Analysis of Asset Reconstruction Industry in India

Final Report

August 2026

by S&P Global

Crisil Intelligence

Contents

Crisil Intelligence

1. Macroeconomic scenario

Global economy is expected to grow at 3.0% and 3.4% for CY26 and CY27 respectively

The IMF, in its July 2026 outlook, projected global GDP growth at 3.0% for CY26, a downward revision of 0.1% from its April 2026 outlook and 3.4% for CY27, both projections remain below the average of 3.5% observed in CY25. The downward revision for CY26 largely reflects disruptions arising from the outbreak of conflict in the Middle East at the end of February 2026. The IMF also reported that global inflation is projected to reach 4.7% in CY26 and expected to moderate to 3.9% by CY27, with both years revised upward versus the April 2026 outlook. This is mainly on account of energy price pressures from the Middle East conflict. The crude oil prices even went as high as $120 per barrel in April. due to the blockage of strait of Hormuz, through which more than 30% of global crude oil gets generally transported. As per the Global Economic Prospect (June 2026) released by the World Bank, elevated geopolitical and trade policy uncertainty, also continue to act as a drag to the global economic growth. South Asia Region (SAR) is expected to remain the strongest-performing EMDE (Emerging Market & Developing Economies) region in 2026 and over the forecast horizon, anchored by India's robust growth thereby making India one of the major contributors to the performance of emerging market and developing economies.

1.1 Indian Economy

India is expected to remain one of the fastest growing economies in the world despite challenging global macroeconomic situation

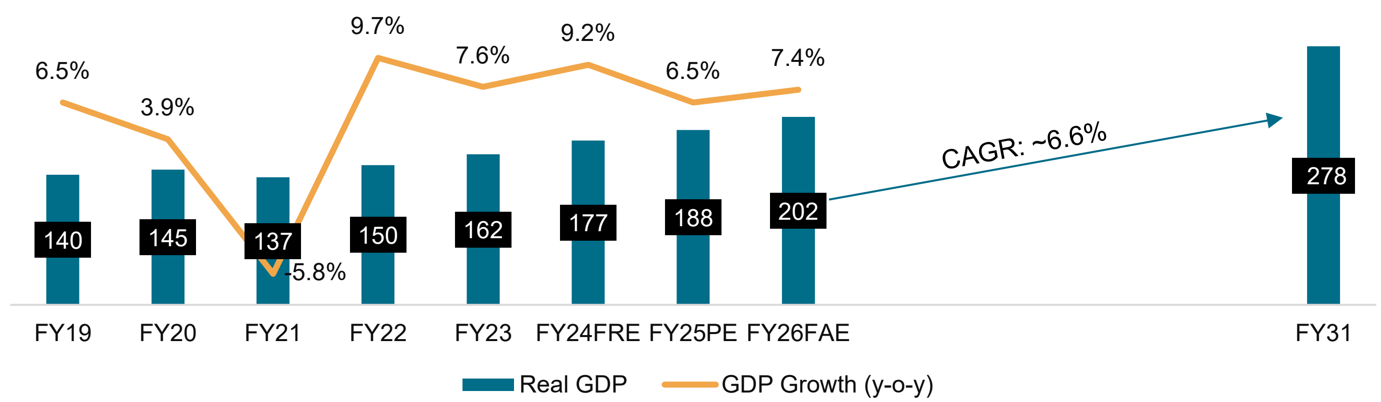
India is expected to remain among the fastest-growing major economies despite a challenging global macroeconomic environment. Real GDP growth stood at 6.5% y-o-y in FY25, reflecting resilience in domestic demand. The GDP growth is expected at 7.4% for FY26, supported by strengthening private consumption, recovery in rural demand aided by improved agricultural output, and continued government expenditure. Monetary policy support and income tax and GST rationalization are likely to further support growth momentum.

As per the Global Economic Prospect (June 2026) released by the World Bank, despite elevated uncertainty stemming from the conflict, economic activity in India held up well early in the year, supported by resilient domestic demand. Private consumption remained strong, particularly in rural areas, while urban demand showed signs of recovery. Domestic sales tax collections also rose steadily over the period. To ease price pressures arising from higher energy costs and shortages of agricultural inputs, particularly fertilizers, several measures were implemented, including a reduction in fuel taxes helping India remain resilient.

India's economy expected to grow at a strong pace of 6.6% CAGR during FY27 to FY31

India's real GDP grew at a 5.4% CAGR between FY19 and FY26E, demonstrating resilience despite pandemic-related disruptions and global economic uncertainties. Going forward, Crisil Intelligence expects India's real GDP growth to be steady at CAGR of ~6.6% between FY27 to FY31, supported by deeper structural transformation of the economy, including widespread economic formalization, improved business transparency, and robust digital infrastructure that has significantly enhanced financial inclusion while reducing transaction costs. India's Unified payments Interface (UPI) was even cited, by the World Economic Forum in their Global Risk Report 2026, as a good example of a measure that can play a key role in decreasing the proportion of citizens who are unbanked or enable faster and more efficient payments. These structural strengths are expected to support sustained long-term economic growth, driven by domestic drivers, despite global uncertainties.

India's Real GDP growth trajectory (GDP in Rs. trillion, FY19-FY31P, GDP Growth in %)



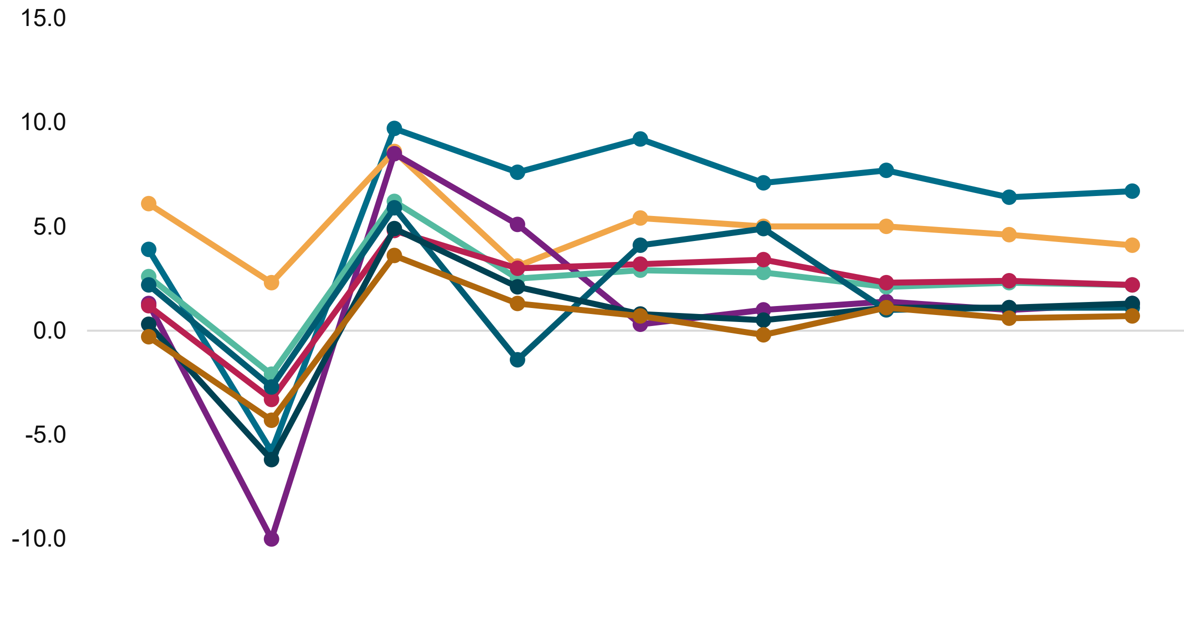
Note: E = Estimated, P = Projected, FRE: First Revised Estimate, PE: Provisional Estimate; GDP Estimates for fiscals 2027-2031 based on CRISIL Intelligence estimates
Source: MoSPI, Crisil Intelligence

India is one of the fastest-growing major economies (Real GDP growth, 7.4% year-on-year in FY26)

Indian economy outperformed its global counterparts in terms of real GDP growth during FY22 to FY25. The average real GDP growth during the period was ~360 bps higher as compared to China. India continued this trend in FY26 by recording a growth rate of 7.4% on-year. India's GDP growth was driven by a relatively balanced set of domestic drivers.

As per Economic Survey of India, a fairly balanced set of domestic factors underpinned India's GDP growth which include spanning structural reforms, credit expansion, and supportive policy action. Beyond this, India is further aided by the depth of its domestic market, a growth model that is comparatively insulated from financial markets, sizeable forex reserves, and a reasonable measure of strategic autonomy, attributes that cushion the economy in a world where financial volatility is a recurring feature and geopolitical tension shows no sign of easing.

Real GDP growth comparison: India vs advanced and emerging economies (Growth - %, CY19-CY27P)



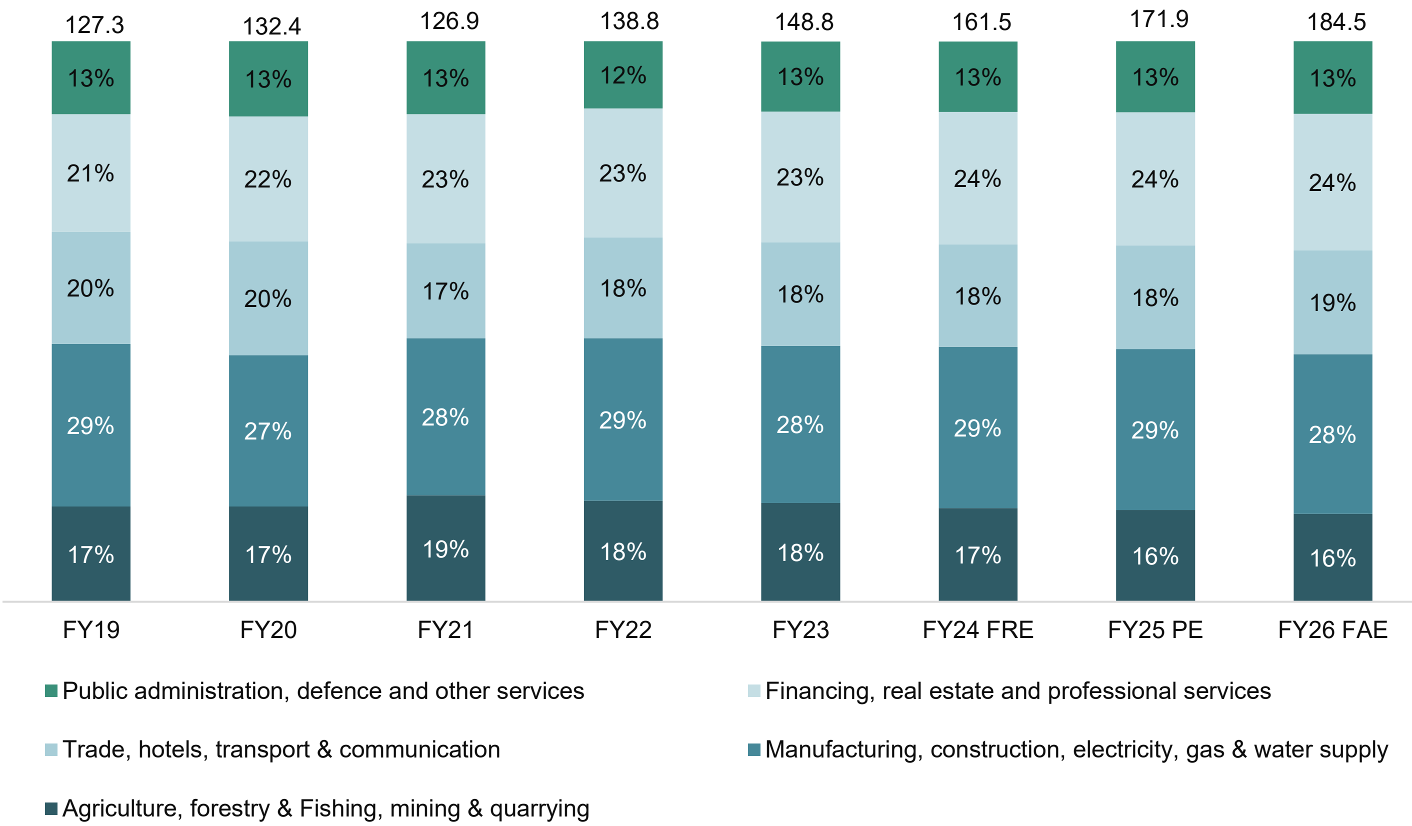
	CY19	CY20	CY21	CY22	CY23	CY24	CY25E	CY26P	CY27P
India*	3.9	-5.8	9.7	7.6	9.2	7.1	7.7	6.4	6.7
China	6.1	2.3	8.6	3.1	5.4	5.0	5.0	4.6	4.1
United Kingdom	1.3	-10.0	8.5	5.1	0.3	1.0	1.4	1.0	1.3
United States	2.6	-2.1	6.2	2.5	2.9	2.8	2.1	2.3	2.2
Brazil	1.2	-3.3	4.8	3.0	3.2	3.4	2.3	2.4	2.2
Russia	2.2	-2.7	5.9	-1.4	4.1	4.9	1.0	1.1	1.1
South Africa	0.3	-6.2	4.9	2.1	0.8	0.5	1.1	1.1	1.3
Japan	-0.3	-4.3	3.6	1.3	0.7	-0.2	1.1	0.6	0.7

*Note: *Growth Numbers for India are on Fiscal year basis (example: CY22 refers to the growth number of FY22-23), Data represented for other countries is for calendar years*
All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Data represented is for calendar years,
E: Estimated, P: Projected;
Source: IMF (World Economic Outlook – July 2026), CRISIL Intelligence

Split of gross value added (GVA) by type of economic activity (% split, Rs trillion)

The total gross value added increased at a CAGR of around 5.1% between FY19-FY25 from Rs 127.3 trillion in fiscal 2019 to Rs 171.9 trillion in FY25 (Provisional Estimate). The GVA is further estimated to be Rs 184.5 trillion in FY26 based on the first advance estimate.

Sector wise Gross Value Added (GVA – Rs. Trillion at constant price, FY20-FY26FAE)



Note:1) Industry includes mining and quarrying, electricity, gas, water supply and other utilities
2) Services include those related to trade, hotels, transport, communication, broadcasting, finance, real estate, public administration, defense & professional and other services
3) FRE: First Revised Estimate, PE: Provisional Estimate, FAE: First Advance Estimate, E: Estimated
Source: MoSPI, Economic Survey 2025-26, Crisil Intelligence

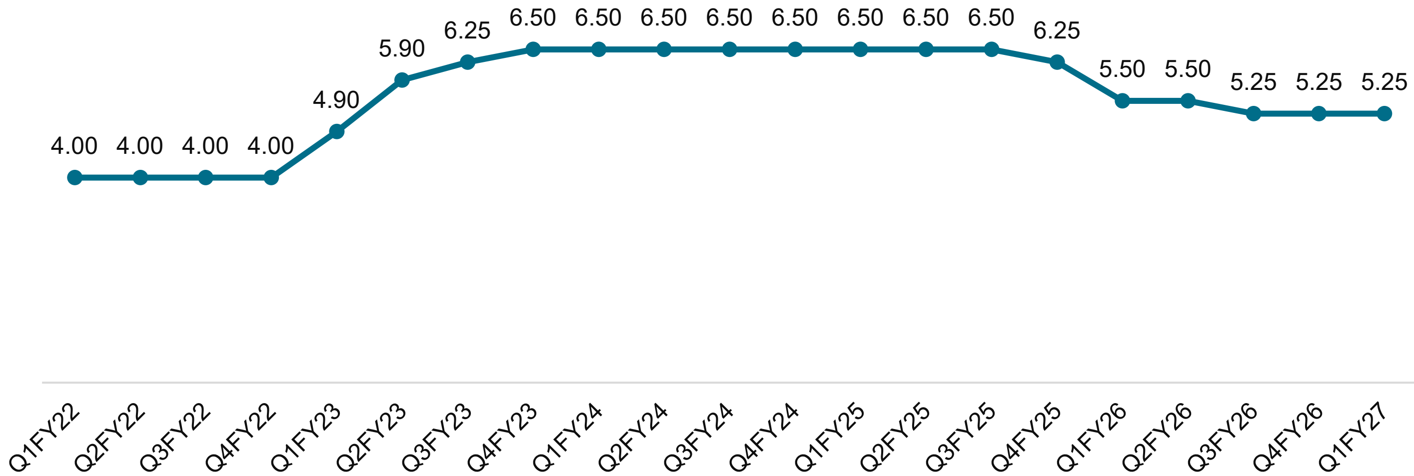
During this period, the only on-year decline came in FY21, when GVA reduced by around 4% on-year on the account of pandemic induced lockdowns. However, it rebounded by growing at around 9% on-year in FY22 owing to pent-up demand across sectors. In FY26, GVA is expected to increase by 7% over FY25 numbers.

RBI has paused repo rate cuts in recent quarters

India maintained a relatively tight monetary stance during FY23 to FY25 to contain elevated inflation driven by global commodity shocks and food price volatility. In April 2025, RBI reduced the policy repo rate by 25 bps to 6.00%. It reduced the repo rate by 50 bps to 5.5% in the first week of June 2025 and further by 25 bps to 5.25% in the first week of December 2025 because of moderating core inflation driven by declining food inflation.

The RBI has held the repo rate at 5.25% since Q3FY26 to Q1FY27 amid geopolitical uncertainties, supply chain disruptions and El Niño related risks that are expected to keep inflation under pressure, prompting a cautious stance.

Repo rate in India (in %, Q1FY22-Q1FY27)



Source: RBI, Crisil Intelligence

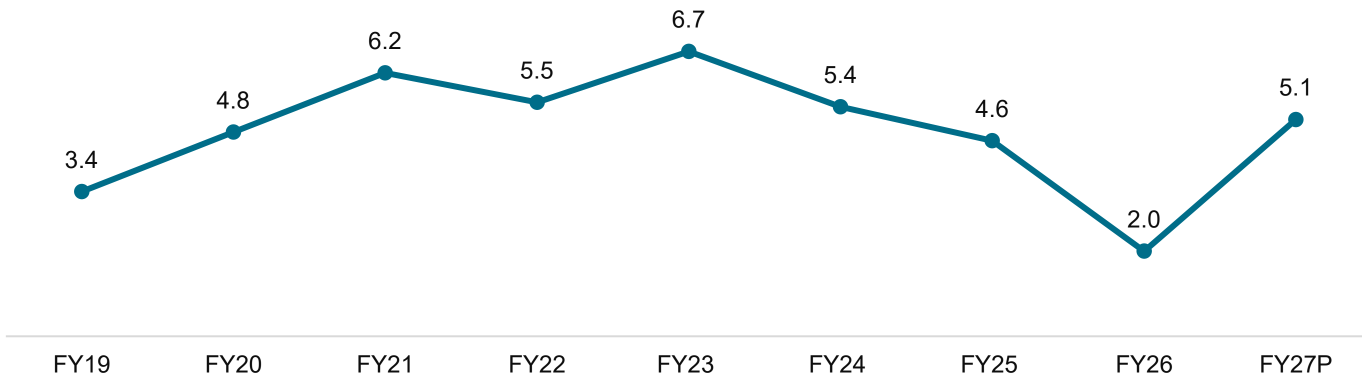
Consumer Price Index ("CPI") inflation in India averaged at 2.0% in FY26 due to moderation in food inflation

CPI inflation moderated sharply during FY26, declining from 4.26% in January 2025 to 0.71% in November 2025, primarily driven by a steep fall in food inflation, which reached a historic low of -5.02% in October 2025.

Inflation picked up in Q4 FY26, primarily due to rising food prices, with food inflation increasing steadily through the quarter and pushing up headline CPI. Elevated global crude oil prices amid geopolitical tensions in the Middle East, coupled with a weaker rupee, also increased imported fuel and input costs, adding to inflationary pressures.

In addition, favorable base effects and select reductions in Goods and Services Tax (GST) rates on mass-consumption and essential goods further supported the easing of retail price pressures during the year. Overall, Consumer price index (CPI) inflation softened from 5.40% in FY24 to 2.00% in FY26. Going forward, Crisil Intelligence expects the inflation to rise to 5.10% in FY27, driven by higher energy prices and elevated food inflation resulting from below-normal rainfall and El Niño induced heatwaves.

