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IPO Note

TATA CAPITAL

Tata Capital Ltd.

Industry: Non-Banking Financial Company (NBFC)

Rating
NEUTRAL

Date: 3rd October, 2025

Tata Capital Ltd

Issue Highlights

Tata Capital Ltd. is a book build issue of Rs 15,511.87 crores. The issue is a combination of Fresh issue and Offer For Sale (OFS).

- The Fresh Issue consists of 21.00 crore shares aggregating to Rs. 6,846 crores at the upper end of the price band at Rs. 326 per share.
- The OFS consists of 26.58 crore shares aggregating to Rs. 8,665.87 crores at the upper end of the price band at Rs. 326 per share.

Objects of the Offer are: The net proceeds of the Fresh Issue are to be utilised in the following manner:

Particulars	Rs. Cr
Augmentation of our Company's Tier –I capital base to meet our Company's future capital requirements including onward lending.	[•]
Total	[•]

6th October 2025 ISSUE OPENS to 8th October 2025 ISSUE CLOSES

ISSUE DETAILS	
Price Band	Rs. 310 to Rs. 326 per share
Face Value	Rs. 10 per share
Total Offer Size	47,58,24,280 shares (aggregating up to Rs 15,511.87 Cr)
Fresh Issue	21,00,00,000 shares (aggregating up to Rs. 6,846.00 Cr)
Offer for Sale	26,58,24,280 shares (aggregating up to Rs. 8,665.87 Cr)
Issue Type	Book Built Issue IPO
Minimum lot	46 Shares
Listing on	BSE, NSE

Data Source: Company filings & CSEC Research

Date: 3rd October, 2025

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Outlook

- Tata Capital Ltd, the flagship financial services arm of the Tata Group, is the third-largest diversified NBFC in India, offering a wide range of retail, SME, and corporate lending products. Backed by the trust and legacy of the Tata Group—one of India's most respected conglomerates—Tata Capital enjoys strong brand equity, a AAA credit rating.
- As of March 31, 2025, the total loan book stood at Rs 2,26,553 crore, achieving a robust 2-year CAGR of 37.3%, further expanding to Rs 2,33,399 crore in Q1 FY26. Net Interest Income (NII) grew at a CAGR of 41.8% from Rs 5,310 crore in FY23 to RS 10,690 crore in FY25, highlighting consistent earnings expansion.
- The post-issue Price-to-Book (P/BV) stands at 4.17x and Price-to-Earnings Ratio (PER) at 37.8x, aligning well with the industry average and suggesting scope for limited upside in relative valuation multiples.
- In line with industry trends, there has been slippage in asset quality, a rise in incremental credit costs, and compression in Net Interest Margins in FY25 over FY24.
- Beyond lending, Tata Capital has thriving verticals in wealth management, insurance distribution, and private equity, contributing to fee-based income and enhancing business resilience.
- Post-issue, the promoter's shareholding will stand at 84.57%, which exceeds SEBI's prescribed limit of 75%. This indicates that further dilution of promoter stake will be required over time to comply with minimum public shareholding norms.
- We have a 'NEUTRAL' rating for Tata Capital Ltd.'s IPO for listing gains.

1,38,383
Market Cap (Rs. Crores) Post Issue

Post Issue P/BV Ratio
4.17

12.60%
Return on Equity (FY25 ROE%)

Promoter Shareholding Post Issue
84.57%

Indicative Timeline

On or before

Finalization of Basis of Allotment	Thu, Oct 9, 2025
Unblocking of Funds	Fri, Oct 10, 2025
Credit of shares to Demat Account	Fri, Oct 10, 2025
Listing on exchange	Mon, Oct 13, 2025

IPO Reservation

QIB Shares	23,73,12,140 (49.87%)
HNI Shares	7,11,93,642 (14.96%)
Retail Shares	16,61,18,498 (34.91%)

Lot Size

Application	Lots	Shares	Amount
Retail (Min)	1	46	Rs. 14,996
Retail (Max)	13	598	Rs. 1,94,948
S-HNI (Min)	14	644	Rs. 2,09,944
S-HNI (Max)	66	3,036	Rs. 9,89,736
B-HNI (Min)	67	3,082	Rs. 10,04,732

Data Source: Company filings & CSEC Research | Post Issue PER & P/BV calculated with FY25 PAT & Book Value

Date: 3rd October, 2025

Company Overview

Tata Capital is the flagship non-banking financial services company of the Tata Group and a wholly owned subsidiary of Tata Sons Private Limited, the holding company and promoter of the Tata Group. With the backing of one of India's most respected and diversified conglomerates—spanning over 150 years and 10 verticals including automotive, technology, steel, aerospace, defence, and consumer retail—Tata Capital benefits from deep-rooted brand equity and operational excellence.

