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Banks still cautious on NBFC lending

The RBI reverted to lower risk weights to such loans from April 1

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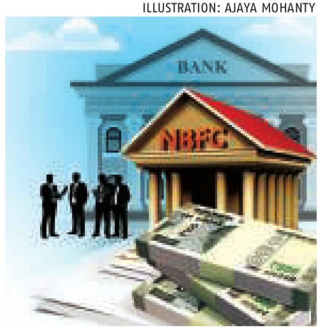
Banks remain cautious in lending to non-banking financial companies (NBFCs) and microfinance institutions (MFIs) even after the Reserve Bank of India reverted to lower risk weights for such loans, effective April 1. While top-rated NBFCs may continue to have access to bank loans, mid- and lower-rated entities may find it difficult.

"The situation is not going to change for midsize and small NBFCs and MFIs. Only top-rated NBFCs will benefit from the reversal of risk weights. Midsize NBFCs like us will not gain anything. Banks will remain cautious while lending," said a senior executive at a midsize NBFC.

The increase in risk weights for bank loans to NBFCs in November 2023 hampered credit flows to the sector. Bank loan growth to NBFCs slowed to 5.7 per cent year-on-year to ₹16.36 trillion as of March 21, 2025, compared to 15.3 per cent growth during the same period the previous year.

ILLUSTRATION: AJAYA MOHANTY



TREADING WITH CARE

- Top-rated NBFCs will continue to access bank loans
- Bank loan growth to NBFCs slows to 5.7%
- Stress in microlending sector causes portfolio decline
- Analysts say loan pricing for NBFCs won't decrease soon
- MFIN sets guidelines to protect microfinance borrowers now

Analysts said banks are likely to remain cautious for at least two more quarters while lending to NBFCs and MFIs due to the overall sector's performance. Stress in the microlending segment led to a decline in the microfinance portfolio, which fell 4 per cent year-on-year to ₹3.91 trillion at the end of December 2024.

"I don't think we'll see an immediate increase in lending just because risk weights have been reduced. Segments such as microfinance and unsecured lending have seen rising delinquencies, so lenders will be cautious before returning to these areas. At the end of the day, banks need to weigh their risks," said Gaurav Gupta, founder, managing director (MD), and chief executive officer (CEO), Tyger Capital.

Banks looking to increase exposure to NBFCs will likely begin gradually, starting with top-tier NBFCs. Loan pricing for NBFCs is also not expected to come down anytime soon, analysts added.

Credit to the services sector slowed to 13.4 per cent, down from 28 per cent in the corresponding fortnight the previous year, primarily due to decelerated growth in credit to NBFCs.

"Banks' exposure to NBFCs will align with overall bank credit. Further, everyone will be watchful of the MFI segment as new guardrails have kicked in. At least for a quarter, the slowdown in lending will continue. Going forward, banks will monitor incremental delinquencies in MFIs," said Karthik Srinivasan, group head of financial sector ratings, Icra.

Microfinance Industry Network, a self-regulatory body for microfinance lenders, released guidelines in November to protect borrowers by ensuring that no borrower has loans from more than three lenders, effective from early 2025. Some banks remain cautious about lending to the MFI sector.

"We have already implemented the new MFIN norms, which will likely keep disbursements moderate. Therefore, we are not expecting any major lift-off. After such a major incident over the past year, it wouldn't be wise to rush back into the segment. We will be very careful. By the end of next year, MFI loans will come down to about 3 per cent of our total book," said V Vaidyanathan, MD and CEO, IDFC First Bank.