CPI inflation of India (in %, FY19-FY27P)



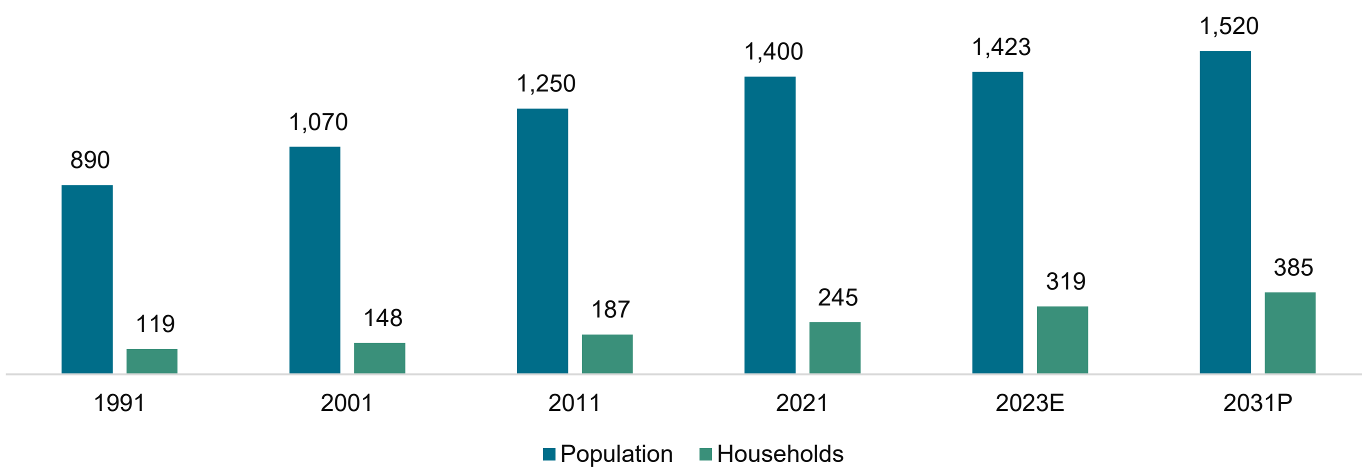
Source: RBI, Crisil Intelligence

1.2 Key Demographic Growth Drivers

India has the world's largest population

As per Census 2011, India's population was ~1.3 billion and comprised nearly 187 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is expected by CRISIL Intelligence to have increased at 1.2% CAGR between 2011 and 2021 and reached ~1.4 billion. The population is expected to reach ~1.5 billion by 2031 from 1.4 billion in 2021, and the number of households is expected to reach ~385 million in 2031 from 245 million in 2021, reporting a CAGR of 4.6% from FY21 to FY31.

India's population growth trajectory (in millions, 1991-2031P)

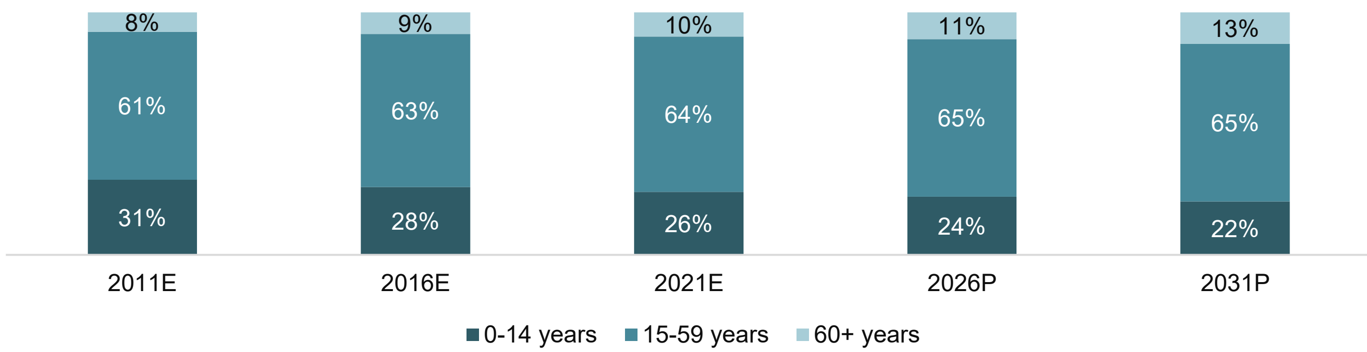


Note: As at the end of each Fiscal. P: Projected
Source: United Nations Department of Economic and Social Affairs, (https://population.un.org/wpp/), Census India, Crisil Intelligence

Favourable demographics to propel India's growth

India has one of the world's largest youth populations, with a median age of ~28 years. About 90% of Indians are below 60 years of age. In 2021, it was estimated that India had the highest share of young working population (15-30 years) compared to major developed and developing countries with the share of 26%. CRISIL Intelligence expects that the large share of the working population, coupled with rapid urbanization and rising affluence, will propel growth in the economy.

India's demographic division (in %, CY11-CY25)



Note: P – Projected, E – Estimates
Source: Census of India 2011, Ministry of Health and Family Welfare, Crisil Intelligence

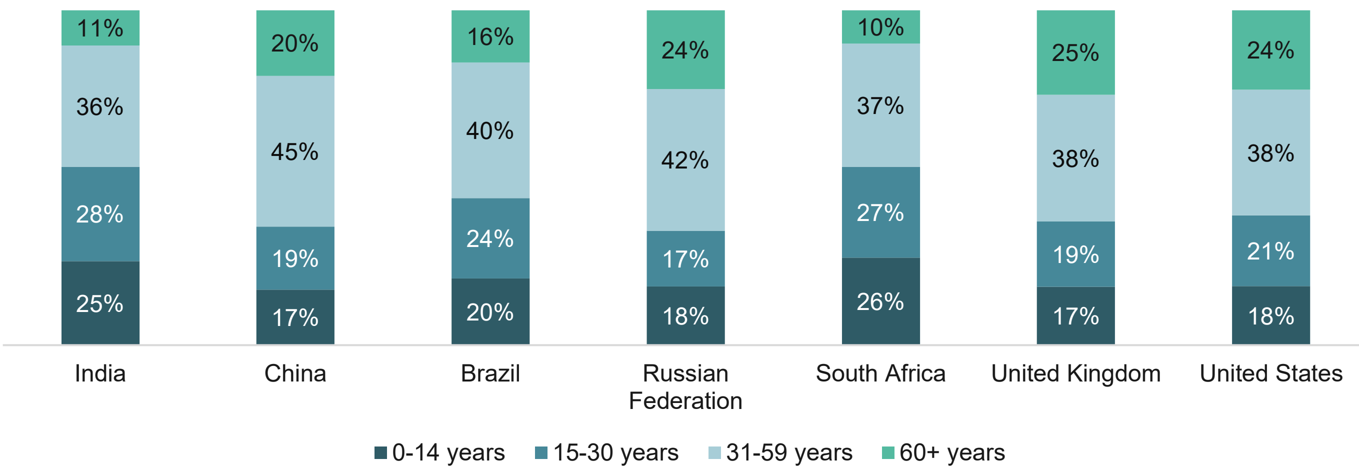
India has the largest young population (15-30 years) with 406 million individuals, among the major economies

Age-wise split of Population (in millions, CY23)

Country	0-14 Years	15-30 years	31-59 years	60+ years
India	360	406	521	151
Brazil	42	51	85	33
China	236	267	641	278
Russia	25	24	62	34
South Africa	16	17	23	6
United Kingdom	12	13	26	17
United States of America	60	73	129	82

Source: World Urbanization Prospects 2025 (UN)

Age-wise split of total population in a few key countries across the world (Total Population in millions, Split in %, CY23)



Source: World Urbanization Prospects 2025 (UN)

Young India driving credit demand in personal loans segment; Fintechs lead the way in tapping this segment

There is strong credit demand from young borrowers for personal loans and consumer discretionary spending, and non-bank lenders are the primary channel serving it. As per the RBI's Financial Stability Report (June 2026), fintech firms strengthened their position in the small-ticket personal loan segment (below Rs 50,000), with market share rising to 56.8% as of March 2026, ahead of NBFCs including HFCs (30.7%) and banks (10.1%). Credit expansion by fintech firms in this segment was 41.6% year-on-year, well above overall segment growth of 20.1%. Unsecured loans constitute approximately 70.5% of the loan book of fintech firms, of which around ~50% were extended to borrowers under 35 years of age.

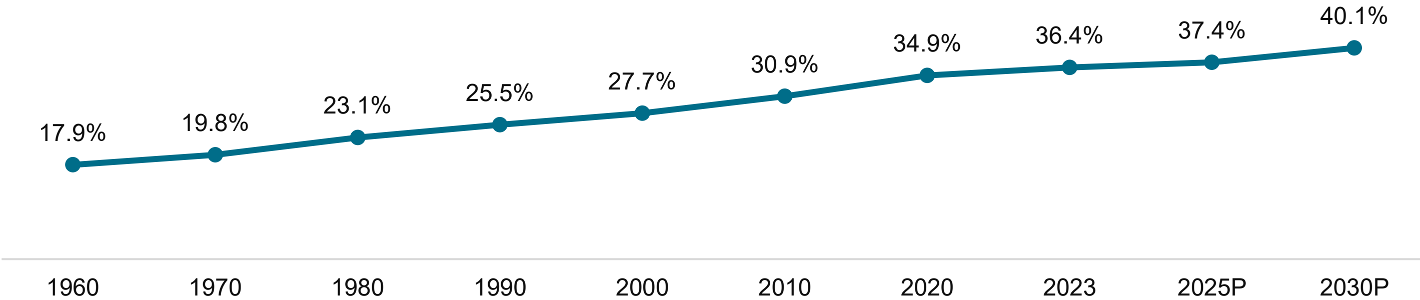
Going forward, sustained growth in digital lending is likely to be underpinned by rising smartphone penetration, wider digital payment infrastructure, and greater availability of alternative credit data, though the sector's trajectory will continue to hinge on how regulatory developments and asset quality trends evolve.

Rising Urbanization

Urbanization is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development, which in turn is expected to create jobs, develop modern consumer services, and increase the ability to mobilize savings. India's urban population has been rising consistently over the decades. As per UN's World Urbanization Prospect (2018), the urban population of India stood at ~37.4% of India's total population in 2025 and is expected to reach ~40.1% by 2030.

Government-led initiatives, including the Smart Cities Mission, PM Gati Shakti, and AMRUT, together with a sustained focus on affordable housing and urban infrastructure, are expected to further accelerate India's urban transformation and underpin long-term economic growth.

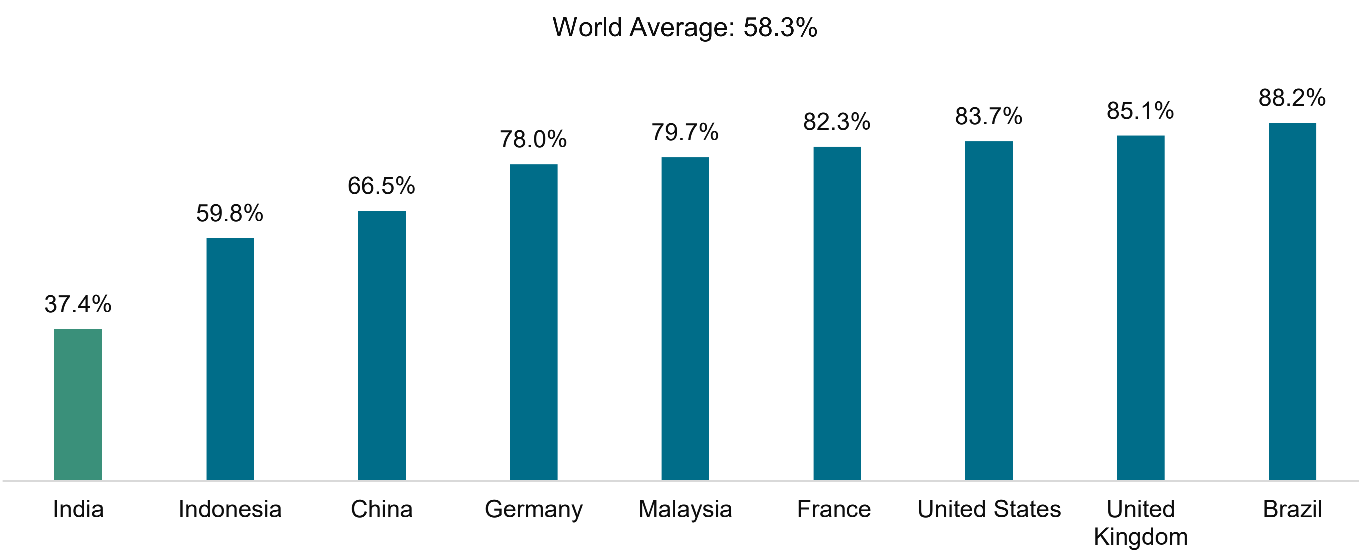
Urban population as a percentage of total population (In %, 1960-2036P)



Note: E- Estimated, P – Projected, Figures in percentage
Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

As per RBI's December 2025 Banking trends and progress report, the metropolitan region accounted for ~50% of the new branches opened during FY25. The contribution of rural, semi-urban, and urban areas remained steady.

Urban population as a percentage of total population across major Economies (in %, CY25P)



Source: United Nations World Urbanization Prospect 2018 (UN)

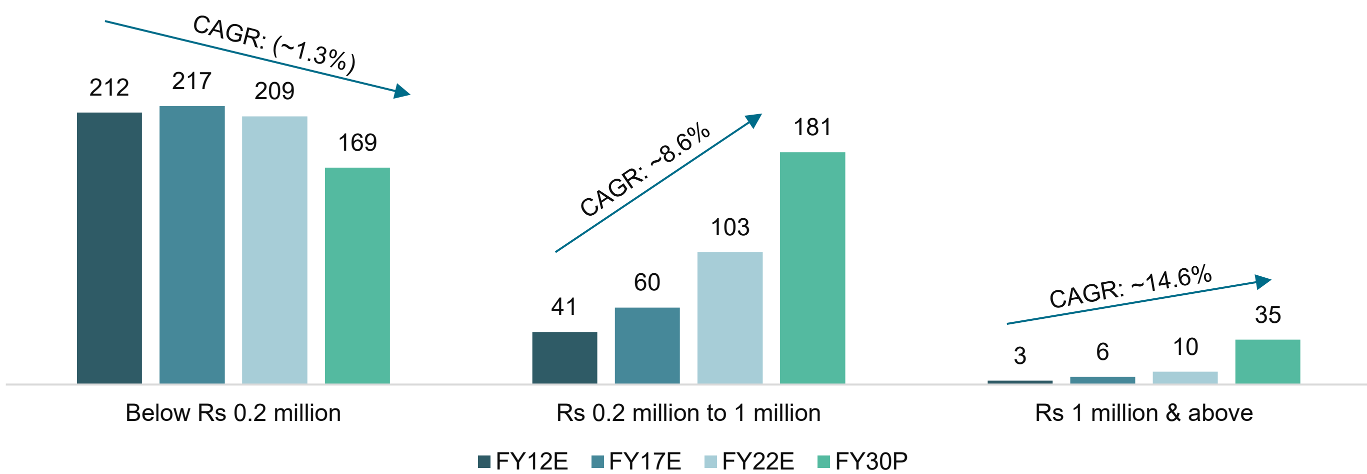
Rising Middle India population to help sustain economic and credit growth

The proportion of "Middle India" (defined as households with annual income of Rs 0.2-1.0 million) has been on the rise over the past decade and is expected to continue increasing with rising GDP and household incomes. CRISIL Intelligence estimates there were 103 million middle-income households in India in FY22 and by FY30, expects it to increase to 181 million households. Many households that have entered the middle-income bracket in the past few years are likely to be from semi-urban and rural areas. As per NSS 76th round (2018), 83.3% of households were living in pucca dwelling units compared to 74.6% as per 69th NSS round (2012).

The backbone of India's economy, MSMEs, significantly contribute to the country's growth, accounting for approximately 29% of the GDP, 45% of manufacturing output, and providing employment opportunities to a substantial ~110 Million people. The growth of MSMEs is crucial in generating employment opportunities for the Indian population. CRISIL Intelligence believes that improvement in literacy levels, increasing access to information and awareness, increase in the availability of necessities and improvement in road infrastructure have increased the aspirations of Middle India, which is likely to translate into increased demand for financial products and opportunities for providers of financial services providers.

Additionally, deepening financial inclusion led by digital payments, the Aadhaar-enabled ecosystem, and wider formal credit access is expected to speed up the penetration of financial products among first-time and underserved borrowers, supporting the long-term growth outlook for India’s retail financial services sector.

Projected CAGR across various earning categories of population (Population in million, CAGR in %)



Note: E: Estimated, P: Projected; Source: Crisil Intelligence

Rural sector supporting India growth story

India’s rural segment has been a key driver of the country’s consumption growth story in recent years. In the past decade, the rural segment in India has expanded at a rapid pace, driven by factors, such as rising disposable income, urbanisation, and the proliferation of e-commerce.

The government aims to fuel rural growth through decentralised planning, better access to credit, skilling of youth, enhanced livelihood opportunities, empowerment of women, social security net provision, basic housing, education, health and sanitation facilities. As the rural economy continues to formalize, aided by digital public infrastructure, direct benefit transfers, and the expanding reach of banking and fintech networks, credit penetration is expected to deepen further, supporting sustained long-term growth in India's rural financial services market.

Key Initiatives	Details
Livelihood and Skill Development	• **The Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM)**: The scheme aims to enable economically weak households to access gainful self-employment and skilled wage employment opportunities. Since its inception programme has mobilized ~10.3 rural households into 91.8 lakh SHGs. • **Viksit Bharat – Guarantee for Rozgar and Ajeevika Mission (Gramin) [VB-G RAM G] Act, 2025:** The scheme replaces the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) from 1 July 2026. The Act increases the statutory employment guarantee from 100 to 125 days per rural household, introduces a revised Centre–State funding model, replaces the demand-driven labor budget with normative allocations, incorporates provisions for seasonal agricultural pauses, and strengthens infrastructure planning and digital governance through integrated planning, biometric attendance, geofencing, and direct benefit transfers. The programme has been allocated Rs 95,692 crore in the recent 2026 Union Budget.
Women Empowerment	• The Female Labor Force Participation Rate (FLFPR) in India improved from 33.9% in 2022 to 40% in 2025, driven mainly by increasing participation of rural women which increased from 37.5% in 2022 to 45.9% in 2025. Currently, 7 states & 3 Union territories have a FLFPR above 50%.
Housing for All	• **The Pradhan Mantri Awas Yojana - Gramin (PMAY-G):** The scheme aims to provide pucca houses to all houseless and vulnerable families in rural areas by 2029. Against a cumulative target of 4.95 crore houses by 2029 (including 4.15 crore under Phases I and II), 3.90 crore houses have been sanctioned and 2.99 crore completed as of FY26, with Rs 4.04 lakh crore transferred directly to beneficiaries

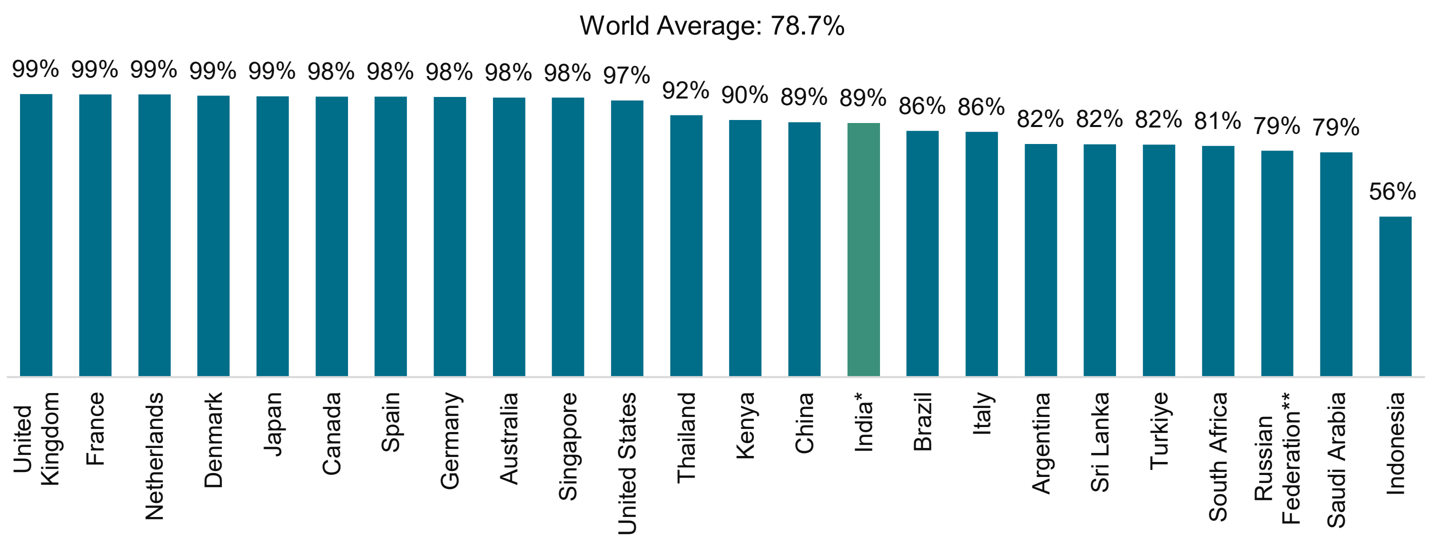
Additionally, rural areas have significantly contributed to growth of e-commerce industry in India along with increased internet penetration, the proliferation of smartphones, and the convenience offered by online shopping. In the Union budget 2025-26, Govt. also announced Grameen Credit Score, a credit scoring mechanism that can be leveraged to assess the credit needs of members of Self-Help Groups (SHGs) and people in rural areas. The initiative is expected to improve access to formal credit for underserved borrowers by leveraging alternative data and enabling more informed credit underwriting.

Over the medium term, this is likely to enhance financial inclusion, deepen rural credit penetration and create significant growth opportunities for banks, NBFCs, HFCs, and fintech lenders.

