

BRC BITS - MARCH 2026

India's NBFCs: From Credit Gap Fillers to Scalable Financial Infrastructure

India's NBFC sector is entering a new phase - shaped by regulation, capital discipline, and demand for specialized credit.

Sources: RBI Handbook of Statistics (2025) · CRISIL NBFC Outlook (2025) · RBI Credit Flow Statistics (2025) · Mordor Intelligence

NBFCs spent 20 years filling credit gaps banks wouldn't touch. That phase is over. The next decade belongs to platforms that own distribution, data, and compliance infrastructure - not just loan books.

EXECUTIVE SUMMARY

India's NBFC Sector: At an Inflection Point

India is structurally under-lent - and that's not a problem, it's a compounding opportunity that has barely started. Banks were never architecturally designed for informal India. NBFCs were.

The Structural Case

- India's bank credit penetration: 56.5% of GDP vs China's 195% - that gap is the business
- 60M+ MSMEs that standard underwriting models can't service; 40% of working population with income patterns banks can't model
- NBFC AUM at Rs. 48Tn growing at 13.9% p.a. vs banks at 11% - and projected to reach Rs. 78Tn by FY28

The Easy Decade is Over

- India Stack (eKYC, Account Aggregator, UPI) permanently reset unit economics - 70% of NBFCs now use alt-data in underwriting; what was a moat is now table stakes
- Differentiation now lives in owned distribution, repeat borrower cohorts, and risk pricing that holds across cycles

Governance Has a Price

- AA-rated NBFCs borrow 50-75bps cheaper; top NCDs oversubscribed 2x - compliance is a valuation driver, not overhead
- Specialist platforms raise at 2-3x AUM multiples; diversified platforms sit at 0.7-0.85x

The Failure Record

- IL&FS: long-tenor assets, short-tenor money - Rs. 91,000Cr froze overnight
- DHFL: governance in name only, concentration in everything
- MFI stress 2024: multiple lenders, same borrowers, entirely predictable outcome

Rs. 78 trillion in AUM by FY28 is probably conservative. The market growing was never the question. Who's still standing when the next liquidity cycle turns - that's the one that matters.

SECTION 01

The Structural Setup

India's bank credit penetration: 56.5% of GDP. China: 195%. That gap isn't just a statistic - it's a compounding business opportunity.

<p>Rs. 48Tn NBFC AUM, FY25 <i>Up from Rs. 2Tn in ~20 years</i></p>	<p>13.9% NBFC loan CAGR <i>vs ~11% for banks (FY25)</i></p>	<p>15-17% Projected p.a. growth <i>Through FY28 - CRISIL</i></p>	<p>47% Retail share of NBFC book <i>Up sharply - retail is the growth engine</i></p>
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Three underserved cohorts driving the opportunity

Segment	Scale of Gap	Why banks can't solve it
Rural India	Only 9% credit penetration	Collateral-light; income seasonality; no bureau history
MSMEs	60M+ borrowers underserved	Cash-based, informal books; bank underwriting incompatible
Self-Employed / Informal	~40% of working population	Variable income patterns; incompatible with standard bank models

NBFCs didn't just fill the gap - they built a different credit model: **faster decisioning, alternative data, flexible documentation, risk pricing banks won't do.**

BRC TAKEAWAY
→ India remains structurally under-credited - keeping NBFC growth largely demand-driven rather than purely cyclical.
→ AUM projected at Rs. 74Tn by FY28. The compounding has barely started.
→ The retail shift (47% of book) signals a move from opportunistic gap-filling to systematic franchise building.

SECTION 02

What Actually Unlocked NBFC Scale

Three system-level shifts - not just NBFC hustle - made this possible.

<p>90% Lower acquisition cost <i>via eKYC + DigiLocker</i></p>	<p>2,300Cr+ eKYC verifications done <i>Rural reach unlocked</i></p>	<p>18-19Bn Monthly UPI transactions <i>FY25 - real-time disbursal rails</i></p>	<p>1.2Tn+ Co-lending arrangements <i>Enabling scale without balance sheet expansion</i></p>
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India Stack: the infrastructure that changed unit economics

Stack Layer	What it enabled	Business impact
eKYC + DigiLocker	Remote onboarding, instant verification	90% lower CAC; expanded reach beyond metros
Account Aggregator (AA)*	Access to real-time bank transaction data (income, cash flows, obligations)	Thin-file borrowers become lendable at scale
GST / Invoice data	Cash flow + seasonality signals for MSMEs	Alternative underwriting without collateral
UPI / IMPS	Real-time disbursement rails	Higher conversion; instant loan delivery
UPI AutoPay / eNACH	Tech-driven mandate collections	Reduced field ops; better Tier-2/3 economics

* Account Aggregator allows lenders to access a borrower's bank data (with consent), replacing collateral with cash-flow based underwriting.

