

# India Financials

## Lending landscape forum – Peeking into the future



We organised the India Lending Landscape Forum, a virtual speaker series focused on understanding evolving trends across India's retail and MSME lending ecosystem. The forum brought together senior experts across digital lending, microfinance, LAP, affordable housing finance and unsecured SME lending to discuss borrower behaviour, asset quality trends, collections, underwriting discipline and credit outlook across segments. Discussions highlighted rising stress in unsecured lending amid macroeconomic volatility, elevated crude prices, inflationary pressures and tighter RBI regulations. Speakers indicated that aggressive post-Covid credit expansion and availability of funding from multiple lenders resulted in excessive borrower leverage, with several borrowers taking loans beyond actual requirements. There were also discussions around rising instances of wilful defaults in case of multiple loans taken by the same borrower in the hope of eventual settlement at 20–30% of principal. On the positive side, secured lending segments, prime borrowers and affordable housing portfolios remain relatively resilient with stable credit demand and manageable asset quality trends.

- **Digital lending and unsecured loans:** Mr Anil Mathew (Founder, Finwizz Financial Services) highlighted rising stress across India's unsecured lending ecosystem amid a challenging macro environment. He indicated that MSMEs and lower-income salaried borrowers were currently facing the highest pressure due to inflationary stress, rising fuel costs, and muted income growth. Aggressive post-Covid lending, especially in unsecured and digital credit segments, has resulted in elevated borrower leverage and higher delinquency levels across the industry. Collections intensity has increased materially, with lenders shifting focus from growth toward asset-quality preservation and recovery efficiency. While stress remains concentrated in unsecured lending and micro-LAP portfolios, secured lending segments and prime borrowers are relatively stable with healthy credit availability.
- **LAP and affordable housing:** The expert, from a large NBFC, highlighted that demand trends across LAP, micro-LAP and affordable housing segments have been stable despite the evolving macroeconomic and geopolitical environment. Asset quality indicators such as bounce rates, flow rates and slippages have been broadly steady during Apr-May, with no material deterioration observed so far. While lenders are exercising relatively tighter underwriting and monitoring select vulnerable sectors and geographies more closely, stress is largely contained within these segments. Prime secured portfolios and overall credit demand remain resilient.
- **Unsecured MSME loans in Madhya Pradesh:** Mr Amit Ajmera (Samay Finserv) highlighted rising stress in the unsecured SME lending ecosystem in Madhya Pradesh, driven by aggressive post-Covid credit expansion, borrower overleveraging, and increasing wilful defaults and settlements. Lenders across banks and NBFCs continue to be aggressive in disbursements, with some institutions reportedly sanctioning loans beyond borrower requirements and collateral values. Large private banks/large NBFCs were highlighted as relatively selective in underwriting. Bajaj Finance was specifically noted for stronger collection practices and faster resolution of stressed accounts. However, PSU banks and mid-sized NBFCs were viewed as more aggressive in loan originations in MP. The discussion also highlighted gaps in monitoring mechanisms within unsecured SME lending compared to the personal loan segment, despite rising instances of borrower identity modifications, cheque-based recovery delays, and elevated settlement activity in the industry.
- **MFI – Mr Saibal Paul (Associate Director at Sa-Dhan):** Mr Paul noted the unique challenges faced by microfinance clients who often have limited income and rely on thin margins. He shared industry data showing a loan outstanding of INR 3,384bn catering to 104.2mn clients, with portfolio at risk metrics of 2.31% for 30–179 days, 1.88% for 60DPD, and 1.43% for 90DPD. He discussed regulatory measures implemented to address risk, including maximum indebtedness thresholds of INR 0.2mn and restrictions on multiple lenders per client. While these measures have stabilised the industry, they have also caused some clients to leave the formal microfinance sector. Mr Paul emphasised that while cyclicity remains a challenge, the sector has become more secure with strong regulatory oversight, and he urged lenders to maintain patience and support for the microfinance industry.