Financial Inclusion on a fast path in India which will aid long term growth for financial institutions

According to the World Bank's Global Findex Database 2025, the global average percentage of adult population with an account opened with a bank, financial institution or mobile money provider, was ~79% in calendar year 2024. India's financial inclusion has improved significantly over calendar years 2011 to 2024 as population (age 15 and above) with bank accounts increased from 35% to 89% (excluding northeastern states, remote islands & selected districts). This remarkable progress can be attributed to the Indian government's concerted efforts to promote financial inclusion through a range of initiatives, including the launch of Jan Dhan Yojana, the proliferation of mobile banking and digital payments, and the implementation of government subsidies and benefits such as the Direct Benefit Transfer (DBT) scheme. Moreover, advancements in financial technology have also contributed to this significant improvement in financial inclusion. The increasing integration of digital identity, payment infrastructure, and formal banking channels is expected to improve credit assessment capabilities, lower customer acquisition costs, and facilitate deeper penetration of financial products across previously underserved segments.

Population with a bank account across key countries (in %, CY24)



*Notes: *Global Findex data for India excludes northeast states, remote islands and selected districts*
***Data for the Russian Federation was collected using an abridged questionnaire*
Source: World Bank – The Global Findex Database 2025, Crisil Intelligence

As per the Global Findex Database 2025, ~53% of the world's 1.3 billion unbanked adults live in only eight countries (India, Bangladesh, China, Indonesia, Egypt, Nigeria, Mexico and Pakistan), of which almost 9% (118 million) are in India. This shows an immense opportunity for furtherance of financial inclusion.

Financial penetration to rise with increase in awareness and access of financial products

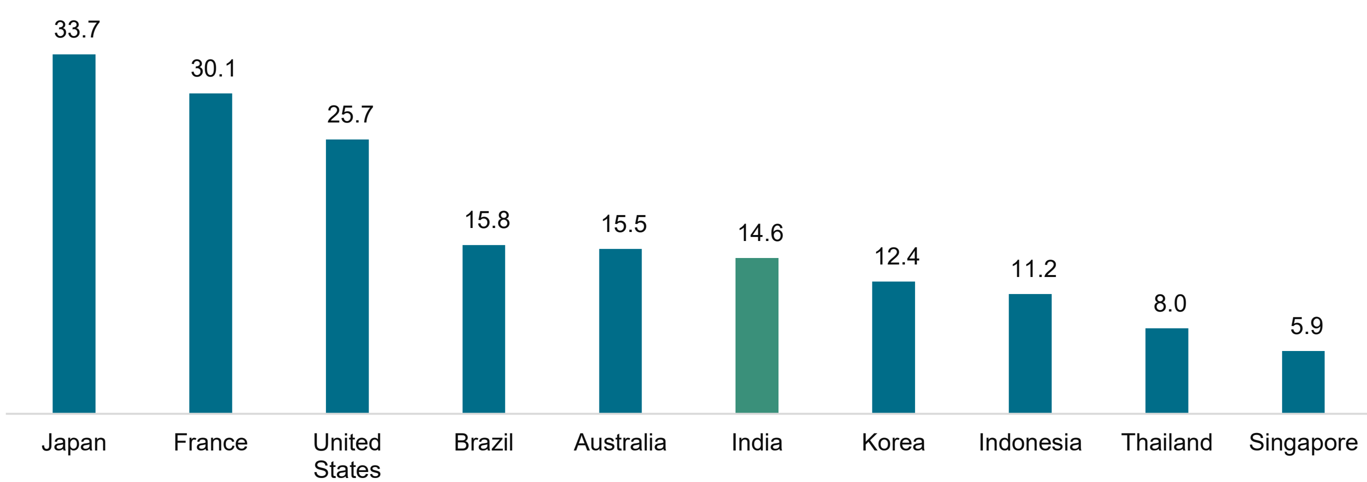
Overall literacy in India was at 77.7% as per the results of NSO survey conducted from July 2017 to June 2018, which is still below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as a combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

Government initiatives like Pradhan Mantri Jan Dhan Yojana, financial literacy programs, and continuous focus on financial inclusion have increased financial literacy, resulting in significant uptick in demand for financial products, particularly in smaller cities over the past few years. Going forward, Crisil Intelligence expects financial penetration to increase on account of increasing financial literacy. As consumers become more financially aware, demand is expected to shift from basic banking services towards a broader range of formal financial products, including investments, insurance, retirement planning, and digital credit solutions, supporting the deepening of India's financial ecosystem.

Under-penetration of the Indian banking sector provides opportunities for growth

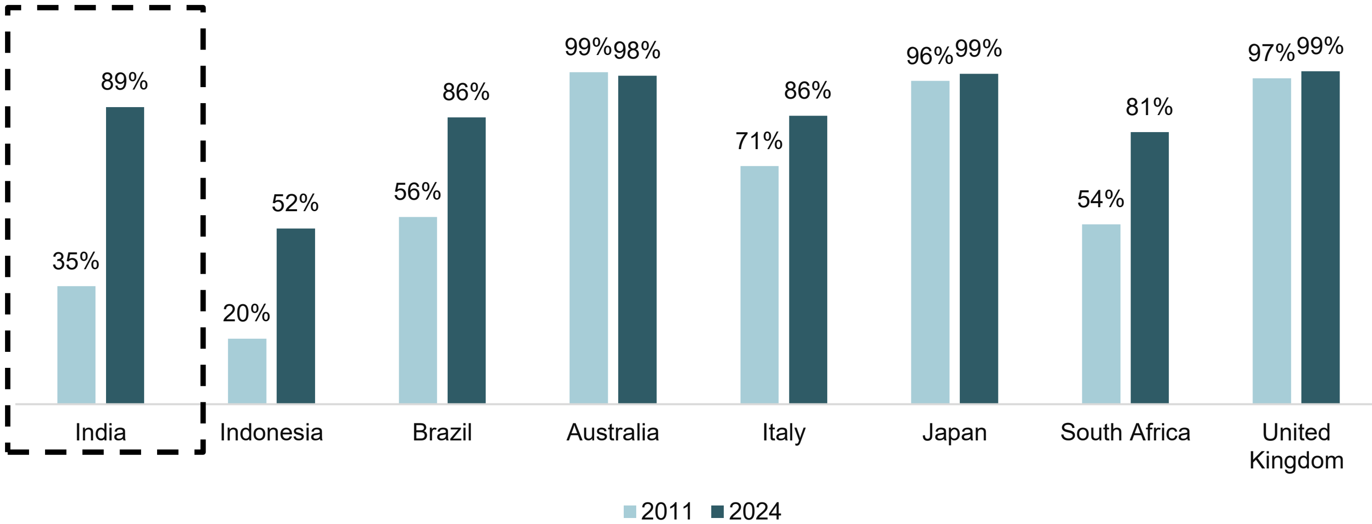
The Indian banking sector is significantly under-penetrated as observed domestic credit to private sector by banks as a % of GDP at 44% for CY24 as per the World Bank compared the world average of 140.3%. This gap between India’s economic growth and its relatively low credit-to-GDP ratio indicates considerable headroom for the expansion of retail, housing, MSME and consumer lending over the medium to long term. The number of commercial bank branches in India per 100,000 people, contrast in comparison to other countries. This provides immense opportunities for banks and other financial institutions over the long term.

Number of Commercial Bank Branches per 100,000 Adults (CY24)



Source: IMF: Financial Access Survey; CRISIL Intelligence

Percentage of population above 15 years having an account with a Bank/FI (CY 2011 and CY 2024)



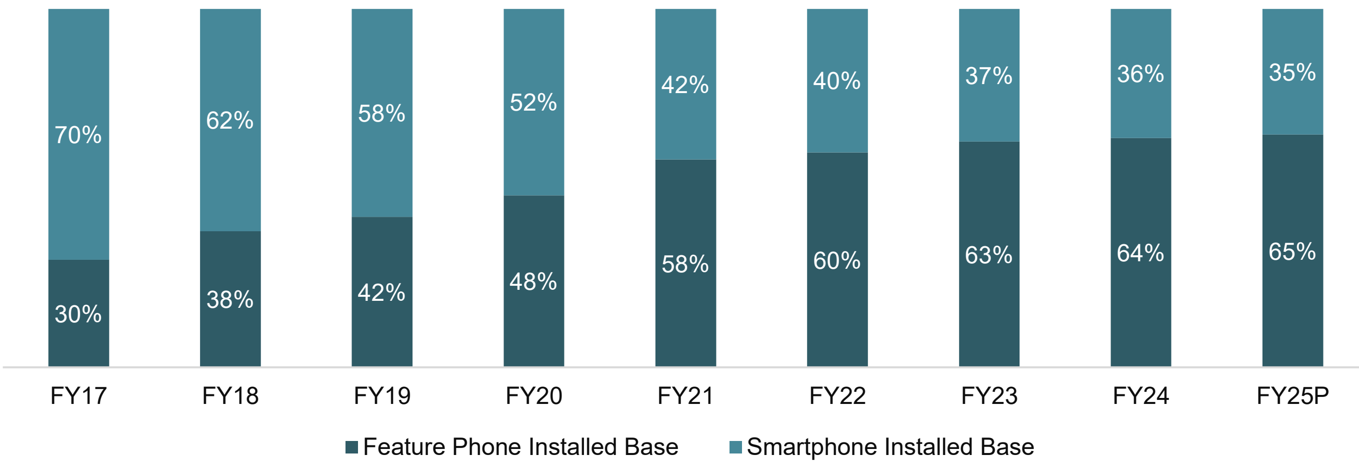
Source: IMF: Financial Access Survey; Crisil Intelligence

Digitization aided by technology to play pivotal role in the growth of economy

Technology is expected to play an important role by progressively reducing the cost of reaching out to smaller markets. India has seen a tremendous rise in fintech adoption in the past few years. Among many initiatives by the government, the Unified Payments Interface (UPI) is playing a pivotal role towards financial inclusion. It provides a single-click digital interface across all systems for smartphones linked to bank accounts and facilitates easy transactions using a simple authentication method. The volume of digital transactions has also seen a surge in the past few years, driven by increased adoption of UPI. Apart from the financial services industry, digitization in other industries like retail will also play an important role in the growth of the economy.

Furthermore, the continued integration of UPI with Aadhaar, alongside the ongoing scale-up of complementary Digital Public Infrastructure layers such as the Account Aggregator framework, Open Credit Enablement Network (OCEN), and DigiLocker, along with the phased rollout of the Digital Rupee (CBDC), is expected to progressively strengthen India's digital financial architecture. As adoption deepens, they are likely to enable more efficient, data-driven credit delivery, broaden financial inclusion and support continued innovation across the financial services sector.

<u>Trend in the usage of Smartphones over the years (in %, FY17-FY25P)</u>



Note: E: Estimated, P: Projected; Source: Crisil Intelligence

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2. Banking and NBFC sectors analysis

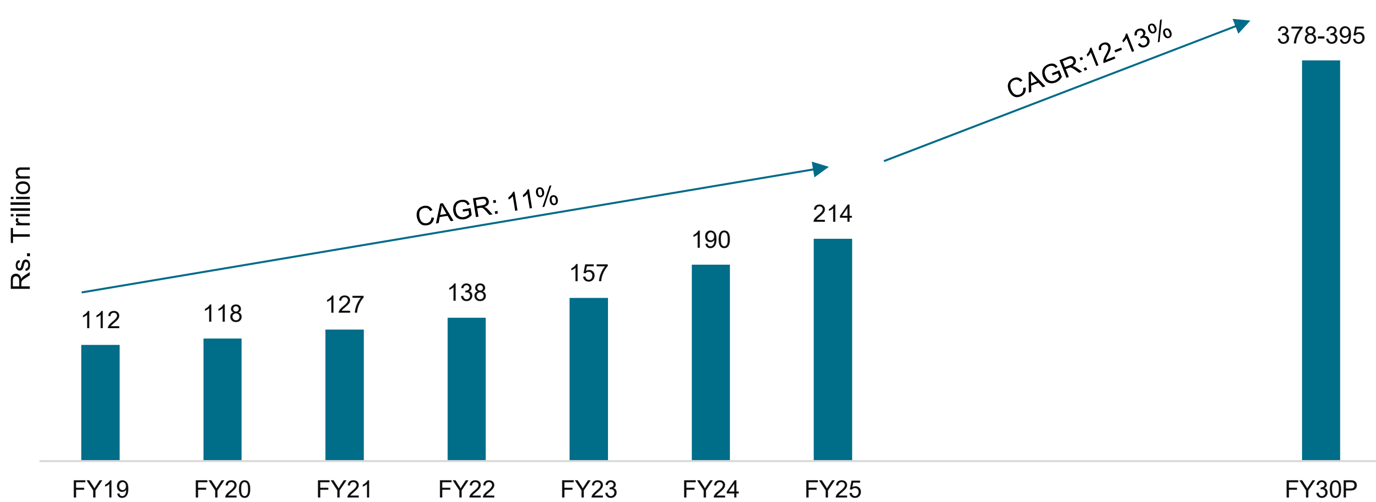
As of March 31, 2025, India's commercial banking sector consists of 12 Public sector banks (PSBs), 21 Private sector banks (PVBs), 44 foreign banks (FBs), 11 Small Finance Banks (SFBs), 6 Payments Banks (PBs), 43 Regional Rural Banks (RRBs), and 2 Local Area Banks (LABs) as per the latest RBI Banking Trends Report released in December 2025. Out of these 139 commercial banks, 135 were classified as scheduled banks, while 4 were non-scheduled commercial banks.

Similarly, NBFCs (including HFCs) registered with Reserve Bank of India (RBI) are classified into top, upper, middle and base layers, based on their size, activity, and perceived riskiness. As of March 31, 2025, there are 15 Upper layer, 656 Middle layer, and 8711 base layer NBFCs registered with the RBI. Furthermore, there were 27 Asset Reconstruction Companies (ARCs) registered with the RBI as on December 31, 2025.

2.1 Credit Growth Trends in India

The systemic credit (considering lending by banks and NBFCs only) in India grew at a 6-year CAGR of ~11% during FY19 to FY25. Corporate credit is a critical component in systemic credit as it accounts for nearly two-thirds of systemic credit. However, its growth over the last 6 years (during FY19 to FY25) has been modest at ~9% CAGR. On the other hand, Retail credit recorded a strong growth of ~18% CAGR during this period aided by robust demand across retail loan products. Going ahead, CRISIL Intelligence projects systemic credit to grow at 12%-13% CAGR between FY25 and FY30.

Growth Trend in Systemic Credit over the years

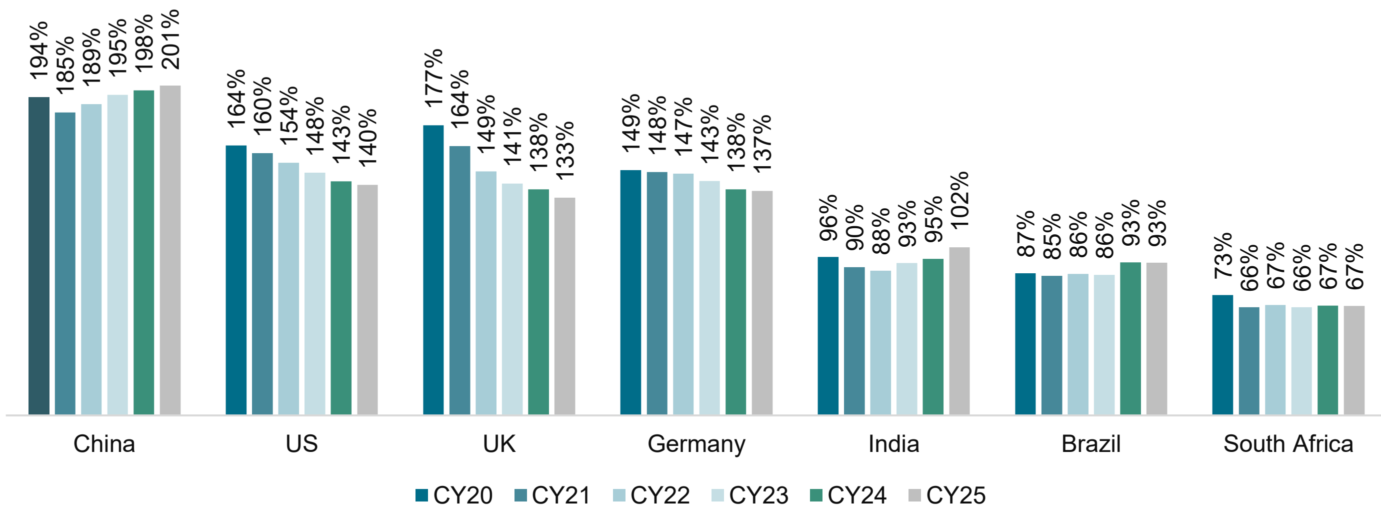


Note: E: Estimated, P: Projected; considered domestic banking credit (after deduction of bank lending to NBFC) and NBFC credit as systemic credit
Source: RBI, company reports, Crisil Intelligence

India's modest credit to GDP to offer strong runway for credit growth

Overall credit to GDP ratio in India stood at 102% as of CY25, which was significantly lower as compared to 133% for United Kingdom, 140% for United States and 201% for China, signaling significant room for credit penetration in the nation.

Trend in Credit to GDP ratio (CY20-CY25)



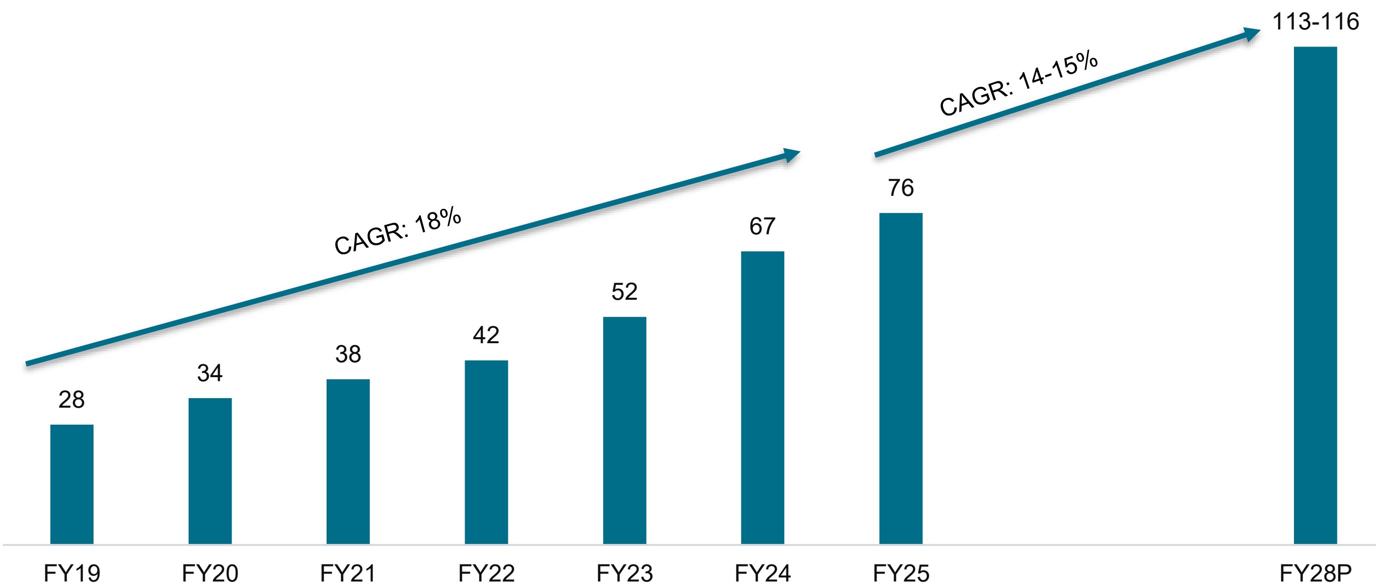
Note: Here Credit refers to total credit to the private non-financial sector
Source: Bank of International Settlements, Crisil Intelligence

Retail credit growth is projected to grow on a strong footing, expected to witness a CAGR of 14-15% between FY25 and FY28

The Retail credit (which includes housing finance, vehicle finance, credit cards, education loans, consumer loans, personal loans, and gold loans) in India stood at Rs 76 trillion, as of March 31, 2025, and grew at a CAGR of ~18% between FY19 and FY25. Retail credit growth was driven by strong demand for housing and auto loans, as well as a significant increase in credit cards and personal loans, reflecting a rise in consumer spending and borrowing activity.

