges for the sector. For the INR 1-10 lakh loan ticket sizes that are more conducive for microfinance borrower segments, credit guarantees while available, come with certain design and pricing limitations. HNB can also revisit the quality / degree of security it demands to establish eligibility for its schemes. For affordable housing finance companies, the requirements that define what is acceptable collateral, are very strict, and hence the panelist appealed that for INR 3-5 lakh loan sizes, even non-recourse security could still be allowed as those can be powerful enough to prevent willful defaults. Unlike AFCs, NBFC-MFIs are currently not recognized as an MLI eligible for applying to NHB's refinance facility. If this can be permitted, then in case there is sufficient funding going into PMAY, the asset class can be developed in a serious manner by MFIs.

- A Memorandum of Deposit of Title Deed or MODT is not required to be used in every case. There is a cost associated to undertake MOD for registered mortgages. If one wishes to avoid this, the equitable mortgage route can be chosen in those cases where the boundary is clearly identified. In cases where boundary is not identified, the lender can opt for MOD to make it into a registered mortgage.

- A clear distinction is to be noted between low-income housing loans and LAPs. LAPs are taken for business funding needs while the former is one where the customer has an end-use housing need and is unwillingly giving his/her documents and taking the loan. These are two different products. The former will experience much less default on portfolio even if LAPs appear to be easier, more profitable and in more demand.

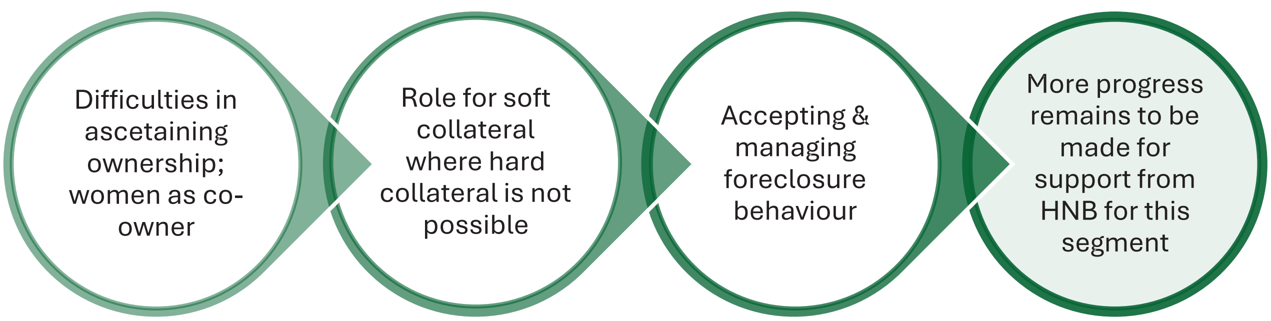
- If an MFI decides to start offering housing loans, it will find itself in a situation where its customers will start facing rejection rates that are much higher than what is experienced in availing microfinance loans. This could affect the customer relationship in many ways. One way to avoid such a fallout is to have separate people and portfolio for this asset class. One must not rely on inexperienced field staff or sales teams to undertake credit assessments even in the INR 1-2 lakh buckets.

- Technology systems may not be easy to transition for MFIs. There are instances where the system is not able to handle more than one disbursement, or it is unable to do calculations for variable interest rates and so on. And in situations where new technology is not brought in, it would be useful to keep a separate vertical for software segregation so that the management can monitor and track portfolio behaviors and NPAs.

- One of the panelists drew attention to the reality of the 'owned house' entry made while conducting visits to microfinance loan applicants. The money that comes in as repayment has multiple sources for the woman borrower – the spouse has an income, and sons would also be contributing, whether residing in same house or migrated out. We must account for this reality in how we look at underwriting and product design.

- Until the decision by the RBI on the 60:40 rule, the challenge for MFIs has been how to categorize a household as falling within or outside the income threshold of INR 3 lakh. In reality, many microfinance customers could be housing loan customers elsewhere. Hence the question to consider is, do we want to offer this product to our own clients in the existing relationship, or are we comfortable for them to close the relationship and go to another institution.