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# Detailed session KTAs

## Digital lending and unsecured loans – Mr Anil Mathew (Founder, Finwizz Financial Services Pvt Ltd)

- **Macro environment and industry stress**
  - Global volatility, elevated crude prices and RBI tightening in unsecured lending are pressuring borrower cash flows and worsening delinquency trends across retail credit segments.
  - View the current situation as sectoral stress rather than systemic, though risks could intensify if macro conditions deteriorate further.
- **Stress in MSME and unsecured lending**
  - Stress is rising among MSMEs, self-employed and lower-income salaried borrowers due to weak demand, inflation, muted income growth and stretched working capital cycles.
  - Transport, ceramics, tiles and hospitality sectors are witnessing visible stress and layoffs, which could further impact collections and repayment behaviour in upcoming quarters.
- **Lending cycle and borrower behaviour**
  - Aggressive post-Covid unsecured lending and excessive borrower leverage across NBFCs significantly contributed to rising defaults and repayment stress across retail segments.
  - *Borrowers are increasingly prioritising repayments to larger lenders while seeking restructuring, delayed payments and settlements with smaller NBFCs.*
- **Asset quality and collections**
  - Delinquencies in certain unsecured portfolios have moved into low double digits, leading lenders to increase collection intensity and focus on recoveries.
  - Industry focus has shifted from aggressive loan growth toward preservation of asset quality, portfolio stability and tighter underwriting discipline.
- **Secured lending and credit availability**
  - Stress remains concentrated in unsecured and micro-LAP portfolios, while secured lending products and prime borrower segments are relatively stable.
  - Credit tightening remains selective, with banks continuing to lend comfortably to strong borrowers and established MSMEs with healthy repayment track records.
- **Geography-wise stress trends**
  - Eastern India, especially West Bengal and northeastern states, is witnessing relatively higher stress and delinquency trends across lending portfolios.
  - Certain regions in Gujarat are also showing emerging stress indicators, while speculative personal loan-linked real estate activity in South India has moderated.
- **Fintech and digital lending**
  - Aggressive fintech-led instant lending expanded rapidly post-Covid, particularly for discretionary consumption, resulting in elevated defaults and borrower overleveraging.
  - RBI intervention has curbed excessive ultra-fast digital lending practices, while tighter underwriting is improving borrower discipline and reducing revolving balances.

## LAP & Affordable Housing Finance – Mr Lalit Kapoor (working with a leading, large NBFC)

### ■ Macro trends and demand

- Bounce rates, flow rates and slippages were broadly stable during Apr-May despite geopolitical uncertainties.
- Average bounce rates across HFCs and lenders remain at 18–22%, with no abnormal deterioration observed.
- Demand across LAP, micro-LAP and affordable housing segments is steady, with enquiry trends also healthy.
- Competitive intensity and margins have been broadly stable so far.
- PMAY initiative continues to support demand and EMI affordability, though it is unlikely to materially improve repayment behaviour.

### ■ Geography-wise trends and collections

- No significant variation in repayment trends has been observed across states such as UP, Bihar and West Bengal due to the current macro environment.
- *West Bengal and Eastern UP generally require relatively higher underwriting and recovery effort versus other regions.*
- Collection trends have been stable despite heatwave concerns, aided by expectations of an earlier monsoon.

### ■ Underwriting and LAP portfolio trends

- Lenders have rationalised underwriting standards with greater focus on borrower cash flows and prudent LTVs (50–55%) versus more lenient LTVs earlier.
- Industries vulnerable to macro volatility, such as crude-linked businesses and segments like Surat chemicals, for instance, are being monitored more cautiously.
- *Within lower-ticket LAP/micro-LAP portfolios there is overlap to some extent with personal loans and gold loans.*
- Prime LAP portfolios are relatively stable.

### ■ Borrower behaviour and end-use monitoring

- Around 90% of LAP demand continues to be business-oriented, primarily for working capital requirements.
- *Lenders maintain end-use monitoring mechanisms, though post-disbursement utilisation cannot be fully controlled.*
- Around 20% of borrowers may not utilise funds exactly for the stated purpose, with such learnings incorporated into underwriting refinements.

### ■ Unsecured lending and asset quality

- In unsecured products such as personal loans, bounce rates and flow rates have increased by 5–7pps compared to earlier levels.
- However, this can be attributed to broader macro and seasonal factors rather than solely geopolitical developments.
- Overall delinquency trends across secured portfolios remain broadly normal and manageable.