India Stack made Rs. 10K-50K loans profitable for the first time. That single shift unlocked the NBFC growth decade.

The 'Phygital' edge

Pure-digital models lose on conversion. Physical presence for trust + digital efficiency for scale = 15-20% better conversion rates. The hybrid wins.

BRC TAKEAWAY

- India Stack is the #1 structural enabler. Unit economics of small-ticket lending fundamentally changed.
- 70% of NBFCs now use AA/GST signals in underwriting. Alt-data is table stakes, not competitive advantage.
- Co-lending (Rs. 1.2Tn+) lets NBFCs separate balance sheet risk from underwriting intelligence - structural leverage.
- The phygital model delivers 15-20% better conversion vs pure-digital. Branch presence still matters in Bharat.

SECTION 03

Capital Strategy: The Stage Matrix

Most NBFCs don't fail from lack of capital. They fail from capital that arrives in the wrong form, at the wrong stage.

Stage	Objective	Capital mix	What breaks here
Stage 1 <Rs. 1,500Cr AUM	Prove underwriting edge. Establish ROA discipline first.	Equity-led. Controlled co-lending. Minimal market borrowings.	Premature leverage. Short-tenor bank line dependency.
Stage 2 Rs. 1,500-7,500Cr	Lower cost of funds. Institutionalize governance.	Rated NCDs + selective CPs + partial securitization.	Bank concentration. Growth without a capital plan. Weak reporting.
Stage 3 Rs. 7,500Cr+	Cycle resilience. Valuation premium.	Multi-channel liabilities. Strategic PE. Pre-IPO optimization.	Asset-liability mismatch. Regulatory slippage. Scale without systems.

Capital that arrives too early pushes premature leverage. Too late, and you lose the growth window. Stage-funding match is a strategic decision, not a treasury function.

Funding architecture: then vs now

38% Bank borrowings <i>FY24 - still dominant</i>	33-43% Debentures <i>Growing as compliance rating improves</i>	50-75bps Funding cost advantage <i>AA-rated vs non-compliant peers</i>	~2X NCD oversubscription <i>For top-rated NBFCs</i>
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Then (pre-2018 IL&FS shock)	Now (FY24-25)
>50% wholesale funding - bonds, debentures, CP	Deliberate multi-channel stacking; no single dependence
IL&FS collapse exposed concentration risk overnight	NCDs / CPs / securitisation filling bank gaps strategically
Post-shock: forced regression to bank funding	AA-rated NBFCs: 50-75bps lower cost of funds
Compliance was an overhead cost	Compliance is a valuation driver - and a moat

BRC TAKEAWAY

- Stage-funding mismatch is the #1 reason NBFCs stall or get mispriced by investors.
- Governance has a measurable price: 50-75bps lower CoF + 2x NCD oversubscription for compliant NBFCs.
- Beyond Rs. 10-15K Cr AUM, sector concentration limits scalability - the path to valuation is diversification.

SECTION 04

Recent Fundraises: Where Capital Is Going

The fundraising data tells you more than any macro view - it shows exactly which credit problems investors believe are worth backing right now.

\$8Bn+

PE dry powder

Focused on Indian financial services

~2x

Funding premium

Specialist NBFCs vs diversified peers

2-3x

AUM multiple

Valuation premium for focused NBFC models

Company	Segment	AUM (Rs.Cr)	Raised (\$Mn)	Date	Key Investors
Navadhan Capital	Rural MSME	295	\$20Mn	Mar 2025	NABVENTURES, Prime VP, Gemba Capital, Anicut
Easy Home Finance	Affordable Housing	670	\$61Mn	Nov 2024	Claypond, Xponentia, SMBC Asia Rising Fund
Auxilo	Affordable Housing	3,400	\$127Mn	Jul 2024	LeapFrog, Trifecta, Xponentia, Tata Capital, ICICI Bank
Money View	Near-prime Personal	14,000	\$220Mn	Sep 2024	Accel, Tiger Global, Ribbit Capital, Nexus VP

What the fundraising data tells us

- At Rs. 10K-15K Cr AUM, diversification starts - Money View at Rs. 14,000Cr is already broadening from personal loans to LAP, home loans, business loans, credit cards and other consumer credit products.
- Large strategic investors (Premji Invest, KKR, Tiger Global) validate governance + scale over niche alone.
- Affordable housing is the most crowded new entrant segment - differentiated underwriting of informal income is the moat.