- **Market Position & Strategy:** According to CRISIL, Tata Capital ranks as the third-largest diversified non-banking financial company (NBFC) in India by Total Gross Loans, which stood at Rs 2,33,400 crore as of June 30, 2025. The company has demonstrated exceptional growth, with Total Gross Loans expanding at a CAGR of 37.3% between March 31, 2023 and March 31, 2025. Excluding Tata Motors Finance Limited (TMFL), the loan book grew at a CAGR of 28.4% over the same period. Tata Capital has maintained strong asset quality throughout this expansion, reporting a Gross Stage 3 Loans Ratio of 2.1%, Net Stage 3 Loans Ratio of 1.0%, and a Provision Coverage Ratio (PCR) of 53.9% as of June 30, 2025. Excluding TMFL, these metrics improve further to 1.5%, 0.5%, and 65.8%, respectively.
- **Customer Base & Product Diversification:** Since launching its lending operations in 2007, Tata Capital has served over 73 lakh customers. Its diversified portfolio of more than 25 lending products caters to salaried and self-employed individuals, entrepreneurs, small businesses, SMEs, and corporates. As of June 30, 2025, loans to Retail and SME customers accounted for 87.5% of the company's Total Gross Loans. The portfolio is highly granular, with ticket sizes ranging from Rs 10,000 to over Rs 100 crore, and over 98% of loan accounts falling below Rs 1 crore. Additionally, 80% of the loan book is secured, and more than 99% of the Total Gross Loans are organically originated.
- **Distribution Network:** Tata Capital operates through a robust omni-channel distribution model, combining a wide physical presence with strong digital capabilities. As of June 30, 2025, the company had 1,516 branches across 27 states and union territories, with its branch network growing at a CAGR of 58.3% over the preceding three fiscal years. Each branch is staffed with in-house teams managing customer engagement, acquisition, loan processing, documentation, and servicing. This physical infrastructure is complemented by proprietary digital platforms—including mobile apps and a comprehensive website—as well as partnerships with direct selling agents (DSAs), original equipment manufacturers (OEMs), dealers, and digital partners. Beyond its core lending business, Tata Capital operates several non-lending verticals. These include distribution of third-party products such as insurance and credit cards, wealth management services for high-net-worth and retail clients, and a private equity business focused on Growth and Healthcare themes. The company is currently raising Fund III for both themes, building on the performance of its earlier funds. It also manages three other thematic funds—Opportunities, Innovations, and Special Situations—which are in the process of being exited. A new Decarbonization Fund has been approved by the Board, reflecting Tata Capital's commitment to sustainability-focused investments.
- **Merger with Tata Motors Finance Ltd:** A major milestone in Tata Capital's journey was the merger with Tata Motors Finance Limited (TMFL), effective May 8, 2025, with an appointed date of April 1, 2024. The merger, sanctioned by the National Company Law Tribunal, consolidated TMFL's entire business—including assets, liabilities, and operations—into Tata Capital. TMFL was a leading provider of commercial and passenger vehicle loans in India, with a pan-India network of 353 branches and over 450 dealer touchpoints. It served a wide customer base including suppliers, dealers, transporters, fleet operators, and first-time vehicle users.

Capability Matrix

Lending Business:

- **Home Loans:** Tata Capital's Home Loan business, offered through its material subsidiary TCHFL, stood at Rs 40,159.1 crore as of June 30, 2025, contributing 17.2% to the company's Total Gross Loan Book. These loans cater to a wide range of financing needs including the purchase of new homes, construction, resale of properties, balance transfers, and top-up loans. The average ticket size was Rs 32 lakh, with tenors extending up to 30 years and an average interest rate of 9.8%.
- **Loan Against Property**: Loans Against Property portfolio reached Rs 27,810.9 crore as of June 30, 2025, accounting for 11.9% of the Total Gross Loan Book. These secured loans are primarily extended to salaried and self-employed individuals across metro, tier 1, tier 2 cities, and deeper geographies. The average ticket size was Rs 16 lakh, with tenors up to 20 years and an average interest rate of 11.4%.
- **Personal Loans:** Tata Capital's Personal Loan portfolio, comprising unsecured loans primarily extended to salaried individuals, stood at Rs 15,281.5 crore as of June 30, 2025, contributing 6.5% to the Total Gross Loan Book. The average ticket size was Rs 4 lakh, with tenors of up to seven years and an average interest rate of 16.0%.
- **Business Loans:** Business Loans, catering to self-employed and professional individuals for working capital, asset acquisition, and business expansion, totaled Rs 9,372.8 crore as of June 30, 2025, accounting for 4.0% of the Total Gross Loan Book. The average ticket size was Rs 12 lakh, with tenors of up to five years and an average interest rate of 17.8%.
- **Secured Business Loans**: Secured Business Loans, targeted at micro-enterprises and backed by property collateral, amounted to Rs 54.5 crore as of June 30, 2025, representing 0.02% of the Total Gross Loan Book. The average ticket size was Rs 9 lakh, with tenors of up to 15 years and an average interest rate of 17.9%.
- **Two Wheeler Loans**: The portfolio stood at Rs 7,100.0 crore as of June 30, 2025, contributing 3.0% to the company's Total Gross Loan Book. These loans are extended to salaried and self-employed individuals for the purchase of two-wheelers. The average ticket size was Rs 1 lakh, with tenors of up to five years and an average interest rate of 20.3%.
- **Car Loans**: Car Loans, offered for the purchase and refinancing of passenger vehicles, totaled Rs 5,661.7 crore as of June 30, 2025, accounting for 2.4% of the Total Gross Loan Book. The average ticket size was Rs 7 lakh, with tenors of up to seven years and an average interest rate of 14.5%.

Capability Matrix

- **Commercial Vehicle Loans:** The Commercial Vehicle Loan portfolio reached Rs 24,699.7 crore as of June 30, 2025, comprising 10.6% of the Total Gross Loan Book. These loans are disbursed to individuals, small fleet operators, market load operators, and strategic customers. The average ticket size was Rs 16 lakh, with tenors of up to five years and an average interest rate of 12.1%.
- **Construction Equipment:** The portfolio stood at Rs 5,882.9 crore as of June 30, 2025, contributing 2.5% to the company's Total Gross Loan Book. The company has tie-ups with over 40 OEMs and sources over 75% of these loans through its in-house sales team, supported by dealer and DSA partnerships. The average ticket size was Rs 7.7 lakh, with tenors of up to five years and an average interest rate of 11.5%.
- **Loans Against Securities:** The loans secured by pledged investments such as stocks, mutual funds, and bonds, totaled Rs 4,209.2 crore as of June 30, 2025, accounting for 1.8% of the Total Gross Loan Book. The average ticket size was Rs 2.8 lakh, with tenors of up to one year and an average interest rate of 10.1%.
- **Microfinance Loans:** Microfinance Loans, offered under the joint liability group model to women from low-income households, amounted to Rs 2,379.9 crore as of June 30, 2025, representing 1.0% of the Total Gross Loan Book. These loans support self-employed and home-based entrepreneurs engaged in small-scale activities. The average ticket size was Rs 50,000, with tenors of up to three years and an average interest rate of 25.5%.
- **Education Loans:** The total portfolio stood at Rs 446.6 crore as of June 30, 2025, contributing 0.2% to the Total Gross Loan Book. These loans are designed to support students pursuing higher education in India and abroad. The average ticket size was Rs 3.5 lakh, with tenors of up to 15 years and an average interest rate of 11.8%.
- **Supply Chain Finance:** Supply Chain Finance, which includes channel finance, factoring, and vendor finance solutions for distributors, dealers, and suppliers of reputed corporates and OEMs, totaled Rs 14,904.7 crore as of June 30, 2025. This segment accounted for 6.4% of the Total Gross Loan Book. The average ticket size was Rs 33.5 lakh, with tenors of up to one year and an average interest rate of 10.9%.
- **Equipment Finance:** The Equipment Finance portfolio reached Rs 2,017.1 crore as of June 30, 2025, comprising 0.9% of the Total Gross Loan Book. The average ticket size was Rs 16.3 lakh, with tenors of up to five years and an average interest rate of 11.4%.