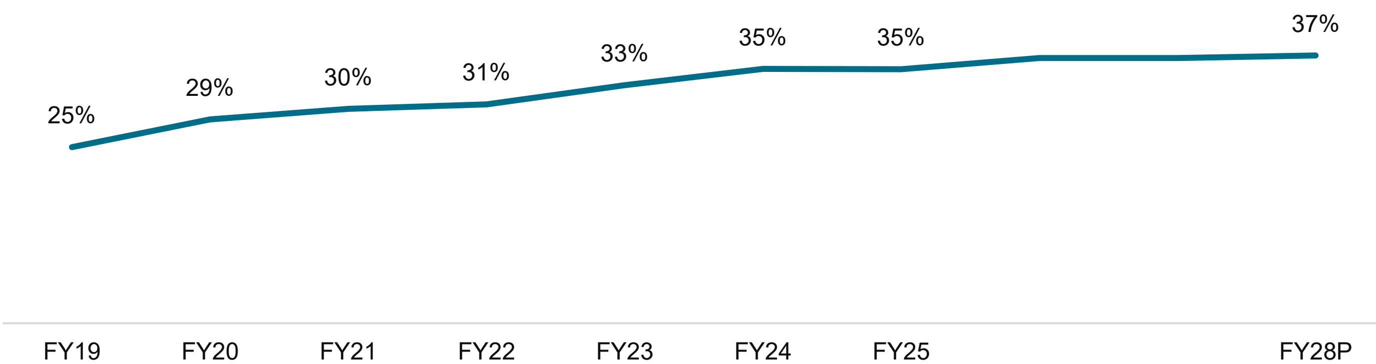
Retail credit is expected to maintain a significant growth rate of 14-15% between FY25 and FY28. Moreover, the increasing demand and positive sentiments in the Indian retail credit market, presents an opportunity for both banks and NBFCs.

Growth Trend in Retail Credit over the years



Note: E: Estimated, P: Projected; We have considered Personal loans (under SCBs) and Retail Loans (under NBFCs) together as Retail Credit
Source: RBI, Crisil Intelligence

Share of Retail credit (as a %) in Systemic Credit



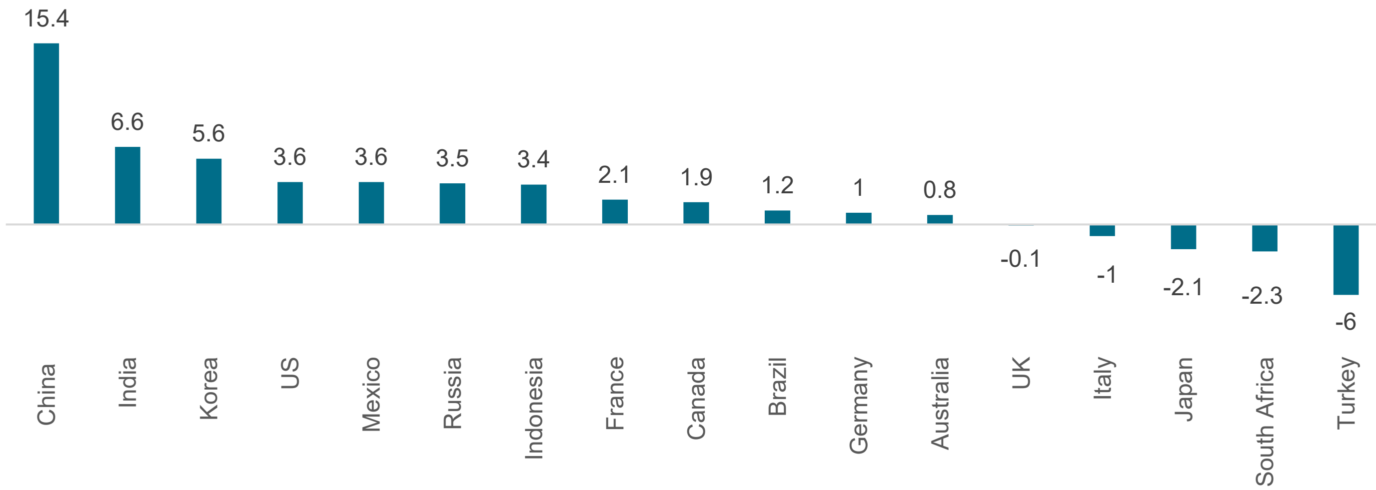
Note: The above percentages are calculated on total systemic credit
Source: Crisil Intelligence

India's Household credit growth is second highest (in terms of US $) amongst large economies over the last 10 years

A country's household credit growth can be considered as a proxy of its retail credit growth. India's household credit growth in US$ terms (during FY14 to FY24) is the second highest amongst major G20 economies (please refer the table below).

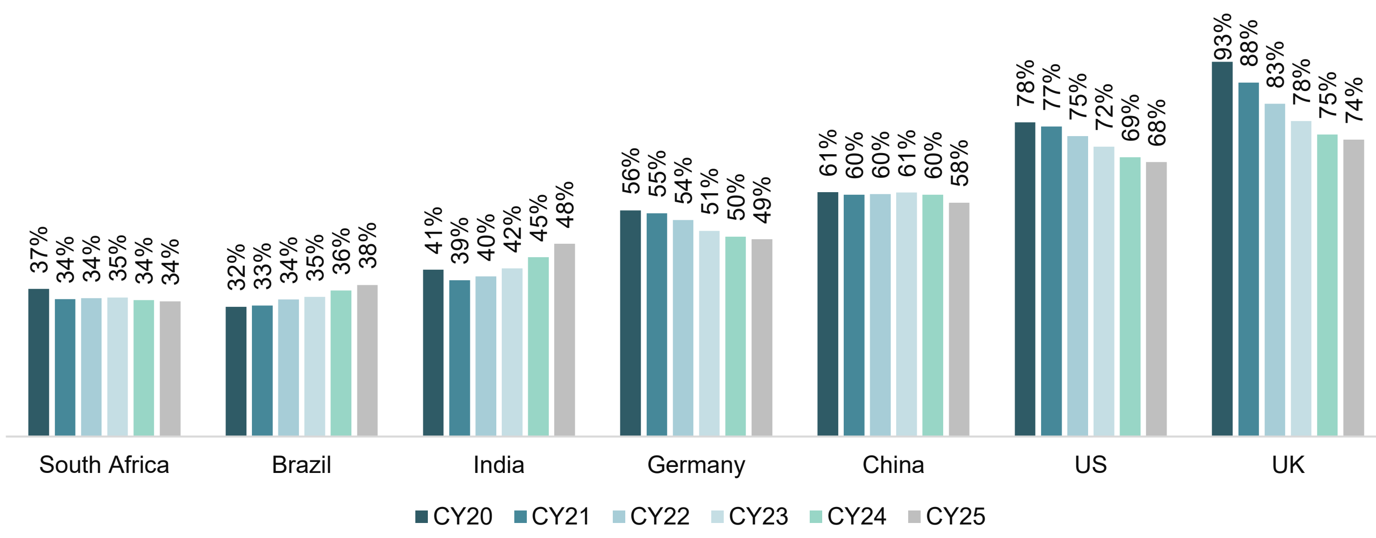
The improved regulations, easing financial conditions and a diverse credit market have contributed to household credit growth for India.

CAGR Growth in Household Credit during FY14 to FY24 in various countries



Note: Figures are in %; Credit from all sectors (from banks and other financial institutions) to Households & NPISHs
Source: BIS, Bank of Baroda Research, CRISIL Intelligence

Household credit to GDP ratio of India and peer countries (CY20-CY25)



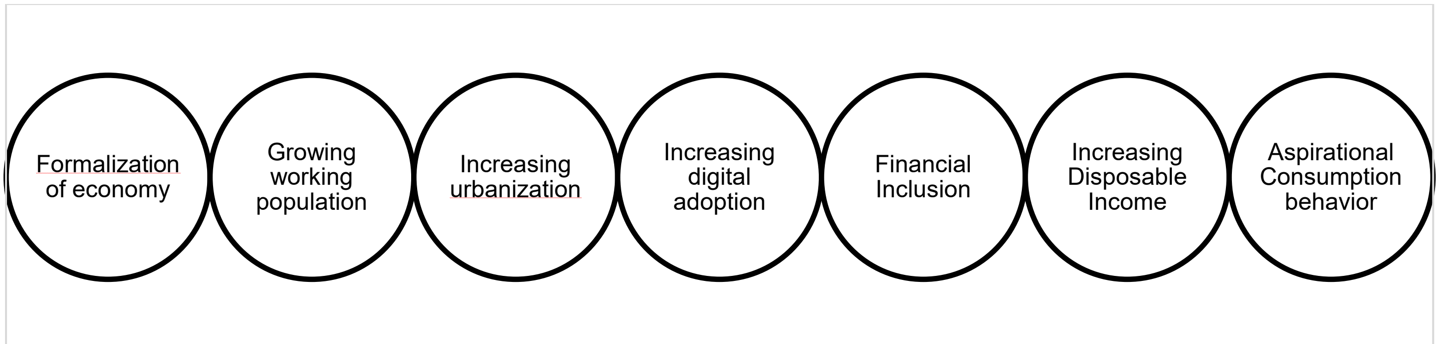
Source: Bank of International Settlements, Crisil Intelligence

Although India's household credit grew at a CAGR of 6.6% during the period from FY 2014 to 2024 (Retail credit grew at a CAGR of ~19% during FY 2019-24), the household credit to GDP ratio remained at a relatively lower figure of 45% in CY24. This is primarily because India recorded a GDP growth in the range of 6-7% over the past few years.

A significant retail credit gap still exists in India, as compared to other nations offering strong potential for growth. This is evident by India's household credit to GDP ratio of ~48% as of CY25, as compared to 58%, 68% and 74% for China, United States and United Kingdom respectively.

The significant growth under retail credit in the recent years was based on the factors below:

Factors supporting retail credit growth



Growth in retail loans has been underpinned by a combination of factors, including smaller-ticket digital disbursements, increasingly customized and segment-specific product offerings, continued migration to digital lending platforms, growing use of credit cards for both consumption and e-commerce spending, and rising discretionary consumption supported by the easy availability of personal loans. Technology integration, including AI-driven risk assessment and automated underwriting, has started improving the efficiency and scalability of small-ticket retail loan origination and disbursal. However, lenders continue to address challenges relating to data quality, model governance, fraud risks, and evolving regulatory expectations.

Digital Adoption is one of the most crucial drivers that can increase credit penetration through Digital Lending

Rising digital adoption continues to be a key enabler of digital lending in India. Crisil Intelligence expects the number of 5G subscribers to reach 510-530 million by FY28, as data consumption climbs on the back of OTT platforms, online education, digital banking, telemedicine, and online gaming. Parallel developments in digital infrastructure, such as the Account Aggregator framework and Open Credit Enablement Network (OCEN), are also enabling consent-based sharing of cash-flow data for underwriting, while the linkage of pre-sanctioned credit lines with UPI has added a further channel for small-ticket credit. Together, these developments are expected to deepen the penetration of digital lending, particularly among MSMEs and first-time borrowers in Tier-2 and Tier-3 markets.

The role of Digital Lending in shaping the future of Retail Credit

Digital public infrastructure is transforming how retail credit is originated and delivered in India. Digital channels and alternative data including UPI transaction flows, telecom usage, and utility bill payments now allow lenders to underwrite borrowers who were previously excluded for want of formal credit history, adequate documentation, or physical branch access, extending reach into MSMEs and individual borrowers in geographically remote markets. AI/ML based underwriting started shortening loan approval and disbursal timelines for small-ticket retail credit, supporting higher disbursement volumes at lower cost. At the same time, co-lending arrangements between banks and NBFCs can extend this reach further. Taken together, these shifts have made digital lending one of the important drivers of retail credit growth enabling faster, more tailored and more inclusive credit delivery.

2.2 Stressed Assets in Indian Credit System

2.2.1 Process of Classification of Asset into NPA, as per guidelines

Banks/FIs use the Special Mention Account (SMA) classification to identify loan accounts showing early signs of stress and potential risk of becoming Non-Performing Assets (NPAs). This categorization serves as an early warning signal in the loan monitoring process, enabling proactive monitoring, and addressing potential credit risks.

An account is flagged as "overdue" and classified as an SMA when full payment is not received by the due date. For example, if a housing loan EMI is due on March 31, 2026, and payment is not received before the bank's day-end process, the account will be considered overdue and classified as an SMA from March 31, 2026.

The SMA classification allows banks to take corrective actions early, mitigating potential risks and preventing accounts from becoming NPAs. SMA classification is done in the following way in a general loan (non-agriculture):

SMA Subcategories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

As mentioned earlier, an account classified as SMA is subject to a gradual escalation process. If the borrower fails to clear the overdue amount, the account will be tagged as SMA-0 until the end of the next month (April 30, 2026, in this case). If the account remains overdue, it will be classified as SMA-1 upon completion of 30 days of continuous overdue (April 30, 2026), SMA-2 upon completion of 60 days (May 30, 2026), and so on.

If the account continues to remain overdue beyond 90 days, it will be classified as a Non-Performing Asset (NPA) upon running the day-end process on June 29, 2026. This classification applies to non-agricultural loans, where the interest or principal remains overdue for more than 90 days. For agricultural loans, the classification criteria vary depending on the crop season: loans for long-duration crops (> 1 year) are classified as NPA if overdue for one crop season, while loans for short-duration crops (≤ 1 year) are classified as NPA if overdue for two crop seasons.

The classification of borrower accounts as NPAs is performed daily, with the classification date being the calendar date on which the process is run. SMA classification, however, is only applied to non-agricultural loans, including retail loans, regardless of the loan amount. An account classified as an NPA can be upgraded to a 'standard asset' only after the borrower has paid all outstanding interest and principal amounts in full, at which point the account will move back to the Standard category with a Days Past Due (DPD) count of '0'.

2.2.2 Categories of NPA

Banks/FIs are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing:

- **Substandard Assets:** A non-performing asset is classified as ‘substandard’ if it remains NPA for a period less than or equal to 12 months from the date on which it was first classified as an NPA. In the previous example, the asset gets classified as NPA first on 29th June 2026. It will be treated as a ‘substandard asset’ till 28th June 2027 in case the account remains NPA till that period. Such an asset will have well defined credit weaknesses that will affect the realization of debt provided by the Bank/FI. There is a possibility that a Bank/FI will sustain some losses if the deficiencies in these assets are not corrected.
- **Doubtful Assets:** An asset would be classified as ‘doubtful’ if it has remained in the substandard category for a period of 12 months. If we consider the earlier example, if the account remains NPA beyond 28th June 2027, the account is classified as ‘doubtful’ from 29th June 2027. In respect of a doubtful asset, the chances of recovery (full or partial) become relatively more questionable and improbable compared to a sub-standard asset.
- **Loss Assets:** A loss asset refers to a non-performing asset where a loss has been recognized by the Bank/FI, internal or external auditors, the Co-operation Department, or the Reserve Bank of India during an inspection. Although the loss has been identified, the asset has not been fully or partially written off. Essentially, a loss asset is considered to have very low salvage or recovery value.

2.2.3 Provisioning Norms

Depending on the classification of an asset (including assets classified as ‘standard’), Banks/FIs must make adequate provisions to account for any possible reduction in the value of loan assets. India’s provisioning framework is currently in transition: the extant incurred-loss based Income Recognition, Asset Classification and Provisioning (IRACP) norms remain in effect till March 31, 2027, after which they will be replaced by a forward-looking Expected Credit Loss (ECL) framework.

A. Current Framework – IRACP-based Provisioning (applicable till March 31, 2027)

Banks/FIs must make adequate provisions to account for any possible reduction in the value of loan assets. Provisions made on standard assets are as follows:

Standard assets:

Category	Provisioning (% of outstanding)
Farm Credit to agricultural activities, individual housing loans and Small and Micro Enterprises (SMEs) sectors	0.25%
Advances to Commercial Real Estate (CRE) Sector	1.00%
Advances to Commercial Real Estate – Residential Housing Sector	0.75%
All other loans and advances (excluding the above categories, restructured loans, housing loans given at teaser rates)	0.40%

Note: In respect of NBFCs, the above rates are applicable for NBFC-UL only. NBFC-BL and NBFC-ML shall make provisions for standard assets at 0.25% and 0.4% of the outstanding respectively.
Source: RBI reports and circulars

The provision made by Banks/FIs in respect of NPAs is higher and made as per the prudential guidelines stipulated by RBI. The provisions made in respect of non-performing assets vary based on their classification, considering the time since an account becomes NPA, realization potential of the underlying security and the erosion over time in the value of security charged to the Bank/FI. Provisions are made in respect of different categories of NPAs as given below:

Substandard assets:

Banks	NBFC
15% on total outstanding	10% on total outstanding

Source: RBI Prudential Norms, 2025

Doubtful assets: Unsecured portion of a loan must be completely (100%) provided for. In respect of the secured portion, provision must be made in the following way based on the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provisioning requirements (%) of Banks	Provisioning requirements (%) of NBFCs
Up to one year	25%	20%
One to three years	40%	30%
More than three years	100%	50%

Note: The provisioning requirements given above apply to every NBFC (except microfinance loans of NBFC-MFIs)
Source: RBI Prudential norms, 2025

Loss assets:

Loss assets should be written off completely from the books of a Bank/FI. If they are permitted to remain in books for any reason, 100% of the outstanding should be provided for.

B. Incoming Framework – Expected Credit Loss (ECL) based Provisioning (effective April 1, 2027)

In April 2026, RBI finalized a structural shift in the provisioning framework for Scheduled Commercial Banks (excluding Small Finance Banks, Payments Banks, Regional Rural Banks and Local Area Banks) and All India Financial Institutions (AIFIs), moving away from the IRACP model described above to a forward-looking Expected Credit Loss (ECL) approach

The 90-day overdue rule for classification of an account as an NPA is retained under the new framework, ensuring continuity in the identification of NPAs. What changes fundamentally is the basis on which provisions are computed: instead of the fixed percentages prescribed under IRACP, banks will be required to classify financial assets into one of three stages based on the assessed change in credit risk since origination, and compute provisions using a Probability of Default (PD) × Loss Given Default (LGD) × Exposure at Default (EAD) methodology, incorporating forward-looking macroeconomic scenarios:

• **Stage 1:** Performing assets with no significant increase in credit risk since origination — 12-month ECL is recognized as the provision

• **Stage 2:** Assets that have seen a significant increase in credit risk (broadly corresponding to early delinquency, in the 31–90-day overdue range) but not considered to be credit impaired — lifetime ECL is recognized as the provision.

• **Stage 3:** Credit-impaired/non-performing assets (90+ days overdue, consistent with the existing NPA definition) — lifetime ECL is recognized as the provision.

RBI has prescribed product-wise minimum prudential floors for Stage 1 and Stage 2 provisioning, acting as a regulatory backstop irrespective of model-driven outcomes. These floors are summarized below:

Prudential floors – Stage 1 and Stage 2 (by loan product category):

S.no	Loan Product Category	Stage 1 Floor	Stage 2 Floor
i	Secured retail loans	0.40%	5.0%
ii	Corporate loans	0.40%	5.0%
iii	Small & Micro enterprises	0.25%	5.0%
iv	Medium enterprises	0.40%	5.0%
v	Farm credit (agriculture)	0.25%	5.0%
vi	Loans to Banks/NBFCs/FIs	0.40%	5.0%
vii	Loan against Term Deposit/LIC/KVP	0.40%	0.40%
viii	Gold loan	0.40%	1.50%
ix	Direct exposures to State Government and exposures guaranteed by State Government.	0.40%	2.50%
x	Unsecured retail loans	1.00%	5.0%

S.no	Loan Product Category	Stage 1 Floor	Stage 2 Floor
xi	Claims secured by real estate		
a	Housing loan to individuals	0.25%	1.50%
b	Commercial Real Estate (ADC):		5% (varies by DCCO status)
	(i) CRE (ADC), other claims secured by non-qualifying Commercial/ residential Real Estate where applicable Risk-weight as per the extant norms is 150%	1.25%	Credit event related to "DCCO deferment": Additional Provision: 0.5625% (Refer Note 1) Credit event related to other than "DCCO deferment": 5%
	(ii) CRE-RH (ADC) (Commercial Real Estate – Residential Housing (ADC)) and other claims secured by non-qualifying Commercial/ Residential Real Estate where counterparty risk weights are applicable as per the extant norms	1.0%	
c	Other claims secured by Residential Real Estate	0.40%	1.50%
d	Other claims secured by Commercial Real Estate	0.40%	2.50%
xii	Project Finance exposure (other than real estate)		
a	Pre-operational Phase	1.0%	Credit event related to "DCCO deferment": Additional Provision: 0.375% / 0.5625% (Refer Note 2) Credit event related to other than "DCCO deferment": 5%
b	Operational Phase	0.40%	5.0%
xiii	Exposures guaranteed by central government	0.25%	0.25%
xiv	Advances restructured and classified as standard	5.0%	10.0%
xv	Any other loan product not covered above	0.40%	5.0%

Note: 1.) For CRE (ADC) & CRE-RH (ADC) accounts which have availed DCCO deferment as per extant norms, a bank shall maintain account wise additional specific provisions of 0.5625%, for each quarter of deferment, over and above the applicable Stage 1 provision; 2.) For project finance exposures (other than CRE (ADC) & CRE-RH (ADC)) which have availed DCCO deferment as per extant norms, a bank shall maintain additional account wise specific provisions of 0.375% for infrastructure project loans and 0.5625% for non-infrastructure project loans, for each quarter of deferment, over and above the applicable Stage 1 provision. 3.) Prudential floor for advances restructured and classified as standard in terms of the Master Direction – Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 – Scheduled Commercial Banks, as updated from time *to time, shall be 5% if it falls under Stage 1 category subsequent to restructuring. In case of any SICR, the assets shall be migrated to Stage 2 Category, thereby warranting a provision of 10%.*

ADC – Acquisition, Development & Construction, DCCO – Date of commencement of commercial operations
Source: RBI (Commercial Banks – Asset Classification, Provisioning and Income Recognition) Directions, 2026, April 27, 2026

Prudential floors – Stage 3 (i-vi, xi (b–i & ii), xii, xiv, xv):

Duration in Stage 3	Secured portion	Unsecured portion
0–1 year	25%	40%
1–2 years	40%	100%
2–3 years	55%	100%
3–4 years	75%	100%
After 4 years	100%	100%

Prudential floors – Stage 3 (vii-ix, xi(a), xiii):

Duration in Stage 3	Secured portion	Unsecured and unguaranteed* portion
0–1 year	10%	25%
1–2 years	20%	100%
2–3 years	30%	100%
3–4 years	40%	100%
More than 4 years	100%	100%

**In case of exposures guaranteed by central government*

Prudential floors – Stage 3 (x):

Duration in Stage 3	Floor
0–1 year	25%
After 1 year	100%

Source: RBI (Commercial Banks – Asset Classification, Provisioning and Income Recognition) Directions, 2026, April 27, 2026

Prudential floors – Stage 3 (xi (c & d)):

Duration in Stage 3	Secured portion	Unsecured portion
0–1 year	15%	25%
1–2 years	25%	100%
2–3 years	40%	100%

Duration in Stage 3	Secured portion	Unsecured portion
3–4 years	55%	100%
More than 4 years	100%	100%

As per Crisil ratings, the ECL transition is estimated to have differing impact across the three asset stages.