BRC TAKEAWAY

- Specialist NBFCs (rural MSME, EV, education) raise at 2-3x AUM multiples. Diversified platforms raise at 0.7-0.85x. Stage matters.
- The highest-conviction bet right now: Rs. 300Cr-3,000Cr AUM vertical specialists with proven ROA, preparing for Stage 2 capital.

SECTION 05

Hard Lessons From the Sector

Every wave of NBFC growth has produced failures - and every failure has a lesson. Here are the ones that matter most.

Entity / Event	What went wrong	The lesson for builders and investors
IL&FS Crisis (2018)	Over-reliance on short-tenor wholesale funding for long-tenor infra assets. When sentiment turned, Rs. 91,000Cr of debt froze.	ALM (asset-liability mismatch) is an existential risk. Never fund long assets with short money - no matter how cheap.
DHFL Collapse (2019)	Governance failure + concentrated real estate exposure + public deposit misuse. Rs. 83,000Cr resolution.	Governance is structural, not procedural. Weak oversight and promoter-controlled operations create systemic risk
MFI Stress (2024)	Multiple lenders extended credit to the same borrowers, causing over-leveraging in low-income segments.	Credit discipline matters more than growth. Excess lending to the same borrower base destabilizes the entire sector.
Gold Loan Sector (2024)	41% YoY growth triggered RBI scrutiny amid evergreening, weak due diligence, and loose fintech partnerships	Rapid, unsupervised growth invites regulation. Compliance infrastructure must precede scale.
FLDG-Heavy Fintechs (2025)	FLDG models created risk without balance-sheet visibility; RBI later capped FLDG and mandated direct lender disbursements	Models built on regulatory gaps are fragile. Sustainable lending requires balance-sheet ownership and transparency.
Bank Concentration Risk	Post-IL&FS, NBFCs that relied >60% on bank lines got squeezed when banks pulled back cautiously.	Single-source liability is a systemic vulnerability. Funding must be diversified before liquidity cycles turn.

The failures all rhyme: too much growth, too fast, on a fragile funding or governance base. The surviving models are boring in the best way - disciplined underwriting, clean governance, diverse liabilities.

BRC TAKEAWAY

- Every NBFC failure had an identifiable precursor: ALM mismatch, overleveraging, governance gaps, or regulatory arbitrage. None were surprises in hindsight.
- For investors: the most dangerous NBFCs are the fastest-growing ones with the least governance infrastructure.
- For founders: build compliance and governance architecture at Stage 1. It is exponentially cheaper than retrofitting at Stage 3.

SECTION 06

Who Wins. Who Loses.

The alpha map: where returns actually come from

Archetype	Alpha source	Ceiling	Sweet spot for
Scale Anchors (Bajaj, Shriram, Chola)	Stable returns via scale + diversification	Alpha structurally capped. Multiple expansion limited.	Long-only public equity investors
Focused Compounders (Vastu Housing Finance)	Superior risk-adjusted ROE in a niche	Capital-heavy; incremental scale	PE investors with 5-7yr horizon
Alpha Creators - VC sweet spot (Revfin, GyanDhan, Oxyzo, Vidyut)	Own a credit problem early. Fast scale, high margins, defensible moat.	Needs scale or exit before diversification dilutes edge	Vcs, early-stage PE, founders

Alpha is created during specialization - before diversification begins. The moment to invest is when the NBFC owns a niche problem no one else is solving.

Where capital will and won't flow

✓ Capital will flow to	✗ Capital will not flow to
NBFCs owning hard, specific credit problems	Mono-product, bank-dependent lenders
Platforms with diversified, durable liabilities	FLDG-heavy models without balance-sheet control
ROA discipline before AUM scale	Growth-first NBFCs with weak governance
Compliance-ready, governance-grade stacks	Lenders without alternative data integration

M&A: buyers aren't buying loan books

Deal	Capability acquired	Why it mattered
Amazon → Axio (Sep 2025)	RBI NBFC license + full-stack underwriting & collections	Internalised embedded lending; removed FLDG dependence
HDFC → HDFC Bank (Jul 2023)	Largest mortgage franchise + low-cost deposit base	Benchmark for deposit-funded lending at national scale
Ambit → SME Corner (Jan 2023)	Fully digital MSME platform + co-lending rails	Jumped ahead in unit economics and speed
KKR → InCred (Aug 2021)	Global capital + digital consumer/MSME engine	Scalable, well-capitalised lending platform

BRC TAKEAWAY

- M&A is shifting from asset acquisition to capability acquisition - licenses, underwriting engines, and distribution.
- Large platforms are internalising lending capabilities to control risk, margins, and customer experience.
- For investors, exit pathways are increasingly strategic (M&A), not just IPO-driven.