Capability Matrix

- **Leasing Solutions:** Leasing Solutions, offered for a wide range of assets including cars, IT equipment, commercial vehicles, construction machinery, and electric vehicles, stood at Rs 2,956.7 crore as of June 30, 2025, contributing 1.3% to the Total Gross Loan Book. The average ticket size was Rs 168.3 lakh, with tenors of up to 15 years and an average interest rate of 11.6%.
- **Term Loans:** Tata Capital's Term Loan portfolio stood at Rs 36,939.5 crore as of June 30, 2025, contributing 15.8% to the Total Gross Loan Book. These loans are extended to SME and corporate customers to support brownfield and greenfield projects, capital investments, working capital needs, and other general purposes. The average ticket size was Rs 25.83 crore, with tenors of up to eight years and an average interest rate of 10.9%.
- **Cleantech and Infrastructure Finance:** Cleantech and Infrastructure Finance, focused on sustainable sectors such as renewable energy, energy efficiency, electric mobility, waste and water management, reached Rs 20,566.4 crore as of June 30, 2025, accounting for 8.8% of the Total Gross Loan Book. The average ticket size was Rs 137.33 crore, with tenors of up to 23 years and an average interest rate of 10.4%.
- **Developer Finance:** Developer Finance, offered through Tata Capital's material subsidiary TCHFL, totaled Rs 12,918.8 crore as of June 30, 2025, contributing 5.5% to the Total Gross Loan Book. These loans are secured by mortgages or hypothecation over project assets, cash flows, inventory, land, and development rights. The average ticket size was Rs 6.3 crore, with tenors of up to seven years and an average interest rate of 12.5%.

Non-Lending Business:

- In addition to its core lending operations, Tata Capital operates a diversified suite of non-lending businesses that enhance its financial services ecosystem. These include the distribution of third-party products, wealth management, and private equity (PE) fund management.
- Under its insurance and credit card distribution vertical, Tata Capital holds a composite corporate agency license from IRDAI, enabling it to offer life, general, and health insurance products. As of June 30, 2025, it had over 8.6 million active insurance policies through 19 partner insurers. The company also distributes "Tata Corporate Cards," white-label credit cards issued by SBI Cards, with over 250,000 active cards.
- Through 'Tata Capital Wealth,' the company provides tailored wealth management services to high-net-worth and retail clients. As of June 30, 2025, it managed assets worth Rs 6,980 crores, supported by a team of wealth managers and product specialists.
- Tata Capital's PE business focuses on Growth and Healthcare themes, managing eight SEBI-registered domestic funds and several offshore funds via its Singapore-based subsidiary TCAPL. As of June 30, 2025, it had raised Rs 7,000 crores across these funds, completing 53 deals over 15 years. These non-lending businesses reflect Tata Capital's strategic focus on holistic financial solutions and long-term value creation.

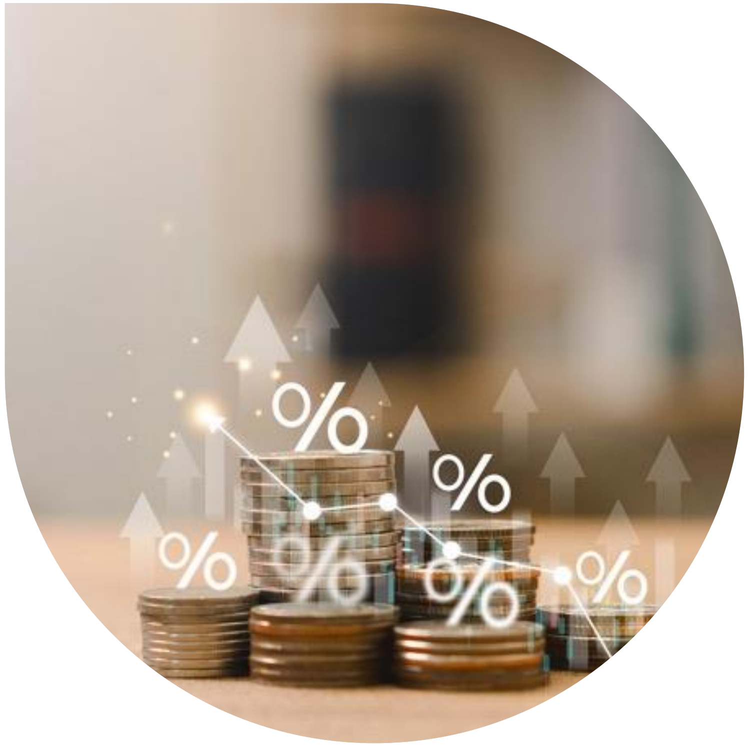
Risks

- **Credit Risk and Non-Performing Assets (NPAs):** Tata Capital faces inherent credit risk due to potential customer defaults or delays in loan repayments. As of June 30, 2025, Gross Stage 3 Loans stood at 2.1% of Total Gross Loans, showing moderate fluctuation over recent periods. Defaults may arise from factors such as bankruptcy, unemployment, liquidity issues, or adverse economic conditions. An increase in delinquencies can elevate NPAs, reduce interest income, and raise credit costs and collection expenses—negatively impacting profitability, cash flows, and overall financial health.