- For Stage I assets, the prescribed floors are set relative to existing IRAC provisioning levels and represent minimum provisioning requirements, although actual provisioning may exceed these floors depending on bank-specific risk assessments.
- For Stage III assets, current provisioning on non-performing assets is already at ~76%, which limits the incremental impact of the transition for this category.
- The largest impact is estimated for Stage II assets. Existing norms require provisioning of ~0.4% for most standard asset categories but under the ECL framework, Stage II assets carry a minimum provisioning requirement of 5% for most of the asset categories. This results in an incremental 4.6% provisioning. This is identified as the primary driver of the overall increase in system-wide provisioning. However, the system-wide impact is estimated to be limited, as accounts in Special Mention Account 1 and 2 categories currently represent ~2-2.2% of total banking exposure.

Crisil Ratings estimates the gross impact on banks' CET-1 ratios up to 170 bps, and the net impact, after accounting for existing provisions and contingency buffers, up to 120 bps. RBI has permitted banks to spread this net impact over a period of four financial years (April 1, 2027, till March 31, 2031). The estimated CET-1 ratio of the banking system stood at ~14% as of March 31, 2026. Crisil Ratings has assessed this level of capitalization as sufficient to absorb the transition without a material change to banks' credit profiles. Apart from a one-time transition impact, the ECL framework is also expected to result in a structural increase in credit costs over the medium term. The extent of impact is expected to vary by bank, based on portfolio composition, asset quality track record, and existing provisioning levels.

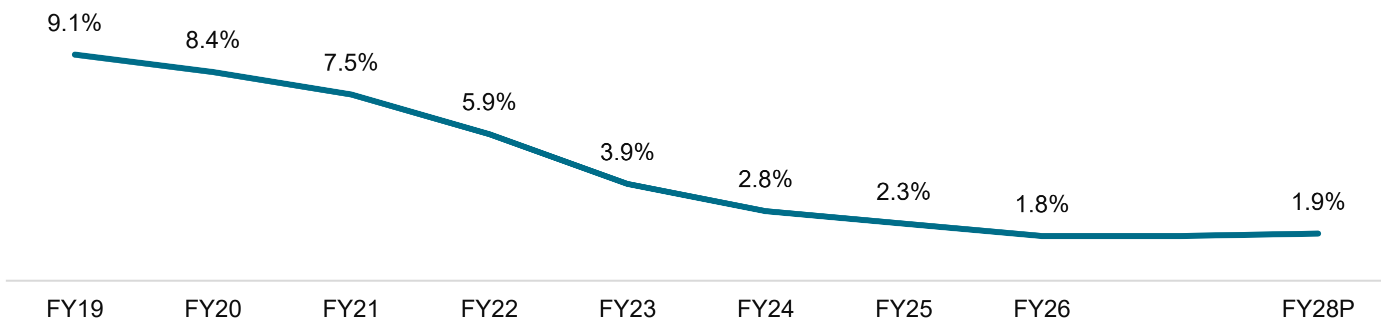
2.3 Trend in Asset Quality for Banks and NBFCs

2.3.1 Declining GNPAs, High Write-Offs: A 5-Year Trend for Scheduled Commercial Banks

The Indian economy has witnessed a notable improvement in the financial health of companies over the past few fiscal years. This upward trend is attributed to the concerted efforts of Indian banks to rectify their balance sheets, coupled with enhanced collection efficiency. As a result, GNPA ratio of Scheduled Commercial Banks (SCBs) has consistently declined since FY19. As of March 31, 2026, the GNPA ratio stood at 1.8%, indicating a significant reduction in stressed assets.

Over the last few years, the asset quality of Scheduled commercial banks has improved due to certain key factors such as strengthened risk management and underwriting practices that led to higher preferences for borrowers with better credit profiles. As per results of the stress tests conducted by RBI to evaluate the financial strength of SCBs, the GNPA levels of SCBs are expected to rise slightly to at least 1.9% by FY28 (discussed in more detail in this subsection).

Trend of GNPA over the years (%)



Note: RBI projected the aggregate GNPA ratio of SCBs to increase to 1.9% in March 31, 2028 under the baseline scenario
Source: Financial Stability Reports of RBI, CRISIL Intelligence

Despite the decline in GNPA, the write-off amounts by SCBs have remained substantial, with cumulative write-offs totaling ~Rs. 13.6 trillion during the period FY19 to FY25.

GNPA and Write-off over the years

(Amount Rs in Billion)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25
GNPA of SCBs	9,336.1	8,960.8	8,350.5	7,424.0	5,718.5	4,807.0	4,316.3
1) Change in NPA - growth/(fall) compared to previous year	(1,025.8)	(375.3)	(610.3)	(926.5)	(1,705.5)	(911.5)	(490.7)
2) Annual Write-offs of SCBs	2,362.7	2,341.7	2,027.8	1,749.7	2,091.4	1,702.7	1,372.6*
Changes in GNPA + write-offs (1+2)	1,336.9	1,966.4	1,417.5	823.1	386.0	791.2	881.9

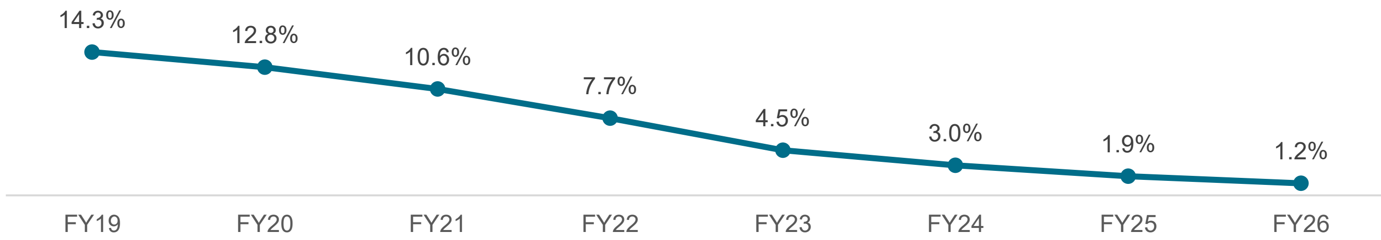
Note: Numbers are rounded off to nearest billion up to one decimal point; (*) For FY19-FY24, annual write offs have been directly sourced from the RBI database but for FY25, annual write off has been calculated by applying Write off to Gross NPA ratio on total Gross NPAs, since annual write off data was directly not available.
Source: RBI, CRISIL intelligence

The average annual write-offs of ~Rs. 2,000 Billion in the last 7 years also played a key role in reducing GNPA levels of the banks. Recovery numbers of banks also increased during this period due to improved business outlook for some of the key underlying sectors such as power, real estate, steel, etc. which were earlier under stress.

Lower corporate NPAs propel downward trend in SCBs' GNPAs

The GNPA levels of large borrowers (with aggregate exposure of Rs 50 Million and above to any single SCB) in SCBs has significantly declined from 14.3% in FY19 to 1.2% in FY26.

Trend in GNPA levels of large borrowers (%)



Source: Financial Stability Reports of RBI, CRISIL Intelligence

(Amount Rs in Billion)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25
GNPA of Large Borrowers (SCBs)	7,674.2	4,596.8	6,505.0	4,625.2	3,082.3	2,288.1	1,618.6

Note: Numbers are rounded off to nearest billion up to one decimal point; GNPA on Large Borrowers is calculated on Overall Gross NPA
Source: Financial Stability Reports and RBI, CRISIL Intelligence

The Reserve Bank of India (RBI) launched the Asset Quality Review (AQR) initiative in 2016, with the primary objective of cleaning the balance sheets of banks. This endeavor led to Public Sector Banks (PSBs) reporting substantial losses for three consecutive years, accompanied by a significant increase in GNPA levels after the AQR's implementation. Nevertheless, the AQR exercise yielded positive outcomes, including enhanced recognition of non-performing loans and elevated provisioning.

To mitigate the impact, the government also provided substantial capital support to PSBs since the inception of AQR in 2015. Concomitantly, the risk management and underwriting practices of banks underwent significant strengthening, which proved instrumental in controlling GNPA levels over the past few years. Notably, the corporate segment's NPA levels remained under control, even during the COVID-19 pandemic, underscoring the efficacy of the measures implemented.

The recovery efforts of banks received a considerable boost with the introduction of the Insolvency and Bankruptcy Code (IBC) in 2016, which played a pivotal role in reducing GNPA levels. As of March 2026, creditors recovered ~Rs 4.3 Trillion since inception directly through the IBC. The IBC has not only facilitated recoveries but also created a deterrent effect, encouraging large borrowers to settle their debts before reaching the IBC. As of March 2026, over 35,300 cases were settled before their admission to the Insolvency and Bankruptcy Code (IBC), covering defaults worth ~Rs 16 Trillion since inception of the code, highlighting the effectiveness of the IBC in addressing corporate insolvency and promoting debt recovery.

With the continued implementation of IBC and improved banking practices, it is expected that corporate NPAs will continue to decline.

FY28 Forecast: Overall GNPA levels of SCBs set to witness a calibrated rise in FY28

RBI conducted a series of macro stress tests to evaluate the resilience of SCBs balance sheets in the face of unforeseen macroeconomic shocks. The tests aimed to assess the potential impact of various scenarios on the banking sector's asset quality. The stress test results indicate that the aggregate GNPA ratio of SCBs is likely to increase (by end of FY 28) under all three scenarios considered:

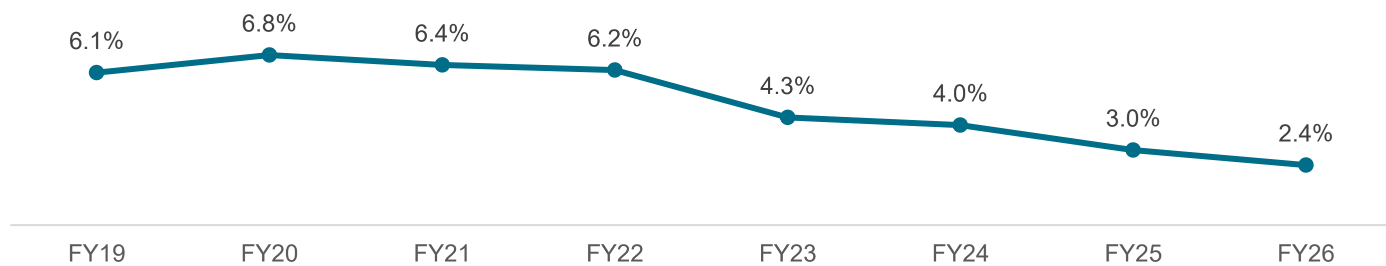
- **Baseline Scenario**: The GNPA ratio is projected to slightly rise to 1.9%, assuming a stable macroeconomic environment.
- **Adverse Scenario 1**: The GNPA ratio is expected to increase to 3.8% due to persisting geopolitical risks and escalating global financial market volatility.
- **Adverse Scenario 2**: The GNPA is expected to rise further to 4.1% due to a sharp growth slowdown in key economies.

These projections suggest that the banking sector's asset quality is likely to deteriorate under various stress scenarios. This, in turn, may create opportunities for entities involved in managing distressed assets.

2.3.2 NBFCs' GNPAs: 5 Years of improvement, a likely deterioration ahead

Like the banking sector, NBFCs have also witnessed a decline in GNPA levels in FY25 & FY26 due to the overall improvement in asset quality, better risk management etc.

Trend of GNPA Levels over the years (%)



Source: RBI financial stability reports, CRISIL Intelligence

GNPA of NBFCs over the last 7 years

(Amount in Rs Billion)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25
GNPA (NBFCs)	1,412.5	1,673.2	1,729.7	1,830.5	1,461.9	1,611.0	1,451.6

Note: GNPA absolute numbers are calculated by applying GNPA% on gross advances reported in RBI report; Numbers are rounded off to nearest billion up to one decimal point.
Source: RBI- Trends and Progress of Banking in India, Crisil Intelligence

Write-offs of NBFCs during FYs 2022-26

(Amount in Rs Billion)

NBFC -Write off	FY22	FY23	FY24	FY25	FY26
Retail	216.1	269.1	289.6	391.5	546.2
MSME – Individual segment	97.6	156.8	180.9	233.3	292.0
MSME – Commercial segment	190.9	177.2	177.0	263.8	369.3
Corporate	471.0	224.8	232.8	536.5	1,063.7
Total	975.6	827.9	880.3	1,425.1	2,271.2

Note: The above data is coming from Consumer bureau data (contains overall DPD/write-off status of loans given to individuals) and Commercial Bureau Data (contains overall DPD/write-off status of loans given to entities other than individuals) shared by Experian Credit bureau. Retail portfolio here includes Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (includes short term personal loans); Here NBFCs include Housing Finance Companies (HFCs) as well; MSME segment (individual) here includes Business Loans (General), Business Loans (Secured), Business Loans (Unsecured), Commercial Vehicle Loans, Commercial Equipment Loans, Loans against Property (LAP); Commercial bureau data (<=Rs. 50 crores loans exposure) is considered as MSME segment (commercial); Commercial bureau data (>Rs. 50 crores loans exposure) is considered as corporate segment here;180+ DPD loans (commercial) were considered as written offs by bureau.
Source: Experian Credit bureau, CRISIL Intelligence

GNPA expected to rise in non-government NBFCs in FY27

According to the Reserve Bank of India's (RBI) latest financial stability report, a comprehensive stress test was conducted on a sample of 174 non-banking financial companies (NBFCs), including Upper Layer and Middle Layer entities, which collectively had outstanding loans of around Rs 34.5 trillion as of March 2026. This sample represents ~95% of the total advances of non-Government NBFCs, making the results highly representative of the sector.

The stress test results indicate that the GNPA ratio of non-Government NBFCs is likely to increase under all three scenarios considered:

- **Baseline Scenario:** The GNPA ratio is expected to rise to 2.8% by the end of FY27, up from 2.4% in FY26, assuming a stable macroeconomic environment.
- **Medium-Risk Scenario:** The GNPA ratio is projected to increase to 4.0%, reflecting a moderate level of stress in the sector.
- **High-Risk Scenario:** The GNPA ratio is expected to rise to 5.2%, indicating a significant level of stress in the sector, driven by adverse economic conditions.

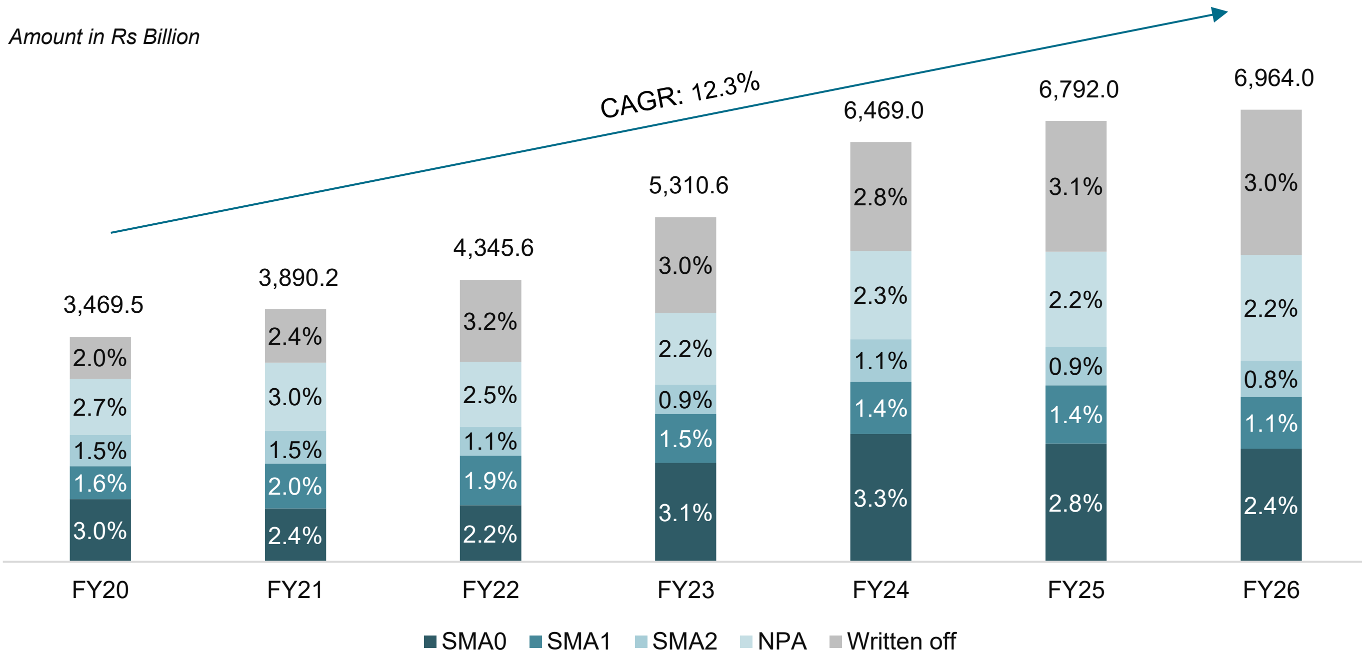
The projected uptick in GNPA ratios across all scenarios indicates that the NBFC sector is poised to witness an increase in its overall gross NPA percentage, potentially catalyzing a surge in the stressed assets market.

2.3.3 Trend of stressed assets in Banks and NBFCs under Retail Segment during FY20 to FY26

Loans are generally classified into 4 broad categories - Corporate, Retail, MSME, and Agriculture. For the purpose of analyzing stressed assets under Banks/FIs, the same categorization has been taken into consideration. However, agricultural loans have been excluded in this analysis.

The stressed assets (falling under SMA, NPA, written off categories) in the retail segment grew at ~12.3% CAGR during FY20 to FY26 due to various factors such as Covid-19 pandemic, rising delinquencies in unsecured segments, etc. The growth in Retail stressed assets for Banks and NBFCs was ~13.5% and ~9.6% CAGR respectively during this period.

Trend of overall Retail Stressed Assets over the years across Banks and NBFCs



Note: % is the share of each SMA 0, SMA1, SMA2, NPA and written off with respect to the total outstanding retail portfolio of that year. Retail portfolio here includes Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (including short term personal loans); Here NBFCs include Housing Finance Companies (HFCs) as well; Small Finance Banks are not included in Banks.
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

Consolidated Stress levels under Retail segment in Banks and NBFCs

(Amount in Rs Billion)

Type of Stress	FY20	FY21	FY22	FY23	FY24	FY25	FY26	CAGR % (FY20 to FY26)
SMA0	964.8	822.8	870.3	1,526.4	1,968.2	1,823.2	1,743.3	**10.4%**
SMA1	506.7	691.0	766.7	747.2	803.4	896.6	793.9	**7.8%**
SMA2	483.0	510.5	447.0	452.6	657.5	587.8	559.5	**2.5%**
NPA	864.6	1,045.8	995.3	1,112.2	1,356.3	1,471.9	1,631.2	**11.2%**
Written off	650.4	819.9	1,266.3	1,472.1	1,683.6	2,012.5	2,236.1	**22.9%**
Total stress	**3,469.5**	**3,890.2**	**4,345.6**	**5,310.6**	**6,469.0**	**6,792.0**	**6,964.0**	12.3%
Total outstanding	**32,329.4**	**34,319.1**	**39,357.7**	**49,598.1**	**59,174.1**	**65,957.8**	**7,410.4**	14.8%

Note: Retail portfolio here includes Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (includes short term personal loans); Here NBFCs include Housing Finance Companies (HFCs) as well; Small Finance Banks are not included in Banks.
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

Overall outstanding under Retail segment (includes Housing loans, Vehicle loans, Consumer loans, Credit cards, educational loans, and Personal loans) has grown at a CAGR of 14.8% over FY20 to FY26, from ~Rs. 32 Trillion, as of FY20 to ~Rs. 74 Trillion, as of FY26.