*Key Points to Note: Micro-Housing Loans*



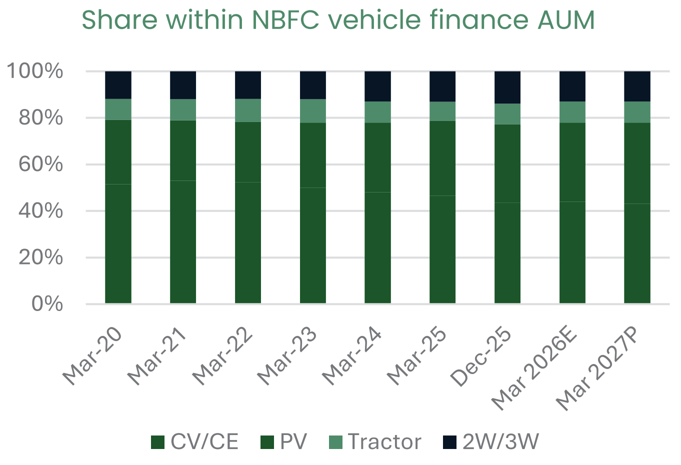
# Vehicle Loans and Gold Loans

## Staging Presentation by ICRA on Vehicles Loans

ICRA shared two broad categories of observations regarding the vehicle loan market in India, with a focus on AUMs under NBFCs in the sector. One, is an overall movement towards the 'used vehicle' market, by NBFCs. This is due to a tangible shift over the years on account of better yields and risk-adjusted returns in the used vehicles space. Two, is that financial performance of this overall book has remained stable notwithstanding movement towards the used vehicle category over the last few years. In general, the GST rationalization in the second half of 2025 led to strong sales then. Most growth appears to be driven by replacement demand and the continued benefit of GST rationalization. ICRA also saw evidence of some pre-buying last year in the tractor segment in anticipation of tighter regulations this year. The external environment is anticipated to have a continued impact via inflation and ability to purchase, on the domestic market.


*A.M. Karthik, Co Group Head, Financial Sector Ratings, ICRA*

Vehicle loans and home loans are two conventional products that account for almost 50% of the overall NBFC sector's book. The former touched INR 11 lakh cr in AUM. Within the broader vehicle finance category, commercial vehicles (CV) account for a major portion of AUM, driven by the ticket sizes. Passenger vehicles (PV) is an expanding segment while the two-wheeler and tractor segments are showing some levels of stabilization. Banks too have a substantial INR 11+ lakh cr vehicle financing book, with a majority of it being PV. The Chart shows the share of NBFC AUMs in vehicle finance across CV, PV, tractor, and 2/3 wheelers[7]. Vehicle financing can be further broken up into new and used vehicle financing. The share of used vehicle financing has been steadily increasing in terms of AUMs. Used vehicles are typically one-third to half the price of new vehicles and hence increase in the volumes is showing up in the AUM.




NBFCs hold an overwhelming market share in the two-wheeler segments (65%). This is because of the high collections and origination processes for it, that are entirely different from what is in place for other vehicles, with dealer-based origination as compared to branch-based origination. Hence the speaker was of the opinion that this (the two-wheeler / three-wheeler) is an easier and a more adjacent segment for MFIs to develop their vehicle financing portfolios for, within their microfinance customer base.

The speaker emphasized a tangible shift from new to used vehicle financing across all types of vehicles, but most predominantly in tractor and PV in recent times. But this shift is

[7] Reproduced from presentation by ICRA

to be understood from the point of view that the two categories are very separate asset classes. While the first is an income-generating proposition, the second could be a consumption loan taken against an existing vehicle. The trend towards used vehicle financing in the tractor and PV space needs to be studied further as the end-use may even be for purchase or consumption. Used vehicle loans also have a higher days-past-due (DPD) than new vehicle loans because they yield higher returns and typically have a higher credit cost too. But the reverse is found to be happening in the tractor segment, possibly due to new entrants coming in, or because of agricultural end use which ensures that the used tractor loans end up for income-generating usage.