- **Provisioning Adequacy and Regulatory Compliance:** The Provision Coverage Ratio (PCR) has declined from 77.1% as of March 31, 2023 to 53.9% as of June 30, 2025, indicating reduced buffer against potential credit losses. Inadequate provisioning for non-performing assets (NPAs) may adversely impact the company's financial condition, profitability, and cash flows, especially in the event of rising customer defaults. While the company maintains impairment allowances in line with Ind AS 109 and adheres to RBI's prudential norms on income recognition, asset classification, and provisioning.

- **Loan-Mix Volatility and Impact on Financial Metrics:** Tata Capital's evolving loan-mix reflects its strategic shift toward a granular, retail-focused portfolio and the integration of TMFL's business. This transition has been shaped by macroeconomic trends, market opportunities, and efforts to deepen customer reach while maintaining asset quality through prudent risk management. However, changes in loan-mix can materially impact financial performance, as different lending verticals and products carry varying interest rates, margins, risk profiles, and delinquency levels. Any significant or adverse shift in the loan-mix may affect key financial metrics such as Net Interest Income, Net Interest Margin Ratio, operating expenses, provisioning levels, Return on Assets, capital adequacy, and asset quality ratios.

- **Interest Rate Volatility and Margin Compression**: Tata Capital's exposure to both fixed and floating interest rate instruments makes it vulnerable to fluctuations in interest rates. As of June 30, 2025, fixed-rate loans comprised 36.3% of Total Gross Loans, while fixed-rate borrowings accounted for 55.0% of Total Borrowings. Any adverse movement in interest rates could impact the company's Average Cost of Borrowings Ratio and Net Interest Margin Ratio, thereby affecting profitability, loan demand, and Net Interest Income.



Data Source: Company filings & CSEC Research

Risks

- **Retail Finance Exposure and Customer Sensitivity:** Retail Finance accounts for 61.3% of Tata Capital's loan book, making it highly sensitive to consumer-driven factors. Economic disruptions, rising interest rates, inflation, or unemployment could reduce loan demand or increase defaults. A spike in NPAs may impact profitability and asset quality. While recent performance has remained stable, future volatility in customer behavior or macroeconomic conditions could pose risks, requiring strong underwriting and risk controls to maintain portfolio health and financial resilience.

- **Funding Availability and Cost of Borrowings:**. Tata Capital, as a non-deposit taking NBFC, depends on external funding sources. Its Average Cost of Borrowings rose to 7.8% in Fiscal 2025 due to elevated interest rates. Inability to raise funds at competitive rates—due to credit rating changes, regulatory limits, or market disruptions—could compress margins and affect liquidity. Regulatory caps and exposure norms further constrain flexibility. Any disruption in funding access or rising costs may adversely impact profitability, financial condition, and operational continuity.

- **Dependency on Third-Party Service Providers:** Tata Capital relies on third-party vendors for several operational functions including loan origination, document and data processing, back-office activities, cash collection, and IT services. While core management functions such as sales, credit underwriting, risk, finance, and compliance are handled in-house, any disruption, negligence, fraud, or inefficiency by external service providers could adversely impact customer experience, operational continuity, and the company's reputation.

- **Regulatory Compliance with RBI Prudential Norms:** As an Upper Layer NBFC, Tata Capital must comply with RBI norms on expected credit loss, credit concentration, and interest rate practices. The ECL model under Ind AS 109 requires forward-looking provisioning, which may be volatile and impact profitability. Exposure limits to sensitive sectors may restrict lending flexibility. Interest rate disclosures must be transparent to avoid penalties. Regulatory changes or non-compliance could increase provisioning needs and adversely affect asset quality, financial performance, and operational stability