The overall NPA under Retail segment is ~Rs 1.6 Trillion as of March 31, 2026. Stress in the Retail segment increased from FY20 to FY24, with growth relatively moderating since FY25 with cyclical improvement in asset quality of Banks & NBFCs. The growth till FY24 was mainly driven by the unsecured lending segment. Overleveraging of unsecured loans (mainly by low-income borrowers) led to rapid growth of this segment. Many borrowers availing credit cards and personal loans also have another live retail loan outstanding, which are often high-ticket loans (i.e., housing and/or vehicle loan). When any loan account of a borrower in a Bank/FI becomes an NPA, all other loans (even if standard) of that borrower will also be classified as non-performing by that Bank/FI. So, larger, secured loans of a borrower can also face delinquency risks due to defaults in smaller personal loans.

Growing stress levels in Microfinance industry

The microfinance sector has been grappling with high delinquencies attributed to overleveraging and stress in rural household incomes in the recent past.

Microfinance Loans Outstanding in FY23 to FY24

(Amount in Rs Billion)

Lenders	FY23	FY24	Y-o-Y Growth %
NBFC – MFIs	1,396.3	1,632.8	16.9%
Banks	1200.2	1,328.9	10.7%
NBFCs	296.6	436.2	47.0%
Small Finance Banks (SFBs)	584.3	678.7	16.2%
Non-Profit MFIs	37.8	8.5	-77.4%
Total	**3,515.2**	**4,085.1**	**16.2%**

Source: Microfinance in India FY24 report NABARD, CRISIL Intelligence

Stress levels in Microfinance Industry in FYs 2023 to 2024

	FY23				FY24			
Lenders	30+ DPD	60+DPD	90+DPD	180+DPD	30+ DPD	60+DPD	90+DPD	180+DPD
NBFC-MFIs	1.6%	1.3%	0.9%	7.6%	2.2%	1.7%	1.3%	5.1%
Banks	3.0%	2.5%	1.5%	12.5%	2.5%	1.9%	1.1%	10.8%
NBFCs	2.5%	1.8%	0.9%	10.3%	1.5%	1.1%	0.7%	4.0%
Small Finance Banks	1.0%	0.7%	0.4%	2.8%	2.9%	2.3%	1.3%	9.6%
Non-profit MFIs	1.6%	1.3%	1.0%	8.8%	4.0%	2.5%	1.8%	38.2%
Total	**2.2%**	**1.7%**	**1.1%**	**9.4%**	**2.3%**	**1.8%**	**1.2%**	**7.7%**

Source: Microfinance in India FY24 report of NABARD, CRISIL Intelligence

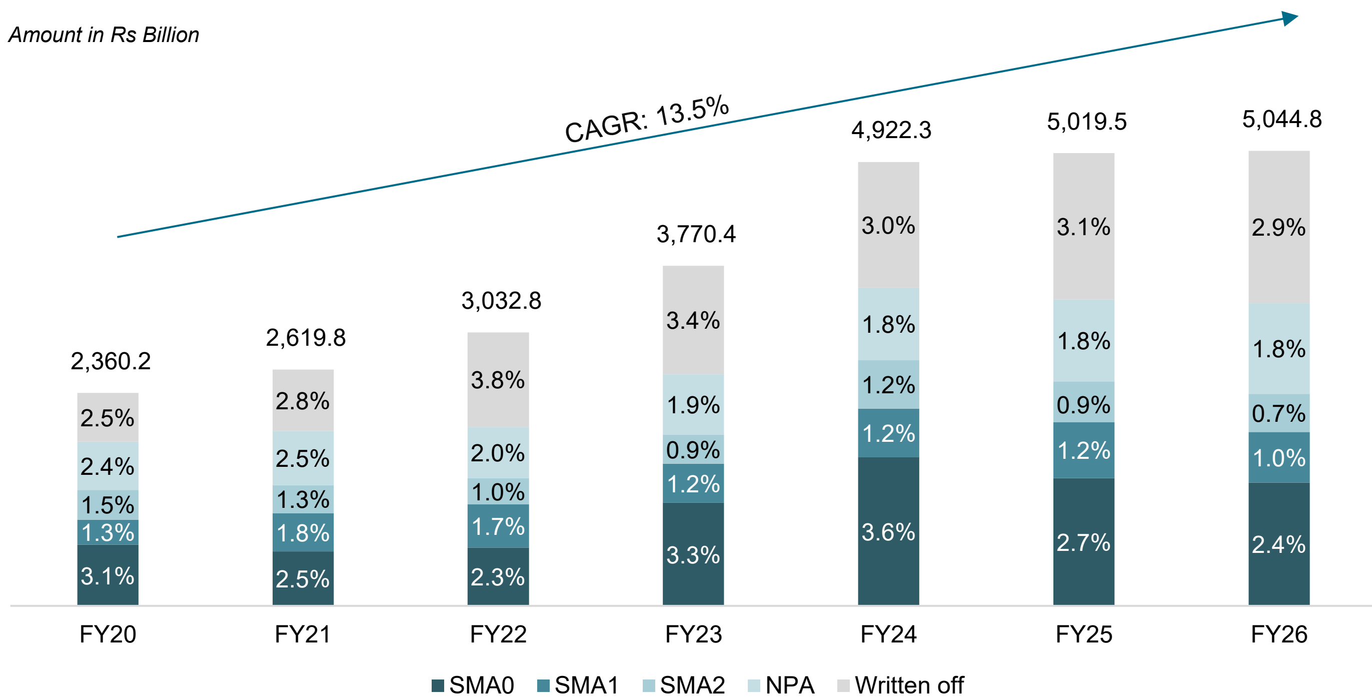
As per the latest Financial Stability Report of RBI, there was an improvement in stress levels of the microfinance sector during FY26, with 31-180 DPD falling to 2.0% (as of March 31, 2026) from 6.2% (as of March 31, 2025). However, borrowers who availed loans from multiple lenders with high credit exposure continued to be high. As per the 3rd quarterly Microfinance report of FY 2025-26 released by Sa-Dhan (RBI appointed Self-Regulatory organization for MFIs), trends of delinquencies indicate that 90+ DPD levels of the industry reduced to 2.4%. However, 180+ DPD levels of the industry increased to 16.7% respectively.

The overall microfinance industry contracted by ~13% in FY26, with the extent varying across lender categories. Banks significantly reduced their microfinance exposure, while NBFC-MFIs showed relatively better resilience, with early signs of stabilization emerging during the year. GNPA for key NBFC-MFIs improved to ~3% in FY26 from ~5% in FY25, driven by elevated write-offs, lower borrower overleveraging, and tighter underwriting standards. CRISIL Intelligence expects GNPA to decline further to ~2.6-2.8% in FY27 and ~2.4-2.6% in FY28, with overall industry credit outstanding projected to grow by 18-22% in FY27 and 19-23% in FY28.

Overall stressed assets in Banks under the Retail Segment under control in FY25 and FY26

Despite the increase in size of retail loan books, banks are witnessing a general trend of improving asset quality in FY25 and FY26. However, rapid retail lending growth in recent years, particularly unsecured loans, has heightened medium-term risks for banks.

Trend of Retail Stressed Assets and Write-offs over the years across Banks



Note: % is the share of each SMA 0, SMA1, SMA2, NPA and written off with respect to the total outstanding retail portfolio of that year. Retail portfolio here includes Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (Personal loan and short term personal loan); Small Finance Banks are not included in Banks.
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under Retail segment across Banks

(Amount in Rs Billion)

Type of Stress	FY20	FY21	FY22	FY23	FY24	FY25	FY26	CAGR % (FY20 to FY26)
SMA0	676.6	602.9	646.0	1,142.5	1,648.9	1,416.6	1,367.5	12.4%
SMA1	279.6	424.7	478.0	432.6	536.7	621.0	559.2	12.2%
SMA2	330.6	310.2	290.9	323.5	536.1	452.1	424.3	4.2%
NPA	532.8	601.8	567.7	668.8	806.6	908.8	1,004.0	11.1%
Written off	540.6	680.3	1050.3	1,203.0	1,394.0	1,621.0	1,689.8	20.9%
Total Stress	**2,360.2**	**2,619.8**	**3,032.8**	**3,770.4**	**4,922.3**	**5,019.5**	**5,044.8**	**13.5%**
Total Outstanding	**21,878.6**	**24,009.2**	**27,770.3**	**35,083.7**	**45,989.8**	**51,816.9**	**57,313.9**	**17.4%**

Note: Retail portfolio here includes Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (includes short term personal loans); Small Finance Banks are not included in Banks.

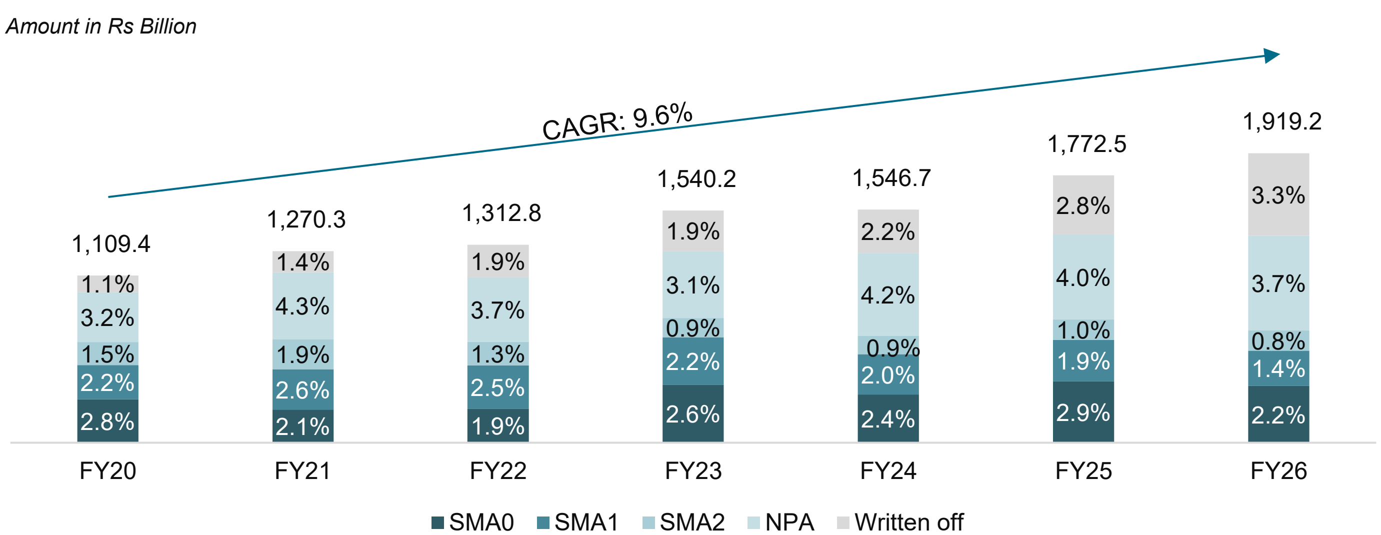
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

In respect of Scheduled Commercial Banks (excluding Small Finance Banks), overall stress under Retail segment (includes 6 segments – Housing loans, Vehicle loans, Consumer loans, Credit cards, educational loans, Personal loans) grew at a CAGR of 17.4% over the last 6 years from ~Rs. 2.4 Trillion, as of March 31, 2020 to ~Rs. 5.0 Trillion, as of March 31, 2026. NPA under this segment grew at a CAGR of 11.1% over the last 6 years from ~Rs. 0.5 Trillion to ~Rs. 1.0 Trillion.

NBFCs have witnessed a rise in stressed assets under Retail segment in the last few years

The stress under the retail segment of NBFCs in the last few years has been primarily driven by rising delinquencies in unsecured lending segment.

Trends of Retail Stressed Assets and Write-offs over the years across NBFCs



Note: % is the share of each SMA 0, SMA1, SMA2, NPA and written off with respect to the total outstanding retail portfolio of that year. Retail portfolio here includes Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (includes short term personal loans); Here NBFCs include Housing Finance Companies (HFCs) as well.
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under Retail segment across NBFCs

(Amount in Rs Billion)

Type of Stress	FY20	FY21	FY22	FY23	FY24	FY25	FY26	CAGR % (FY20 to FY26)
SMA0	288.2	220.0	224.3	383.9	319.4	409.6	375.9	**4.5%**
SMA1	227.0	266.3	288.7	314.6	266.8	275.6	234.7	**0.6%**
SMA2	152.4	200.4	156.1	129.1	121.3	135.8	135.2	**-2.0%**
NPA	331.9	444.0	427.7	443.5	549.6	563.1	627.2	**11.2%**
Written off	109.8	139.6	216.1	269.1	289.6	391.5	549.2	**30.6%**
Total Stress	**1,109.4**	**1,270.3**	**1,312.8**	**1,540.2**	**1,546.7**	**1,772.5**	**1,919.2**	**9.6%**
Total Outstanding	**10,450.8**	**10,309.9**	**11,587.3**	**14,514.4**	**13,184.4**	**14,140.9**	**16,790.1**	**8.2%**

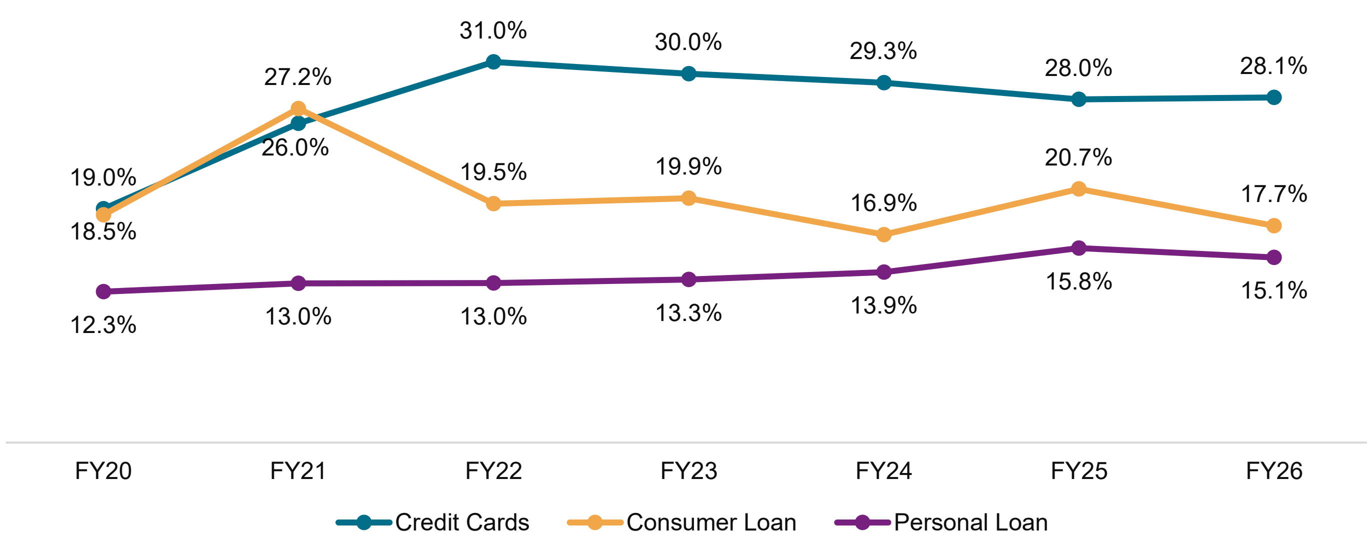
Note: Retail portfolio here includes Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (includes short term personal loans); Here NBFCs include Housing Finance Companies (HFCs) as well; The dip in overall Retail figures during FY 2024 is primarily because of the merger of a HFC (having AUM of ~ Rs. 6 lac crores) with a Bank
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

In respect of NBFCs (including HFCs), overall stress under Retail segment (includes 6 segments – Housing loans, Vehicle loans, Consumer loans, Credit cards, educational loans, Personal loans) has grown at a CAGR of 9.6% over the last 6 years from ~Rs. 1.1 Trillion, as of March 31, 2020, to ~Rs. 1.9 Trillion, as of March 31, 2026. NPA under this segment grew at a CAGR of 11.2% over the last 6 years from ~Rs. 0.3 Trillion to ~Rs. 0.6 Trillion.

Banks and NBFCs are witnessing increasing stress levels across different sub-categories under Retail segment

The retail portfolio is dominated by four key categories – Housing, Personal Loans, Vehicle Loans and Credit Cards, which collectively account for a major share of the overall portfolio. Notably, the unsecured lending segment within the retail portfolio has mostly seen higher stress levels compared to FY20 as evident from the chart below.

Trend of Stressed assets (in select Retail categories) across Banks & NBFCs, over the years



Note: % is the sum of SMA0, SMA1, SMA2, NPA, Written off with respect to total outstanding of each category.
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

A significant proportion of borrowers who have availed credit cards and personal loans also have outstanding high-ticket loans, such as housing and vehicle loans. In the event of a default on any loan, all other loans held by the borrower with the same bank, including standard loans, will be classified as non-performing. This means that even larger, secured loans can face delinquency risks due to defaults on smaller, unsecured personal loans. This interconnectedness of loans highlights the potential for a ripple effect, where defaults in one category of loans can have a broader impact on the bank's portfolio.

Category Wise Stress Levels in Retail Segment, across Banks & NBFCs during FY20 to FY26

(Amount in Rs Billion)

Retail Category		FY20	FY21	FY22	FY23	FY24	FY25	FY26	CAGR % (FY20 to FY26)
Housing Loan	Total Stress	1,621.3	1,687.0	1,788.7	2,128.7	2,493.0	2,302.3	2,227.2	**5.4%**
	Total Outstanding	**19,248.2**	**20,336.5**	**23,038.8**	**28,162.2**	**32,723.7**	**36,982.9**	**41,333.6**	**13.6%**
Vehicle Loan	Total Stress	654.3	668.6	681.4	679.7	793.8	766.1	779.4	**3.0%**
	Total Outstanding	**4,782.8**	**4,618.4**	**5,031.0**	**6,246.3**	**7,571.9**	**7,780.8**	**8,876.3**	**10.9%**
Credit Cards	Total Stress	309.5	450.8	596.1	832.0	1,014.7	1,112.1	1,134.4	**24.2%**
	Total Outstanding	**1,625.4**	**1,732.8**	**1,922.0**	**2,769.2**	**3,461.5**	**3,976.9**	**4,033.7**	**16.4%**
Consumer Loan	Total Stress	81.8	101.1	88.7	107.8	131.9	175.7	186.0	**14.7%**
	Total Outstanding	**440.9**	**371.5**	**456.0**	**541.2**	**777.9**	**850.4**	**1,052.1**	**15.6%**
Personal Loan	Total Stress	666.9	838.6	1,041.3	1,423.6	1,815.1	2,273.1	2,484.1	**24.5%**
	Total Outstanding	**5,422.1**	**6,460.7**	**8,006.0**	**10,713.3**	**13,068.1**	**14,341.6**	**16,459.8**	**20.3%**
Student Loan	Total Stress	135.8	144.0	149.3	138.8	170.2	161.7	152.8	**2.0%**
	Total Outstanding	**810.0**	**799.2**	**903.9**	**1,165.9**	**1,570.9**	**2,025.2**	**2,348.5**	**19.4%**

Note: Vehicle loan includes Auto Loan and used car loan.
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

The stress in unsecured lending segment, comprising consumer loans, personal loans, and credit cards, has witnessed a rapid growth, with a CAGR of 14.7%, 24.5% and 24.2%, respectively, between FY20 to FY26. This growth has been driven, in part, by the overleveraging of low-income borrowers, who have taken on multiple unsecured loans. As a result, the segment's vulnerability to defaults and delinquencies has increased.

2.3.3 Trend of stressed assets in Banks and NBFCs under MSME and Corporate segments during FY22 to FY26

In the previous subsection 2.3.2, we have considered Consumer Bureau data shared by Experian in respect of the following categories - Housing Loan, Vehicle Loans (Used car, Auto loans), Consumer loans, Credit cards, Student Loan and Personal Loans (includes short term personal loans) and the microfinance data from NABARD to analyze the overall stressed assets under Retail segment of both banks and NBFCs.