SECTION 07

Founder DNA: What It Takes to Build an NBFC

This is not a young-founder, first-time-disruptor game. The data on scaled NBFCs is unambiguous.

75-80%

Credit experience is mandatory

of scaled NBFC founders have 10+ years in lending/banking - mainly ex-ICICI, HDFC, Kotak, or large NBFCs

MBA/CA/CFA

Finance credentials dominate

Most founders hold formal finance qualifications - strong underwriting and balance-sheet DNA is non-negotiable

38-45yrs

Seasoned operators, not young disruptors

Typical founding age, with 12-18 years of prior experience

~80%

Team-led, not solo

of scaled NBFCs built by 2-3 founders - clear ownership across Credit/Risk, Business/Distribution, and Tech/Ops

What RBI implicitly expects from founders

#	Expectation	Why it matters
1	Clean compliance record - no NPAs, wilful defaults, regulatory or criminal actions	RBI treats character as a proxy for institutional culture
2	Demonstrable experience in credit, risk, fintech or NBFC operations	Protects borrowers; reduces systemic risk
3	Strong independent directors - especially where founders are young or tech-heavy	Governance backstop against founder blind spots
4	Transparent promoter capital - capacity to meet NOF and future capital needs	Signals long-term commitment vs. rent-seeking

NBFC success in India is driven by experience, governance, and capital discipline - not first-time disruption. The RBI will tell you the same thing, just more formally.

BRC TAKEAWAY

- If you're building an NBFC: credit operator experience is your license before the license. Get it first.
- If you're investing: founder background is the single best predictor of governance quality. Check the credit lineage.
- The best NBFC founding teams look like: 1 credit/risk veteran + 1 business/distribution builder + 1 tech/ops leader.

SECTION 08

The Landscape: Who's Who Across Verticals

Vertical leaders are emerging across every major credit category. As categories mature, consolidation follows. The map below shows the current competitive grid - and where M&A is most likely to accelerate.

<p>Consumer/Personal</p>	<p>BNPL</p>	<p>MSME</p>
<p>Supply Chain & Embedded Credit</p>	<p>Gold Loan</p>	<p>EV</p>
<p>HFCs</p>	<p>Education & Healthcare</p>	<p>Diversified NBFCs</p>

Reading the landscape - three patterns stand out:

- Consumer/Personal and BNPL are already crowded. Differentiation is moving from product to distribution and data moats. Consolidation here is imminent.
- MSME and Supply Chain Finance are still fragmented - multiple players, no clear national leader. The winner will likely be built through M&A, not organic scale.
- EV and Education Finance are early innings - unit economics are being established, underwriting models are nascent. Highest risk, highest potential alpha.
- Gold Loan and HFC are mature and regulated - advantage has shifted to the most compliant, best-funded players. New entry is increasingly difficult.

BRC TAKEAWAY

- Every category will produce 2-3 dominant platforms. Everything else consolidates into them or exits.
- MSME and EV are the two verticals where a well-capitalised specialist can still build a national franchise from scratch.
- Market leaders price in perfection. The alpha sits with disciplined #2/#3 players - improving ROA, expanding distribution, and becoming consolidation candidates.

BOTTOM LINE

The NBFC Evaluation Scorecard

Three lenses. If all three are green - you have a compounder. Any red flag - ask why before you write the cheque.

Lens	Green ✓	Red X
1. Underwriting	NPA <2% (3yr); 60-80% repeat borrowers; multi-signal decisioning; NIM stable across rate cycles	Rising NPAs >3% for 2+ years; bureau-only underwriting; thin or no repeat cohorts
2. Infrastructure	Digital onboarding >80%; alt-data adoption >70%; SBR compliant; real-time decisioning	Manual-heavy operations; no AA/GST integration; weak governance controls
3. Capital	3+ liability sources; CoF 6-9%; consistent ROA 2-4.5%; adequate capital adequacy ratio	Bank dependency >60%; FLDG-heavy without balance sheet; growth-first, ROA-second

The winners won't be the fastest lenders. They'll be the most structurally sound financial institutions - with distribution access, data-driven underwriting, and regulatory-grade systems baked in from day one.

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