## Unsecured MSME portfolio in MP – Mr Amit Ajmera, Samay Finserv

- **Trends in unsecured MSME lending in Madhya Pradesh**
  - Credit availability remains very high, with lenders aggressively pursuing growth.
  - *Borrowers rejected by banks are increasingly shifting toward higher-yield NBFC loans.*
  - Some lenders are overleveraging borrowers by sanctioning amounts higher than actual requirements.
  - Some lenders are funding up to 120–125% of property value.
  - Private banks generally require around 50% collateral coverage.
  - Certain lenders have stopped lending to sectors such as hospitality, jewellery, and export-oriented businesses due to the West Asia war.
  - Large private banks/large NBFCs are relatively selective in underwriting.
  - Bajaj Finance has stronger collection practices and quickly resolves stressed accounts.
  - PSU banks and mid-sized NBFCs are more aggressive in loan originations in MP.
- **Asset quality and delinquency trends**
  - Delinquencies are rising across the unsecured SME lending segment.
  - Current delinquency levels are higher than historical trends.
  - Low ticket size loan (INR 1mn–2mn) segment is witnessing the highest stress.
  - Rising stress is largely attributed to wilful defaults and increasing settlement cases.
  - Settlements are occurring at significant haircuts, sometimes at 20–30% recovery levels.
  - Some borrowers reportedly relocate, change identities, or modify PAN/Aadhaar details after defaulting to create a fresh credit profile and regain loan eligibility.
- **Underwriting, collections and regulatory observations**
  - Although loan agreements may include collateral clauses, enforcement is difficult when collateral is already pledged elsewhere with a secured loan lender.
  - Borrowers frequently provide post-dated cheques for repayment despite collateral-backed agreements. *In default cases, recovery proceedings often shift toward Section 138 cheque dishonour litigation rather than collateral enforcement, delaying recoveries and limiting effective security realisation.*
  - RBI has introduced tighter monitoring measures in the personal loan segment, including frequent CIBIL checks to track borrower overleveraging. *Similar monitoring mechanisms are largely absent in the unsecured SME lending segment.*
  - Bajaj Finance maintains strong underwriting and collection practices. *It reportedly resolves stressed accounts quickly instead of allowing accounts to age beyond 90+ DPD.*

## MFI – Mr Saibal Paul (Associate Director at Sa-Dhan)

### ■ Macro trends and risk

- Industry self-regulation has materially tightened the post stress cycle, with SRO-imposed guardrails restricting maximum borrower indebtedness to INR 0.2mn and limiting borrower relationships to three lenders including banks. This has materially improved PAR trends and stabilised the sector.
- Industry asset quality trends are clearly stabilising with PAR-30 at 2.31%, PAR-60 at 1.88%, and PAR-90 at 1.43%. Delinquency buckets improved further in April versus March despite seasonal weakness in 1Q.
- The industry is increasingly using data-driven risk monitoring frameworks, including multidimensional risk scoring models tracking metrics such as >INR0.12mn exposure, multi-lender borrowing, PAR trends, and district-level stress indicators.
- Ongoing macro event unlikely to impact MFI borrowers immediately as they operate in dairy, shopkeepers, *kirana* shops segment, etc. Impact on their cash flow depends on micro market condition.
- Microfinance borrowers are structurally dependent on continuous credit access because of thin cash flows and low reinvestment capacity; funding disruption itself can trigger repayment stress.
- Political interference and waiver narratives remain a key non-economic risk, particularly in states with strong local political mobilisation, where repayment disruptions can emerge despite otherwise stable borrower cash flows.
- Political narratives around loan waivers and local agitation remain a bigger risk to repayment culture than formal government intervention.
- *Funding conditions are improving again with banks becoming more comfortable lending to MFIs under the Credit Guarantee Scheme for MFI 2.0, including support extending to lower-rated institutions up to BB category.*
- The sector is gradually shifting from pure JLG-based underwriting toward individual underwriting using long borrower credit histories and bureau data.

### ■ Geography-wise risk

- The current MFI stress is largely localised rather than systemic, with higher-risk pockets concentrated in states like Bihar, Rajasthan, Telangana, and Madhya Pradesh, which are reporting sector risk scores above the industry average of 6.51.
- Other major states like Uttar Pradesh, Telangana, Karnataka, Maharashtra, and Jharkhand have a risk score lesser than 6.51.
- Majority of MFIs are concentrated in 200 districts. Going beyond these districts will shoot up cost for MFIs. Also, top 100 high-risk districts are distributed across Bihar (23 districts), Karnataka (14), Telangana (11), Tamil Nadu (9), and Rajasthan (8), highlighting the importance of geographic portfolio mix for lenders.

## APPENDIX I

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