In this subsection, we have considered the following credit bureau data (shared by Experian) to analyze and estimate stressed assets under segments other than Retail i.e. MSME and Corporate:

a) 6 categories under consumer bureau data are considered as MSME (individual) – Business Loans (General), Business Loans (Secured), Business Loans (Unsecured), Commercial Vehicle Loans, Commercial Equipment Loans, Loans against Property (LAP)

b) Commercial bureau data (<= Rs. 500 million loans exposure) is considered as MSME (commercial)

c) Commercial bureau data (> Rs. 500 million loans exposure) is considered as Corporate segment – this has been arrived by deducting (b) from overall commercial bureau data shared by Experian

a) Trend of Stress levels under MSME segment (individual) in Banks and NBFCs during FY22 to FY26

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA0	471.2	538.9	781.8	908.3	875.8	16.8%
SMA1	354.8	321.8	1,169.7	941.8	528.6	10.5%
SMA2	224.6	172.9	281.6	336.3	348.5	11.6%
NPA	1,232.9	1,275.5	1,122.5	1,322.3	1,693.1	8.3%
W/O	418.3	617.1	763.8	924.8	1,008.2	24.6%
Total stress	**2,701.8**	**2,926.2**	**4,119.4**	**4,433.4**	**4,454.2**	**13.3%**
Total outstanding	**11,761.2**	**15,873.2**	**21,888.8**	**29,401.1**	**36,217.2**	**32.5%**

Note: MSME segment (individual) here includes Business Loans (General), Business Loans (Secured), Business Loans (Unsecured), Commercial Vehicle Loans, Commercial Equipment Loans, Loans against Property (LAP); SFBs are not included in Banks
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under MSME segment (individual) in Banks

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA0	180.5	214.4	391.4	364.6	380.2	20.5%
SMA1	152.9	143.1	177.1	252.9	265.8	14.8%
SMA2	91.2	72.3	185.3	191.9	199.5	21.6%
NPA	404.9	400.4	691.6	793.5	1,072.7	27.6%
W/O	320.7	460.3	582.9	691.5	716.2	22.2%
Total stress	**1,150.2**	**1,290.5**	**2,028.2**	**2,294.4**	**2,634.4**	**23.0%**
Total outstanding	**6,273.3**	**8,390.6**	**12,238.1**	**17,719.6**	**21,913.6**	**36.7%**

Note: MSME segment (individual) here includes Business Loans (General), Business Loans (Secured), Business Loans (Unsecured), Commercial Vehicle Loans, Commercial Equipment Loans, Loans against Property (LAP); SFBs are not included in Banks
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under MSME segment (individual) in NBFCs

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA0	290.8	324.5	390.4	543.7	495.6	14.3%
SMA1	201.9	178.7	992.6	688.9	262.8	6.8%
SMA2	133.3	100.7	96.4	144.4	149.0	2.8%
NPA	828.0	875.1	430.9	528.7	620.4	-7.0%
W/O	97.6	156.8	180.9	233.3	292.0	31.5%
Total stress	**1,551.6**	**1,635.7**	**2,091.2**	**2,139.1**	**1,819.9**	**4.1%**
Total outstanding	**5,487.8**	**7,482.6**	**9,650.6**	**11,681.5**	**14,303.7**	**27.1%**

Note: MSME segment (individual) here includes Business Loans (General), Business Loans (Secured), Business Loans (Unsecured), Commercial Vehicle Loans, Commercial Equipment Loans, Loans against Property (LAP); SFBs are not included in Banks
Source: Consumer Bureau Data shared by Experian, CRISIL Intelligence

b) Trend of Stress levels under MSME segment (commercial) in Banks and NBFCs during FY22 to FY26

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA0	868.5	839.5	989.6	1,002.6	1090.8	5.9%
SMA1	292.7	302.4	314.4	542.4	558.5	17.5%
SMA2	105.6	129.6	166.2	202.8	214.5	19.4%
NPA	879.0	349.6	334.1	252.4	247.6	-27.1%
Written off	1,987.1	2,180.9	2,508.3	2,406.8	2,592.3	6.9%
Total Stress	**4,132.9**	**3,802.0**	**4,312.7**	**4,407.0**	**4,703.7**	**3.3%**
Total Outstanding	**29,438.0**	**32,298.5**	**36,697.2**	**40,366.5**	**45,981.0**	**11.8%**

Note: Commercial bureau data (<=Rs. 50 crores loans exposure) is considered as MSME segment (commercial) here; 180+ DPD loans and 90+ DPD (up to 180 days) were considered as written offs and NPAs respectively by bureau.
Source: Commercial Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under MSME Segment (Commercial)- Banks

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA0	814.9	787.2	927.7	867.3	932.2	3.4%
SMA1	251.0	264.1	284.8	479.7	485.1	17.9%
SMA2	82.4	116.0	154.6	169.2	176.2	20.9%
NPA	819.5	296.7	295.4	193.8	185.5	-31.0%
Written off	1,796.2	2,003.6	2,331.3	2,143.0	2,223.0	5.5%
Total Stress	**3,764.1**	**3,467.7**	**3,993.9**	**3,853.0**	**4,002.0**	**1.5%**
Total Outstanding	**26,961.4**	**30,034.9**	**33,732.2**	**35,546.4**	**39,810.9**	**10.2%**

Note: Commercial bureau data (<=Rs. 50 crores loans exposure) is considered as MSME segment (commercial) here; 180+ DPD loans and 90+ DPD (up to 180 days) were considered as written offs and NPAs respectively by bureau.
Source: Commercial Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under MSME Segment (Commercial)- NBFCs

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA -0	53.7	52.4	61.9	135.3	158.6	31.1%
SMA -1	41.7	38.3	29.6	62.6	73.4	15.2%
SMA -2	23.1	13.5	11.6	33.6	38.3	13.5%
NPA	59.5	52.9	38.7	58.6	62.1	1.1%
Written off	190.9	177.2	177.0	263.8	369.3	17.9%
Total Stress	**368.9**	**334.3**	**318.7**	**554.0**	**701.7**	**17.4%**
Total Outstanding	**2,476.7**	**2,263.6**	**2,965.0**	**4,820.0**	**6,170.1**	**25.6%**

Note: Commercial bureau data90 (<=Rs. 50 crores loans exposure) is considered as MSME segment (commercial) here; 180+ DPD loans and 90+ DPD (up to 180 days) were considered as written offs and NPAs respectively by bureau.
Source: Commercial Bureau Data shared by Experian, CRISIL Intelligence

Based on tables from (a) and (b), estimated MSME credit (individual + commercial) outstanding grew at a CAGR of ~18.8% from ~Rs. 41.2 Trillion as of March 31, 2022 to ~Rs. 82.2. Trillion as of March 31, 2026.

Total NPA under this segment (individual + commercial) as of March 31, 2026 is ~Rs. 1.9 Trillion. In respect of MSME segment under both Banks and NBFCs, overall stress grew at a CAGR of ~7.6% from FY22 to FY26, rising from ~Rs. 6.8 Trillion, as of March 31, 2022 to ~Rs. 9.2 Trillion, as of March 31, 2026.

In respect of both Retail and MSME segments, RBI's new Expected Credit Loss (ECL) provisioning framework is likely to trigger further sale of stressed assets. We have discussed more on this in section 3.6.

c) Trend of Stress levels under corporate segment in Banks and NBFCs during FY22 to FY26

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA -0	514.9	346.8	581.6	589.6	626.3	5.0%
SMA -1	374.3	82.0	67.9	234.1	394.9	1.3%
SMA -2	12.4	19.5	57.2	63.2	28.9	23.6%
NPA	1,169.2	131.8	155.5	162.6	83.9	-48.2%
Written off	4,825.3	4681.8	5,649.9	5,426.8	6,419.8	7.4%
Total Stress	**6,896.1**	**5,261.9**	**6,512.2**	**6,476.4**	**7,553.9**	**2.3%**
Total Outstanding	**73,635.3**	**75,004.5**	**88,598.7**	**99,385.0**	**122,045.3**	**13.5%**

Note: Commercial bureau data (>Rs. 50 crores loans exposure) is considered as corporate segment here;180+ DPD loans and 90+ DPD (up to 180 days) were considered as written offs and NPAs respectively by bureau.
Source: Commercial Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under corporate segment in Banks

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA -0	507.4	326.1	558.8	427.5	404.9	-5.5%
SMA -1	111.6	56.2	61.0	211.4	104.5	-1.6%
SMA -2	8.5	18.9	56.2	45.0	17.5	19.8%
NPA	1,010.0	83.3	145.0	89.4	37.2	-56.2%
Written off	4,354.4	4,457.0	5,417.1	4,890.3	5,356.1	5.3%
Total Stress	**5,991.8**	**4,941.4**	**6,238.2**	**5,663.6**	**5,920.2**	**-0.3%**
Total Outstanding	**67,191.2**	**73,407.2**	**84,711.3**	**91,133.8**	**105,415.5**	**11.9%**

Note: Commercial bureau data (>Rs. 50 crores loans exposure) is considered as corporate segment here;180+ DPD loans and 90+ DPD (up to 180 days) were considered as written offs and NPAs respectively by bureau.
Source: Commercial Bureau Data shared by Experian, CRISIL Intelligence

Stress levels under corporate segment in NBFCs

(Amount in Rs Billion)

Type of Stress	FY22	FY23	FY24	FY25	FY26	CAGR % (FY22 to FY26)
SMA -0	7.5	20.7	22.9	162.1	221.4	133.1%
SMA -1	262.7	25.8	6.9	22.7	290.4	2.5%
SMA -2	3.9	0.6	1.0	18.2	11.4	30.8%
NPA	159.2	48.5	10.5	73.2	46.7	-26.4%
Written off	471.0	224.8	232.8	536.5	1,063.7	22.6%
Total Stress	**904.3**	**320.5**	**274.0**	**812.8**	**1,633.7**	**15.9%**
Total Outstanding	**6,444.1**	**1,597.3**	**3,887.5**	**8,251.2**	**16,629.8**	**26.7%**

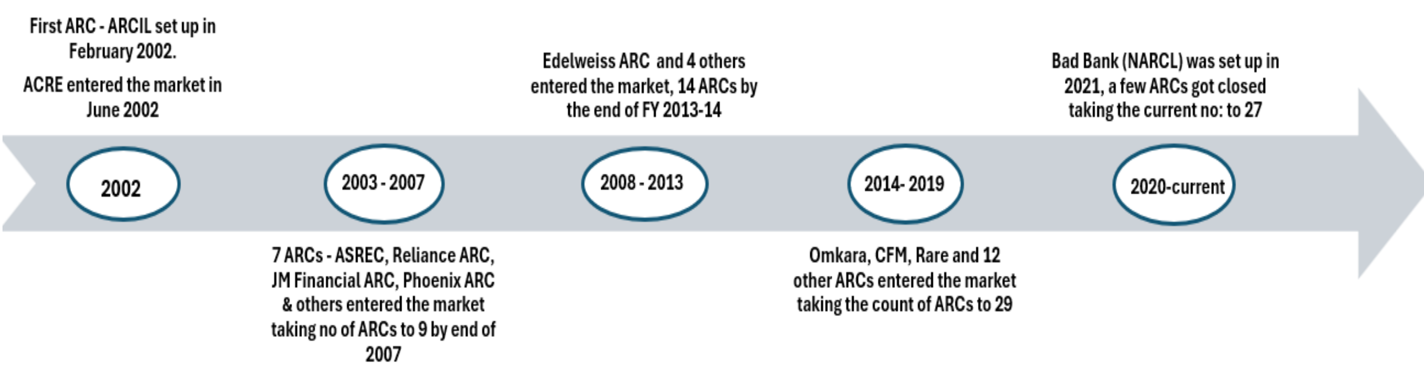
Note: Commercial bureau data (>Rs. 50 crores loans exposure) is considered as corporate segment here;180+ DPD loans and 90+ DPD (up to 180 days) were considered as written offs and NPAs respectively by bureau.
Source: Commercial Bureau Data shared by Experian, CRISIL Intelligence

3. ARC Industry Evolution and Market Scenario

3.1 Background – conceptualization and creation of ARCs

The concept of Asset Reconstruction Companies (ARCs) originated from the 2nd Narasimham Committee's 1998 report, which identified the pressing need to address the mounting Non-Performing Assets (NPAs) that were crippling the banking sector's profitability. Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was introduced in 2002 to streamline the recovery process and eliminate the need for external (judicial) intervention.

SARFAESI enabled Banks/FIs to enforce their rights on securities without the intervention of courts. SARFAESI Act also laid the legal groundwork for the establishment of ARCs in India. The primary objective of ARCs is to acquire and manage Stressed assets i.e. non-performing assets (NPAs), Special Mention Accounts (SMA 0/1/2), and written-off accounts, from Banks/ FIs. By offloading these stressed assets to ARCs, Banks/FIs will be able to remove them from their balance sheets, thereby liberating their capital and resources to concentrate on their core lending activities. Subsequently the acquisition of these stressed assets, ARCs employ a range of recovery strategies, including restructuring, exercising rights over underlying collateral, and negotiating settlements, with the aim of maximizing recoveries and optimizing asset values. To operate as an ARC, an entity must obtain registration from the Reserve Bank of India (RBI) under Section 2 of the SARFAESI Act, 2002.



Source: CRISIL Intelligence

The ARC industry in India began taking shape in 2002, with the first ARC, Asset Reconstruction Company (India) Limited (ARCIL), commencing operations in February 2002. This was soon followed by the establishment of the second ARC, Assets Care & Reconstruction Enterprise Limited, in June 2002. Over the next few years, the industry expanded rapidly and today the ARC industry in India comprises 27 operational ARCs, managing assets worth approximately Rs 1.33 trillion as of March 2026.

3.2. Operating and Business Models of an ARC:

3.2.1 Pre-Acquisition process:

Banks/FIs[1] express interest in selling a pool of Bad Loans or a single Big Bad Loan

Banks/FIs identify stressed assets that are unlikely to be recovered through their own efforts and decide to sell them to ARCs to clean up their balance sheets and enhance capital adequacy. This enables them to focus more on their core business activities. Banks/FI use different mechanisms such as auctions and private negotiations to solicit bids from ARCs.

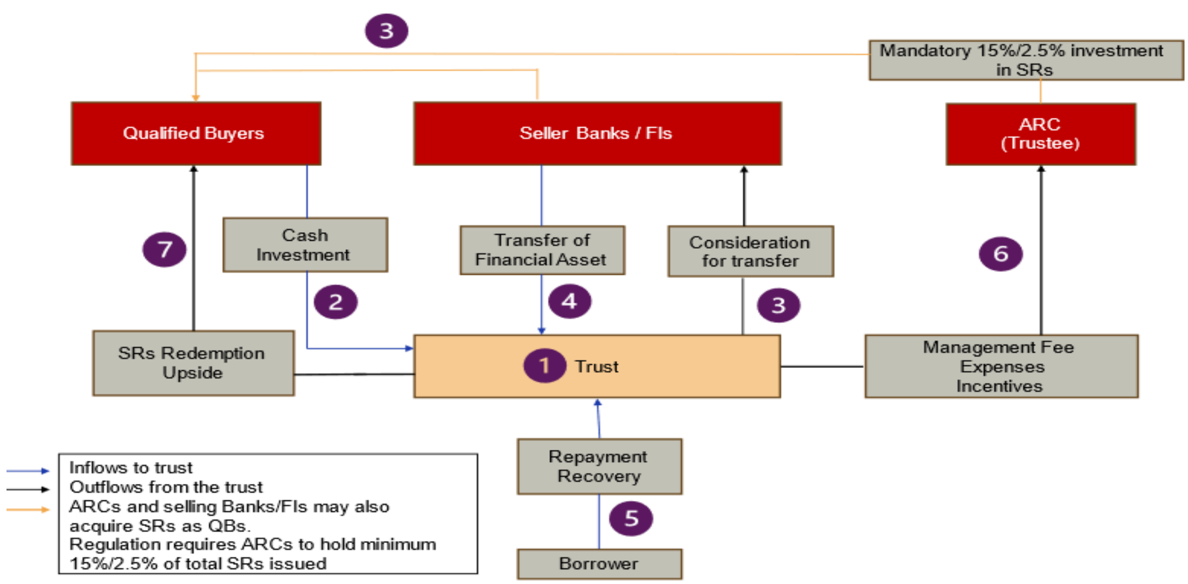
Due diligence by an ARC interested in buying stressed assets

To evaluate the potential for recovery of a stressed asset, the ARC conducts a due diligence exercise which involves:

- Reviewing loan documents and collateral to identify any irregularities
- Assessing the status of ongoing litigations and SARFAESI actions
- Analyzing the borrower's financials, business prospects, and industry trends (for large corporate exposures)
- Estimating the expected recovery value to determine a viable purchase price

This thorough assessment enables the ARC to make an informed bidding decision, based on a robust evaluation of the asset's recovery potential. Following due diligence, the ARC submits a bid to the Bank/FI, typically at a discount on the loan's book value to account for risk and recovery costs. If the Bank/FI is satisfied with the ARC's pricing and track record, it accepts the bid and proceeds with the sale, transferring the stressed assets from its balance sheet to the ARC's portfolio.

3.2.2 Acquisition/Post-Acquisition process – understanding the operating and business models of an ARC:



Source: RBI 2021 report on ARCs

[1] *FIs (Financial Institutions) here refer to as NBFCs, HFCs, and MFIs*

1 Setting up Trust

Once a bank accepts the ARC's bid, the acquisition phase begins, where the stressed asset is transferred to the ARC. In this regard, a trust is set up by the ARC for the purpose of acquisition and securitization of financial assets.

2 Subscription of SRs as investment:

In the process of acquiring stressed assets, the ARC via this trust issues SRs to the Banks/FIs that are divesting these assets, as well as to other eligible investors, known as Qualified Buyers (QBs), which include NBFCs, HFCs, Insurance companies, mutual fund companies, etc. These SRs represent an undivided interest in the underlying assets, conferring a proportionate right, title, and interest in the assets to the holders of the SRs. The acquisition of stressed assets is typically undertaken at auction price, and the ARC with the highest bidder gets the opportunity to acquire the asset.

ARCs acquire stressed assets through different structures, as mentioned below:

Acquisitions where the Bank/FI selling the stressed assets is not an investor:

- **ARC as sole acquirer***:* These are acquisitions in which all the SRs issued by the trust are subscribed by ARC and the returns of the trust belong to ARC, as they are the sole subscriber of security receipts.
- **Co-Investor Acquisitions**: Co-investor acquisitions typically involve the subscription of SRs by ARC and one or more QBs other than the seller of the stressed assets and the returns are shared by ARC in proportion of ARC holdings of the security receipts.

For transactions on 100% cash basis, minimum contribution by an ARC currently stipulated by the regulator is 2.5% of total SRs issued in each class and scheme.

Acquisitions where the Bank/FI selling the stressed assets is an investor:

- **Ordinary Security Receipts Acquisitions***:* Acquisitions where the SRs are subscribed by ARC and the seller of the stressed assets, and the returns are shared by ARC in proportion of ARC holdings of the security receipts.
- **Structured Acquisitions***:* ARCs and the sellers of stressed assets generally subscribe to SRs, as observed in the previous case. However, a notable distinction in this context is that ARCs are entitled to receive relatively higher management fees and resolution fees, commensurate with the greater efforts and complexities involved in facilitating recoveries from the underlying assets. Moreover, Internal Rate of Return (IRR) of ARCs are generally capped in these deals.
- ARCs shall, invest in the SRs at a minimum of either 15% of the transferors’ investment in the SRs or 2.5% of the total SRs issued, whichever is higher, of each class of SRs issued by them under each scheme.

3 Consideration for Transfer:

Based on the type of acquisition, funds are received by the ARC trust from the ARC, Selling bank and QBs towards the purchase of the stressed asset. These entities in turn subscribe to the SRs issued by the trust against the extent of consideration received from each of them.

4 Transfer of Financial Asset

Upon receipt of the consideration proceeds by the selling Bank/FI, the transfer of financial assets to the ARC is formally executed. Subsequent to this transfer, the ARC assumes the role of primary agent responsible for recovery, thereby taking on the primary responsibility for realizing value from the transferred assets and facilitating the recovery process.

5 Repayment Recovery

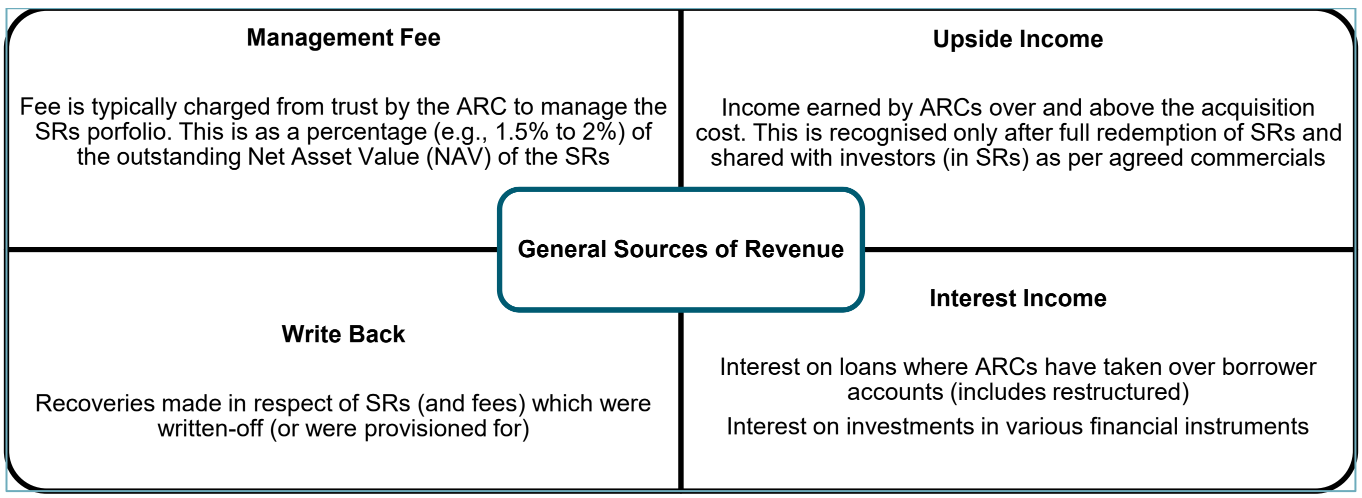
Once the ARC acquires an NPA account/pool of accounts, it implements the following recovery or resolution strategies to redeem the SRs:

a) Loan Restructuring: This process involves revising the repayment schedule, lowering interest rates, providing partial waivers of dues, etc. considering the underlying fundamentals and financials of the specific borrower. Post restructuring, ARC continues to monitor recovery of loans.
b) Sale of underlying Assets: If the borrower does not comply to the repayment schedule in respect of secured loans, the ARC can initiate SARFAESI related actions to recover dues by selling or leasing the borrower's assets. The SARFAESI Act applies in respect of recovering outstanding debts (backed by assets) of at least Rs 0.1 million (for banks) or Rs 2 million (for NBFCs) that are classified as NPAs. When an account turns NPA, the Bank/FI issues a 60-day demand notice to the borrower, after which it can take possession of secured assets if repayment is not made. The Bank/FI can then sell or lease these assets to recover dues through auctions.
c) Legal Action: ARC can recover loans through legal mechanisms such as Debt Recovery Tribunals (for defaults amounting to Rs 2 million and above). The process involves the bank/FI submitting an application to the DRT, which then sends a notice to the borrower, allowing them to respond and present their case. The DRT delivers a judgment in the form of a recovery certificate, which can be enforced through measures such as selling the borrower's assets if not followed. Banks/FIs can also leverage the Insolvency and Bankruptcy Code (IBC) in applicable cases (explained in detail in 3.3.2).
d) One Time Settlement (OTS): ARC may also opt for OTS when recovery prospects are low. ARCs leverage Lok Adalats as well for this mode of recovery. Lok Adalats provides an alternative dispute resolution mechanism where parties, including banks/FIs and borrowers, resolve disputes amicably through informal discussions facilitated by a panel. The goal is to reach a mutually acceptable agreement, which, if achieved, is legally binding and equivalent to a court decree. Banks/FIs often use Lok Adalats to settle small-ticket loans, typically up to Rs 2 million.