FINANCIALS

Income Statement (Rs. Cr)	Q1FY26	FY25	FY24	FY23
Revenue from Operations (1)				
Interest income	6,932	25,720	16,366	11,911
Dividend income	9	24	36	1
Rental income	87	272	203	269
Fees and commission income	348	1,780	1,046	570
Net gain on fair value changes	175	280	490	64
Net gain on derecognition of associates	-	-	33	815
Net gain / (Loss) on de-recognised financial instruments	115	236	-	0
Total revenue from operation	**7,665**	**28,313**	**18,175**	**13,629**
Other Income (2)	27	57	24	9
Total Income (1+2)	**7,692**	**28,370**	**18,198**	**13,637**
Expenses				
Finance costs	4,066	15,030	9,568	6,601
Impairment of investment in associates	-	-23	10	8
Net loss on derecognition of associates	-	2	-	-
Impairment on financial instruments	909	2,827	592	574
Employee benefits expense	635	2,812	1,850	1,294
Depreciation and amortisation	118	390	288	226
Other expenses	582	2,411	1,487	1,145
Total expenses	**6,309**	**23,449**	**13,795**	**9,848**
Share in loss of associates	**-1**	**-3**	**-12**	**147**
Profit before tax	**1,382**	**4,919**	**4,392**	**3,937**
Tax Exp				
Current Tax	411	1,141	1,072	1070
Defered Tax	-69.32	122	-7	-80
Income tax for earlier year	-	-	-	-
Total Tax	**341**	**1264**	**1065**	**991**
PAT	**1,041**	**3,655**	**3,327**	**2,946**
EPS	2.50	9.30	8.60	8.40

Data Source: Company filings & CSEC Research

FINANCIALS

Balance Sheet (Rs. Cr)	Q1FY26	FY25	FY24	FY23
ASSETS				
Total Financial Assets	2,47,284	2,43,999	1,74,394	1,34,028
Total Non-Financial Assets	4,971	4,466	2,300	1,598
Total Assets	**2,52,255**	**2,48,465**	**1,76,694**	**1,35,626**
LIABILITIES AND EQUITY				
Total Financial Liabilities	2,16,399	2,13,126	1,51,337	1,16,825
Total non-financial liabilities	1,028	968	775	652
EQUITY				
Equity share capital	3,951	3,762	3,703	3,507
Other equity	30,876	30,608	20,879	14,642
Total equity	**34,828**	**34,371**	**24,582**	**18,149**
Total Liabilities and Equity	**2,52,255**	**2,48,465**	**1,76,694**	**1,35,626**

Notable Ratios and Key Performance Indicators

Particulars	Q1FY26	FY25	FY24	FY23
Disbursements (Rs in Cr)	34,714	1,42,302	1,04,994	74,767
Total Gross Loans (Rs in Cr)	2,33,399	2,26,553	1,61,231	1,20,197
Retail Finance (Rs in Cr)	1,43,095	1,41,114	95,032	68,188
SME Finance (Rs in Cr)	61,227	59,463	46,761	39,203
Corporate Finance (Rs in Cr)	29,076	25,976	19,438	12,806
Secured Loans as % of Total Gross Loans	80.00%	79.00%	75.50%	76.90%

Particulars	Q1FY26	FY25	FY24	FY23
Net Interest Margin (%)	5.10%	5.20%	5.00%	5.10%
Net Interest Income (Rs in Cr)	2,866	10,690	6,798	5,310
Credit Cost (%)	1.60%	1.40%	0.40%	0.60%
Cost to Income Ratio	36.80%	42.10%	42.00%	37.90%
Return on Assets (%)	1.80%	1.80%	2.30%	2.90%
Return on Equity (%)	12.50%	12.60%	15.50%	20.60%

Data Source: Company filings & CSEC Research

Notable Ratios and Key Performance Indicators

Particulars	Q1FY26	FY25	FY24	FY23
Provision Coverage Ratio (%)	53.90%	58.50%	74.10%	77.10%
GNPA (%)	2.10%	1.90%	1.50%	1.70%
NNPA (%)	1.00%	0.80%	0.40%	0.40%
Capital Adequacy Ratio (%) - Tier I	16.60%	16.90%	16.70%	NA
Number of Branches	1,516	1,496	867	539
Number of Employees	29,397	29,397	19,250	14,490

Business Vertical -wise Loan Book

Particulars	Q1FY26		FY25		FY24		FY23	
	(Rs. Cr)	%	(Rs. Cr)	%	(Rs. Cr)	%	(Rs. Cr)	%
Retail Finance	1,43,095	61%	1,41,114	62%	95,032	59%	68,188	57%
SME Finance	61,227	26%	59,463	26%	46,761	29%	39,203	33%
Corporate Finance	29,076	12%	25,976	11%	19,438	12%	12,806	11%
Total AUM	**2,33,399**	**100%**	**2,26,553**	**100%**	**1,61,231**	**100%**	**1,20,197**	**100%**

Investments:

Particulars	Q1FY26		FY25		FY24		FY23	
	(Rs. Cr)	%	(Rs. Cr)	%	(Rs. Cr)	%	(Rs. Cr)	%
Investments	9,213	89%	8,718	88%	7,902	90%	12,659	96%
Investments accounted using equity method	1,181	11%	1,149	12%	831	10%	595	4%
Total Investment	**10,394**	**100%**	**9,866**	100%	**8,733**	100%	**13,254**	100%

Data Source: Company filings & CSEC Research

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PEER COMPARISON

Peer Comparison	Market Cap (Rs. Cr)	PE Ratio	P/BV Ratio	AUM (Rs. Cr) (Q1FY26)	Disbursements (Rs. Cr) (Q1FY26)	ROA (%) (Q1FY26)	ROE (%) (Q1FY26)
Tata Capital Ltd	1,38,383*	37.8*	4.17*	2,33,399	34,714	1.80%	12.50%
Bajaj Finance Ltd	6,14,595	35.3	6.35	4,41,450	NA	4.50%	19.00%
HDB Financial Services	63,873	29.0	NA	1,09,342	15,171	1.90%	13.20%
L&T Finance Ltd	64,642	24.3	2.52	1,02,314	17,522	2.40%	10.90%

- *Post Issue*
- *Mcap, PE and P/BV taken as on 1st October closing*

Data Source: Company filings & CSEC Research

Industry Outlook

The Non-Banking Financial Company (NBFC) sector in India has evolved into a critical pillar of the financial ecosystem, demonstrating resilience, adaptability, and robust growth. NBFCs are classified into two broad categories based on liabilities: deposit-taking and non-deposit-taking. In 2015, non-deposit-taking NBFCs with asset sizes of Rs 500 crores and above were designated as systemically important (NBFC–ND–SI), subject to enhanced prudential norms. To further refine the regulatory framework, the Reserve Bank of India (RBI) introduced a Scale-Based Regulatory (SBR) approach in October 2022, replacing the earlier systemically important classification. This framework segments NBFCs into four layers—base, middle, upper, and top—based on size, activity, and risk profile. The RBI's Master Direction on SBR, issued in 2023, mandates group-level asset consolidation for classification and strengthens corporate governance norms, particularly for middle and upper layer entities.

As of FY25, NBFCs accounted for approximately 21% of India's systemic credit, with this share projected to rise to 22% by FY28, underscoring their expanding footprint in the overall credit landscape. While banks continue to hold a dominant market share of 72%, NBFCs have consistently outpaced them in credit growth, recording a compound annual growth rate (CAGR) of 13.9% between FY20 and FY25, compared to 11.4% for banks. Apart from a brief dip in FY22 due to pandemic-related disruptions, NBFCs have demonstrated strong resilience, supported by structural reforms, digital innovation, and strategic partnerships. Their total assets under management (AUM) expanded from Rs 23 lakh crore in FY19 to Rs 48 lakh crore in FY25, reflecting a six-year CAGR of 13.2%, with projections indicating continued growth at 15–17% CAGR between FY25 and FY28.

NBFCs' ability to offer tailored financial solutions, supported by faster underwriting, customer-friendly processes, and targeted risk evaluation, has enabled them to tap into this vast and growing market. Increasingly, they are leveraging technology—through AI-enabled credit scoring, digital onboarding, real-time collections, and mobile-first servicing—to reduce turnaround times and enhance customer engagement.

Retail credit remains a cornerstone of NBFC growth, reaching Rs 82 lakh crores in FY25 and growing at 14% YoY. NBFCs have a higher retail focus than banks, with 47% of their portfolio in retail loans compared to 36% for banks. This includes housing finance, gold loans, vehicle loans, consumer durables, education financing, personal loans, and microloans. The MSME sector, comprising over 70 million enterprises, contributes 29.2% to India's GDP and 45.7% of exports (FY24). Despite its economic significance, MSMEs face a substantial credit gap. Formal institutions met only 27–28% of the Rs 159 lakh crores credit demand in FY25, leaving a gap of Rs 117 lakh crores. Even within the addressable segment, the gap stood at Rs 34 lakh crores. NBFCs have been instrumental in narrowing this gap through innovative products like loans against property, supply chain financing, and unsecured working capital loans. MSME credit by NBFCs grew 31% in FY24 and 20% in FY25, supported by economic revival and digital underwriting capabilities.