When it comes to write-offs, vehicle financing has been lower than that for NBFC averages. Provisions have been very similar to overall NBFC averages. Net interest margins (NIM) and credit costs are very similar, operating expense is lower, which translates to return on assets (ROA) for vehicle financing to be very similar to overall sector ROA (which in turn is driven partly by the fact that unsecured loans have higher ROAs while home loans have lower ROAs). Hence, vehicle financing as a segment closely tracks the overall NBFC sector's performance and is expected to grow close to, but lower than, the overall averages for the sector, and delivering very similar kinds of returns for lenders in the sector. The performance of vehicle loans is the harbinger of the overall NBFC sector as its performance provides insight and direction for the sector as a whole, considering its share and its interlinkages with other segments.

## Panel Discussion

**Moderator:**
**Vipul Jain, Head of Product & Research, CRIF India**
**Speakers:**
**Raghu Pandit, Business Head, Hinduja Leyland**
**A.M. Karthik, Co Group Head, Financial Sector Ratings, ICRA**
**Swapna Sarit, Product Head, Belstar**




The moderator opened the discussions by commenting on the sharp increase in interest from NBFCs, over the last 6-8 months, riding on the growth over the last one and a half years, in understanding the key trends around gold loans and LAPs.

## Entity Snapshot

**Belstar:** This is a microfinance company that also has dedicated gold loan branches (with separate strong rooms and vaults) and different teams, through which it has built its gold loan portfolio. As a subsidiary of Muthoot Finance (an established gold loan financier), it follows a 7-layered security framework for its gold loan branches.

**Hinduja Leyland:** Hinduja Leyland Finance's consolidated AUM stands at approximately INR 62,000 cr, with a substantial portion of this AUM concentrated in vehicle loans, both for new and pre-owned assets, underscoring its expertise in the automotive financing space. The used-vehicle financing segment, in particular, has been a key growth driver, enabling customers to upgrade or expand their fleets at lower capital costs. Hinduja Leyland's strategic partnerships with vehicle manufacturers, dealers, and service providers have further strengthened its loan origination capabilities and customer reach.

## Proceedings

- Gold loans have grown 35% compounded y-o-y, faster than any other asset class, and in the last year, by 50%. All this growth has been driven chiefly by the appreciation in the underlying price of the asset (rather than rapid expansion in the number of borrowers, which grew at about 18% to 24% between FY 2024 and FY 2026). Four large active NBFC lenders hold substantial market share for gold loans within the NBFC sector. Public sector banks hold close to 50% of market share (in value) while NBFCs hold 31% in FY 2026. But in volume terms, NBFCs hold 49% market share while public sector banks hold 33%. That India has an estimated 34,000 tonnes of gold within its households, has been recently discussed hotly in public media. There is an increased recognition of the possibilities with monetization of idle gold within India's households.

- Delinquencies in gold loans of NBFCs have both substantially improved for early-stage delinquency (PAR 31-90) and late-stage delinquency (PAR 91-180). In Q4 of 2025, early-stage delinquency has reduced from 2% (in Q4, FY2025) to 1.5% (in Q4, FY2026) for < INR 1 lakh ticket size, indicating more disciplined repayment behaviors among borrowers.

- Unlike growth in other asset classes such as two-wheeler loans or housing loans which typically reflect a healthy state in the economy, growth in gold loans is tricky to interpret – how much of it may be organic? How much of it are working capital loans (where interest component is paid to roll over the loan, without money going back to the lending system)? Is it an indicator of financial stress in the economy?

- **Entry barriers for diversification into gold loans by MFIs:** High costs are entailed in establishing gold loan branches, and not every MFI may be able to set these up. It involves physical infrastructure such as surveillance camaras, vaults, and machines to assay gold. Further, not everybody can be trained to assay gold, and will therefore need human capital investments to be ramped up. Given MFIs' rural advantage, the most promising approach will be to choose specific pockets where they know there is inherent potential, to pilot it, review and decide on whether to expand to other locations or not.

- The CRIF representative shared that ~19 lakh gold loans were disbursed to microfinance borrowers (~ INR 27,666 cr, out of total INR 18 lakh cr gold loan portfolio in the country), of which 9.6 lakh loans were disbursed by four NBFC-MFIs, as on March 2026. It is estimated that 43-46% gold loan demand that microfinance borrowers have, have been met by the four lenders, of which two hold 70-80% market share.

- Belstar as an MFI also offers gold loans. The panelist noted that when a microfinance customer gets rejected for a microfinance loan, there are instances where she opts to take a gold loan.
- There was no decrease in the number of gold loan customers, even when the MFI sector saw a decline of 15-20% of their customer base between March 2025 to December 2025. One of the reasons for this might be that the gold loan borrower could also comprise males. Hence at the household level, we could see microfinance loans overlap with gold loans, Kisan Credit Card, and two-wheeler loans.
- It is possible that when MFIs without parent-backing of a well-established gold loan company, enter the gold loan market, they could be subject to more audits by the RBI. Hence, it is prudent to enter the market in coordination or alignment with established players instead of going alone.
- Vehicle loans are the easiest secured loan product to create- the vehicle is supporting the customer commercially and as a personal utility/luxury. But it incurs very high institutional learning & development costs. Unlike previous panel discussions of the event, where panelists advocated for setting up separate teams for these products (without overlaps with the microfinance team), the panelist here opined that the teams have to be the same and that the entire team must go through training on the non-microfinance products to fully understand all the products and how to sell them.
- The vehicle loan business is one where the system is very defined- the product is the same irrespective of lender, and hence it is a matter of how much risk the lender is willing to take. Within CVs, there is heavy, medium and small categories. In the used vehicle financing space, a vehicle usually comes up for refinancing in the $5^{th}$, $8^{th}$, $11^{th}$, $15^{th}$ years. The yield on the product is very congruous to the age at which the vehicle is getting refinanced. A 10-year-old vehicle can get refinanced at a 20% yield, which is closely adjacent to microfinance. Hence it becomes a logical extension for an MFI to finance the medium and small CV in the INR 1-2 lakh ticket size coming for refinancing in the $5^{th}$ to $7^{th}$ year, at a yield of 20-25%, with credit cost at 2-3% (very similar to microfinance), through operationally intensive processes. As you go up ticket sizes, the yield tends to come down. Newer vehicles typically have <1% credit cost depending on product, while used vehicles have 1.5% to 2%.

*Key points to Note: Vehicle Loans & Gold Loans*

| Vehicle Loans | Gold Loans |
| --- | --- |
| • Used vehicles exhibit higher credit costs than new vehicles<br>• Medium and small CV financing sit adjacent to microfinance | • Entry barriers: Costs of setup, compliance<br>• Demand is tricky to interpret due to price surges in gold |

## Reflections on Strategic Choices That Lay Ahead

This section summaries the key discussion points that arose in the panel discussion titled **Product Diversification in MFIs: Strategies, Risks & Scale Up**, moderated by **Prof. M.S Shriram, IIM Bangalore,** and had as panelists, **Ganesh Narayanan, MD & CEO, Credit Access Grameen, K.S Raman, Executive Director, Jana SFB, Kalpana Sankar, MD & CEO, Varasakthi Housing Finance, and Muthukrishnan N, Head, Emerging Financial Institutions, Sundaram**. It also captures certain observations that were found to be common across the product-focused panels.