Industry Outlook

Asset Class Performance: NBFCs have demonstrated strong growth across asset classes. In FY25:

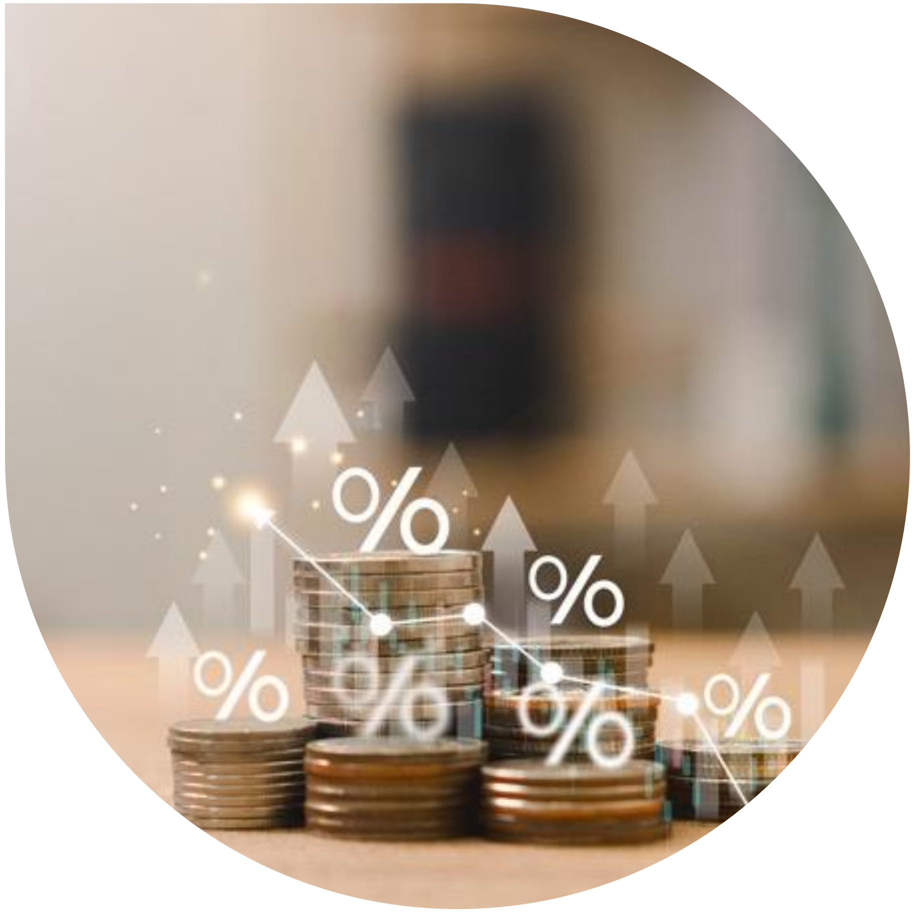
- MSME Loans: Rs 42.3 lakh crores portfolio; NBFCs held 27% share; 19.6% CAGR (FY20–FY25)
- Housing Loans: Rs 40.6 lakh crores; 21.5% NBFC share; 32.7% CAGR
- LAP: Rs 14.4 lakh crores; 40.5% NBFC share; 19.7% CAGR
- Used Cars: Rs 1.1 lakh crores; 40.8% NBFC share; 40.7% CAGR
- Personal Loans: Rs 14.6 lakh crores; 24.4% NBFC share; 30.1% CAGR
- Education Loans: Rs 2.2 lakh crores; 28.2% NBFC share; 46.8% CAGR

NBFCs also dominate vehicle financing, with 68.5% share in two-wheeler loans and 58.7% in commercial vehicle loans. Microfinance loans stood at ₹3.8 trillion, with NBFC-MFIs holding a 50.7% share.

While NBFCs are poised for continued growth, they face challenges such as funding constraints, liquidity mismatches, and asset quality risks. Regulatory tightening under the SBR framework has introduced additional compliance layers, which may compress margins in the short term but are expected to strengthen long-term sustainability. In FY25, credit growth moderated to 18% due to a slowdown in unsecured loans, prompting RBI intervention in November 2023 to tighten capital norms.

Looking ahead, retail loan growth is expected to rise moderately to 17–18% in FY26, driven by housing, vehicle, and consumer durable loans. NBFCs are likely to remain cautious on unsecured lending due to stress in microfinance and personal loan segments. MSME, corporate, and real estate loans are expected to maintain upward momentum, while infrastructure credit may see a slight slowdown.

NBFCs are set to play a central role in India's financial evolution. Their differentiated models, technology-driven operations, and focus on underserved segments position them as key enablers of inclusive growth. With favorable policy support, rising consumer aspirations, and expanding credit demand, NBFCs will continue to deepen their footprint across India's economic landscape.



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