## Does Diversification make sense for today's realities?

- On the microfinance book, growth prospects was concluded to be not more than 5-6% CAGR. There was broad consensus that while growth potential remains, it will be lower than past growth, due to a) saturation of markets served by microfinance and b) credit absorption capacity limits being reached.
- There already exists a small proportion of customers who have been moving 'up' the credit market, 'leaving' microfinance, and 'jumping' to banks for other loans – implying that microfinance is a 'funnel' through which customers build their first formal credit histories, and then move 'up' to retail credit market. This was borne out by the insights shared by TUC during the Conclave. If this is an increasing trend, then the opportunity to penetrate deeper into rural geographies remains high.
- While leaders in the sector remarked that the demand for credit is strongly seen within the customer segments they serve, and that meeting this is indeed impactful, there was strong consensus that not all microfinance borrowers have the capacity to absorb any higher quantum of credit.
- Abilities to offer newer credit products need to sit alongside an ability to lend at the lowest microfinance rates possible. Also, one of the speakers shared that there are cases where a microfinance customer had a mortgage loan priced 3% higher than the microfinance loan, implying that, product diversification by MFIs opens up opportunities for removing such pricing distortions.
- The key for product diversification therefore is to be able to objectively identify this subset of borrowers very carefully. This subset of borrowers has visibly higher credit absorption capacity and may lie within the existing regions where current operations run or may be situated in other locations. There was also discussion on who these specific customers might be. These were clearly more entrepreneurial customers, having already demonstrated acceleration in their business investments and incomes over the years, supported by borrowings made via microfinance and other lenders. These examples flagged issues like the desire by such customers to pre-close their higher-ticket loans – a requirement which if agreed to, will negatively impact the lender's balance sheet. Additionally, the needs of the customer must be the starting point. For instance, building an extra room/ washroom/ compound wall/ cowshed or improving the flooring, are expressed needs for the microfinance customer but these cannot be treated at par with the housing loan segment – it is a different segment. They must not be exposed to a larger quantum of credit than what they need to meet their objectives.
- There was admission that the strategic choice of diversification is <u>not</u> being driven by a need for de-risking of asset books. If it were, then even when the 80% qualifying assets criterion was in place, we would have seen much more activity in building secured asset portfolios.
- The question of what purpose the diversification of products will serve was also a recurring theme in the discussions. On one hand, one speaker emphasized that any new kind of loans given to the microfinance customer should necessarily be aimed towards increasing existing income or introducing a new income stream. However, on the other hand, customers do have needs such as strengthening an existing house and improving safety, or buying a TV, which can improve living conditions without necessarily directly creating new income.

- Certain income vulnerabilities due to external crises can impact repayments, depending on the nature of the loan. Even during tough economic conditions, if the income generated is from an essential economic activity such as dairy, meat or cereals, the demand for the activity will remain high in the domestic and local economies and are largely insulated from price rises. On the contrary, if households rely on remittance incomes, there could be instability in repayments. Government restrictions on the movement of staff is another factor that can impact repayment monitoring. However, the current situation of fuel price hikes and supply shocks will likely strongly and negatively impact customers' financial lives, and lenders. Credit cycles have been getting shorter over the years, and there is going to be a lot of vulnerability – the microfinance customer segment is particularly vulnerable this time around (to the current crisis, as compared to a supply side crisis like the one in 2008).

- Two speakers who had extensive past experience in microfinance and who had built non-microfinance books in their respective entities, emphasized that the credit bureau check can only go so far, and that it is impossible to replace the value of having 'feet-on-street' approaches and physical personal visits for underwriting the customer.

- The governing boards (and investors) set the tone for how management must behave and how progress should be planned for. However, not all governing boards are equipped to handle multiple products. It takes 4 to 5 years to build experience in a product, work out the management teams and steer the company in a good direction.

- How much have investors impacted microfinance in a positive way, is a question the sector needs to reflect on deeply. Whether the investor is one who wants a 2-3x return in microfinance or instead has deep pockets and patience to stand the test of time and stay invested, will have a significant bearing on outcomes for a lender.

- A future where sophisticated underwriting is possible given microfinance lenders' extensive rural branch and feet-on-street presence, is possible, and can provide a strong competitive advantage. The 60:40 rule now marks the beginning of a structural change for NBFC-MFIs. In contrast, SFBs have no choice but to build more secured loan portfolios and move away from segments that cannot contribute to building their liability profiles. Microfinance must also continue to go deeper into rural locations and serve yet-to-be served borrowers who previously were ineligible for microfinance. Given microfinance has reached 10000 out of 19000 pincodes in India, the remaining 50% is yet to be covered and microfinance must consider what its role ought to be in those pincodes.

- Microfinance objectives of poverty reduction and women empowerment were reflected upon. When microfinance initially began, it introduced a lending product with weekly repayments to a rural farmer with income spikes happening only twice a year (during harvest) – this certainly increased circulation of money in the local economy as a result. In the changing economic conditions surrounding the customer today, lending guardrails and credit scores are not adequate anymore. We need to go back to our drawing boards and engage with the customers' needs.

- Yutadhi notes that all products chosen for the deliberations were typically with the same or longer tenure than existing microfinance loans. Hence, shorter tenure products such as 14 or 90 day or 6 month working capital loans were not discussed and can represent an important customer need that has yet to be considered at the Conclave.

The Conclave saw unprecedented interest from market participants. Given the limited capacity for the event, Sa-Dhan has reiterated that it is considering holding more events on the topic at other locations in India.

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