The adoption of innovative technologies, such as artificial intelligence and data analytics, is revolutionizing the debt resolution approaches (specially in respect of unsecured Retail loans) of ARCs. By leveraging these cutting-edge tools, ARCs are streamlining their operations, improving their ability to manage debt recovery processes, and ultimately increasing their overall efficiency and effectiveness.

6 Revenue Model of an ARC

During the process of recovery, an ARC earns revenue through various means, as depicted here below:



7 Redemption of SRs

The ARC uses the recovery proceeds (collected from various methods mentioned above in Point 5) to redeem Security Receipts in a phased manner. In case the SRs are not redeemed within 8 years (for private ARCs), SRs which are still held are classified as loss assets and written off from the books. However, Qualified Buyers (who hold at least 75% of the total value of SRs) can invoke the provisions of Section 7(3) of the SARFAESI Act, to convene a meeting of all QBs and pass a resolution that is binding on the ARC. After complete resolution of all the stressed assets in the trust, the ARC closes the trust completing administrative, legal, and accounting formalities.

Regulatory Guidelines:

To ensure smooth and sustainable functioning of ARCs, RBI, under the powers provided by SARFAESI Act, 2002, issues guidelines on several aspects, most recently consolidated under the RBI (Asset Reconstruction Companies) Directions, 2025 dated November 28, 2025 - some of which are mentioned below:

1. Maintenance of minimum Net Owned Funds of Rs 3 Billion on an ongoing basis to ensure sufficient financial strength and a stable capital base.
2. Minimum Investment in SRs to be mandatorily done by ARCs involved in a transaction, to ensure commitment and recovery accountability.
3. Specific timeframe (8 years for private ARCs) to ensure timely resolution so that lenders can get considerable time to exit.
4. Capital Risk Adequacy Ratio (minimum of 15%), to ensure that ARCs are well capitalized relative to the riskiness of their asset portfolio.
5. A cap on management tenure, to ensure appointment and fitness of management to uphold strong governance and professionalism.
6. Income recognition guidelines to ensure conservative and realistic accounting practices.

3.3 From Nascent to Matured: the 3 Phases in evolution of ARCs (AUM and SRs issued/redeemed)

3.3.1 Nascent Phase (FY02 to FY13)

During this phase, ARCs were required to hold only 5% of the SRs issued, with the remaining 95% being typically subscribed by the transferor banks. The face value of SRs issued was typically not less than the amount of the loan outstanding, net of provisions held. As a result, the risk transfer from banks' books was incomplete, as they retained a significant proportion of the credit risk through the SRs. Although ARCs achieved some success in restructuring large accounts and recovering value through asset sales, the overall recovery rate was low, and the pricing of stressed assets was unattractive to banks. As a result, banks preferred to use internal recovery methods and loan restructuring, limiting the industry's progress during this phase. The ecosystem was still in its developmental stage. By the end of this phase, the industry's Assets Under Management (AUM) reached ~Rs 90 Billion only.

3.3.2 High Growth Phase (FY13 to FY19)

During this phase, the minimum requirement for ARC investments in SRs increased to 15% in August 2014 i.e. the industry shifted from 5:95 model to a 15:85 model. As a result, the capital requirement for ARCs increased significantly, as the regulator wanted ARCs to have more commitment.

AUM growth saw a takeoff from the second half of FY14, when there was a regulatory push for banks to clean up their balance sheets. AUM growth of the industry increased from ~Rs. 90 Billion at the beginning of this phase to ~Rs. 1,120 Billion by the end of this phase.

Key Regulatory initiatives introduced in Asset Reconstruction Industry during this phase:

Key Regulations	Impact on the industry
Management fees to be calculated on NAV rather than the outstanding value of SRs	Incentivizes ARCs to recover more - This is because the earnings of ARCs are directly tied to the asset's value
Reduction of planning period (to create a resolution plan) from 12 months to six months	Quicker resolution of stressed assets
FDI in ARCs increased to 100%	The government's decision to allow 100% FDI boosted foreign capital inflow and investor confidence, allowing greater participation and competition in the ARC sector

- Apart from the above regulations, this phase also saw the enactment of **Insolvency and Bankruptcy Code, 2016**, catering to corporate and individual defaults amounting to Rs. 10 million and above.
- Using IBC, creditors can seek recovery of dues from a company by initiating a Corporate Insolvency Resolution Process (CIRP) through the National Company Law Tribunal (NCLT). Post this, NCLT can appoint an Interim Resolution Professional (IRP) to temporarily manage the company's operations.
- The IRP verifies and lists creditor claims, constitutes a Committee of Creditors (COC) within 30 days, comprising financial creditors. COC then appoints a Resolution Professional (RP) and invites resolution applicants to submit plans to revive the company, which must be approved by the COC and implemented within 180 days (with a possible 90-day extension).
- Once a resolution plan is approved, it is presented to the NCLT for sanction, and upon approval, the plan is executed, becoming binding on the corporate debtor and all stakeholders, thereby completing the CIRP.

IBC aimed to provide a time-bound and efficient process for resolving insolvency cases, to benefit both creditors and borrowers. However, despite the aim of a time-bound resolution, delays often extend beyond the prescribed timeframe, leading to asset depreciation, lower recovery rates, and increased litigation costs.

As per Insolvency and Bankruptcy Board of India (IBBI), resolution timelines under the Corporate Insolvency Resolution Process (CIRP) continue to exceed the prescribed limits. As of March 2026, ~78% of ongoing CIRPs had already surpassed 270 days, highlighting persistent delays in the resolution process. In April 2026, the IBC (Amendment) Act, 2026 was enacted to address persistent challenges, introducing mandatory admission of insolvency applications by the NCLT with a prescribed timeline (14 days) once default is established, reducing delays and value erosion at the pre-admission stage. It also introduces provision for Creditor-Initiated Insolvency Resolution Process (CIIRP), an out-of-court, creditor-led mechanism enabling faster resolution in select cases. There is also a provision for enhanced Committee of Creditors (CoC) oversight, including restrictions on late withdrawal of applications.

Despite certain shortcomings, IBC helped create a new market for ARCs. IBC paved the way for attracting investors into the stressed-assets space. The IBC improved the credit culture over the eight years since its inception by resolving a considerable amount of stressed assets and the ARC industry is likely to have benefited significantly from this. Apart from its positive impact on improving credit quality, the implementation of the IBC can be credited with many path-breaking changes in the insolvency resolution process. It tilted the power equation in favor of creditors from debtors and helped strengthen India's insolvency resolution ecosystem.

3.3.3 Mature Phase (Post FY19)

The ARC industry underwent a significant transformation during this phase, driven by changes in the corporate and retail stressed asset landscapes. Initially, the industry experienced a decline in corporate stressed asset sales, primarily due to a decrease in corporate NPAs. Therefore, ARCs started focusing towards acquiring non-corporate stressed assets, particularly in the retail sector.

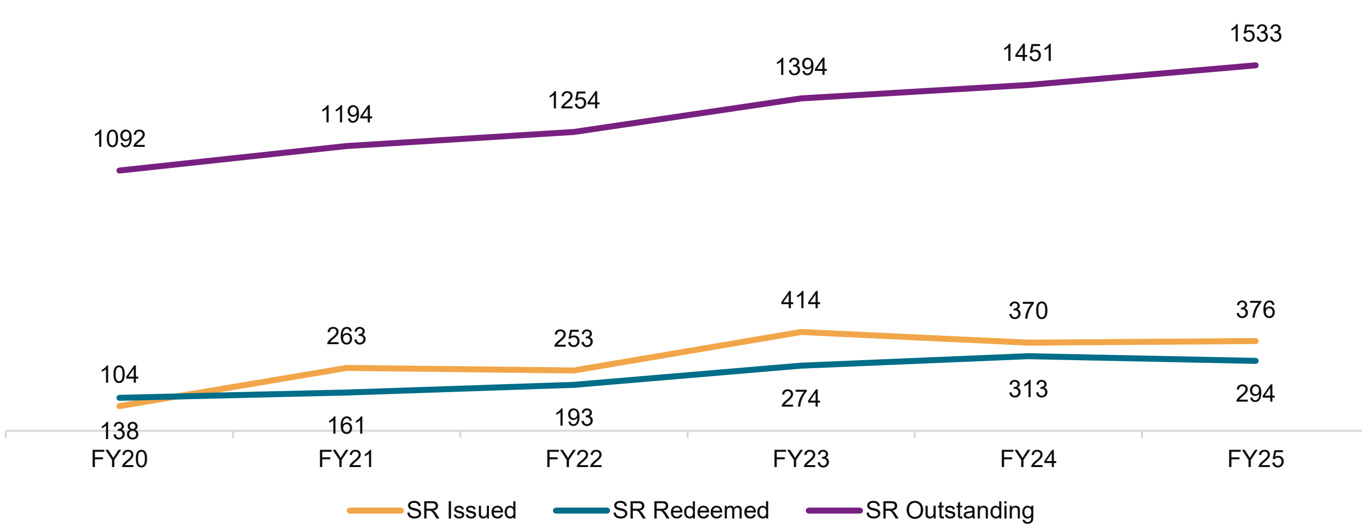
The COVID-19 pandemic and subsequent economic challenges led to a buildup of stress in the retail sector, creating new opportunities for ARCs. As a result, retail stressed assets became an increasingly important component of ARCs' portfolios.

The latter half of this phase saw the emergence of the National Asset Reconstruction Company Limited (NARCL). It was incorporated in July 2021 with majority stake (~84%) held by public sector banks in India, with the objective of cleaning up legacy stressed assets with an exposure of Rs. 5 Billion and above in the Indian banking system. The emergence of NARCL can lead to increased competition in the asset reconstruction sector, potentially affecting ability of private ARCs to acquire stressed assets at favorable prices. Furthermore, the SRs issued by this ARC are backed by the Government of India, which may make it a preferred choice for banks and financial institutions over other ARCs in India.

As on March 2026, NARCL acquired 33 borrower entities with an aggregate debt exposure of Rs. 1,65,862 crore and has also participated in resolution processes under the IBC. FY26 marked a significant acceleration in NARCL's recovery efforts, with Rs. 4,364 crore realized during the year, accounting for ~70% of its cumulative recoveries. However, the cumulative SR redemption for NARCL stands at 13.7% as of December 2025.

Trend on SRs Issued, Redeemed & O/s during last 5 years

(Amount Rs. in Billion)



Note: The numbers are rounded off to the nearest billion
Source: RBI-Reports on Trend and Progress of Banking in India

The industry witnessed strong SR issuance of Rs 370.3 Billion and Rs. 375.6 Billion in FY24 and FY25 respectively. However, the growth of AUM for ARCs has slowed down in the last few years due to a combination of factors, including a higher discount rate (on legacy corporate assets in particular) and an increase in SR redemptions due to improved recoveries mainly from low vintage stressed assets.

Key Regulatory initiatives introduced in Asset Reconstruction Industry during this phase:

Year	Month	Key Regulations	Impact on the industry
2022	Oct	**Investment in SRs issued by ARCs** - Minimum investment in SRs: 15% of transferor's investment or 2.5% of total SRs issued (whichever is higher)	A new alternative to the current 15% investment requirement in each Security Receipt (SR) scheme will allow ARCs to free up significant capital. This will enable them to expand their operations, enhance liquidity, and diversify their portfolios.
2022	Oct	**Improving Governance** - The tenure of an MD/ CEO/ whole-time director can be a maximum of 5 years at a time and a total of 15 years continuously and a cooling period of 3 years is mandated to reappoint the same person as MD/CEO/WTD in the same ARC	These measures will promote transparency and governance in ARC management by preventing the concentration of decision-making power.
2022	Oct	**Management Fee** - Fees and incentives paid to ARCs must be recovered solely from the proceeds of the underlying financial assets.	This will likely lead to increased fairness and transparency in income distribution, enabling ARCs to focus on faster asset resolution.

Year	Month	Key Regulations	Impact on the industry
2022	Oct	**RBI allows ARCs to acquire SMA-0 Accounts** - RBI allowed ARCs to acquire all types of stressed assets, including SMA-0 along with existing SMA-1 / SMA-2 / NPA	ARCs will be able to take swift action, resolving stressed accounts quickly and facilitating early recoveries. This will help avoid lengthy legal battles and improve overall efficiency.
2022	Oct	**RBI allows select ARCs to act as Resolution Applicant under IBC** - ARCs with a minimum NOF of Rs. 10 Billion are eligible for acting as Resolution Applicants	ARCIL, NARCL, JM Financial ARC, Phoenix and Edelweiss ARC are the only ARCs with NoF > Rs 10 Billion (as of March 31, 2025), making them eligible to participate in the IBC process as resolution applicants. This can give them an early advantage over others who are not yet eligible to participate in this process.
2022	Oct	**Net owned fund (NOF)** - RBI raises minimum capital requirement for ARCs from Rs. 1 Billion to Rs 3 Billion - Existing ARCs must achieve a NOF of Rs. 2 Billion by March 31, 2024, and Rs. 3 Billion by March 31, 2026, - Minimum NOF of Rs. 3 Billion should obtain a new certificate of registration for conducting ARC business	As of March 31, 2024, only 9 out of 27 ARCs, namely ARCIL, Edelweiss ARC, JM Financial, Phoenix, ACRE, Omkara, NARCL, CFM, and Pegasus, meet the eligibility criteria. Higher capital requirements may pose a challenge for smaller players, creating opportunities for stronger private players.
2025	Jan	**Settlement of dues payable by the borrower (> Rs. 10 Million)** - The RBI requires borrowers with dues over Rs. 10 Million to undergo a thorough evaluation by an Independent Advisory Committee (IAC) before settlement.	The revised framework will enhance transparency, credibility, and recovery efficiency across the industry.
2025	Jan	**Settlement of dues payable by the borrower (<Rs. 10 Million)** - For dues of Rs. 10 Million or less, ARCs can process settlements based on predefined criteria outlined in their Board-approved policy	It is likely to speed up the approval process, reduce costs, and improve recovery rates for small-ticket loans.
2025	Feb	**TDS Rate Slashed on Security Receipts** - The recent budget introduced a significant reduction in TDS on income from SRs, lowering it from 30% to 10% for entities other than individuals and HUFs	This move is likely to attract more investors to the distressed assets sector.
2025	Feb	**RBI Approves ARCs Listing Plans** - The RBI clarifies that ARCs can list their shares on the market, enabling them to raise equity capital and increase their liquidity and investor base	This move will open new avenues for capital raise and widen the investor base for security receipts. Players with strong financials and reputation can unlock higher value from markets.

Year	Month	Key Regulations	Impact on the industry
2025	Feb	**NBFCs, HFCs get nod to invest in ARC SRs** - SEBI has allowed all non-banking financial companies (NBFC), including Housing finance companies (HFC), to invest in security receipts issued by ARCs	The revised framework will lead to Increased liquidity and reduced funding costs in the distressed asset market, improved recovery rates and efficiency, Enhanced transparency and governance in ARC management and new opportunities for stronger private players to grow and consolidate.
2025	Nov	**RBI (Asset Reconstruction Companies) Directions, 2025** - Brings together all earlier ARC rules into one single rulebook. Sets stricter eligibility checks for sponsors and management, blocks investments from countries flagged by FATF, and requires ARC to follow a Fair Practices Code with fuller disclosures	The revised framework will lead ARCs from simple rule following to stronger overall governance and closer RBI oversight. It will also improve transparency.
2025	Nov	**RBI (ARC – KYC) Directions, 2025** -ARCs must now update customer KYC on a set schedule and send advance reminders before KYC is due. New customers: rule applies from January 1,2026. Existing low-risk customers: extra time given until June 30, 2026.	This regulation effectively tightens AML/KYC and anti-money-laundering discipline across the ARC sector.
2026	Mar	**RBI (ARC) Amendment Directions, 2026** -Issued to update the November 2025 rulebook - clarify the components considered in the computation of Owned Fund to assist ARCs	This amendment helps to improve clarity to ARCs in computation of owned fund.

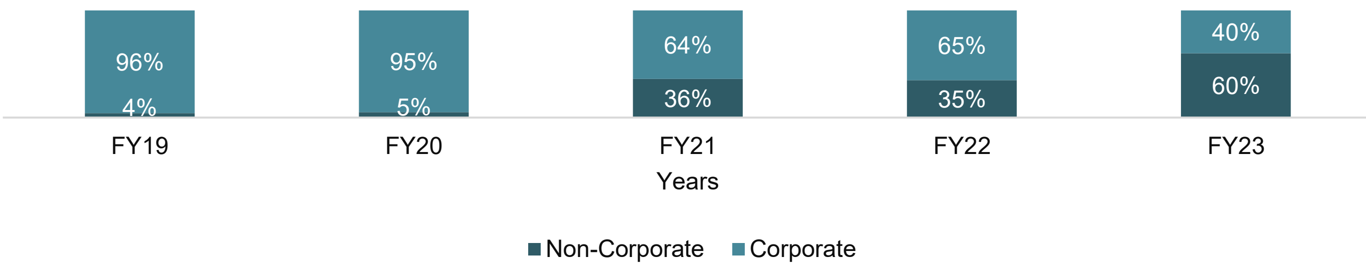
In recent years, the RBI and other regulatory bodies, including SEBI, have introduced several key regulations that are expected to boost the growth of the ARC industry while enhancing transparency and accountability.

3.4 Key trends observed in the evolution of ARCs during the last 4-5 years

3.4.1 Increasing share of SRs under non-corporate segments

The share of corporate debt in the overall size of SRs issued decreased from 64% in FY21 to 40% in FY23, primarily due to a decline in NPAs of large borrowers from 14.3% in FY19 to 3% in FY24. As per bureau data, the overall stress under Corporate segment is ~Rs. 6.5 Tn as of March 31, 2024, and the stress under non-Corporate segment is ~Rs. 14.9 Tn as of March 31, 2024.

Trend of SRs issued by Corporate and Non-Corporate (Retail & MSME) over the years

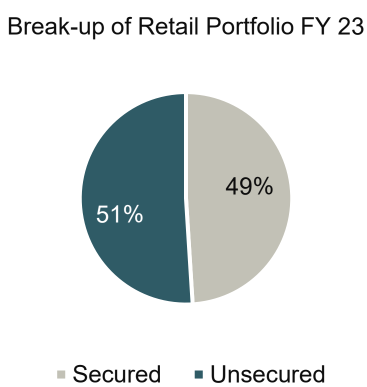


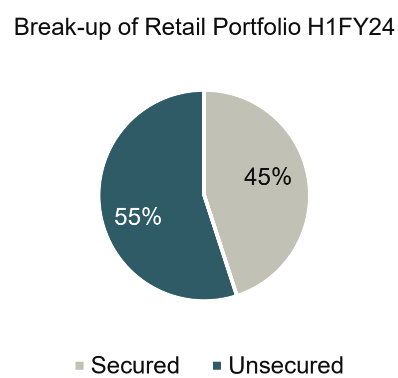
Source: CRISIL Ratings estimates based on rated ARCs constituting over 60% of industry AUM for FY23, FY22 and FY21 and 75% of Industry AUM for FY20 and FY19

The above chart indicates that stressed assets opportunity is shifting from Corporate to Non-Corporate loans. Retail segment in particular has been experiencing rising stress levels, mainly in unsecured loans such as personal loans and credit cards. Overall outstanding amount under Retail segment (includes Housing loans, Vehicle loans, Consumer loans, Credit cards, educational loans, and Personal loans) has grown at a CAGR of 15.7% over the last 5 years from ~Rs. 32 Trillion, as of March 2020 to ~Rs. 67 Trillion, as of March 31, 2025. The key drivers behind this trend include the over-reliance of borrowers, especially low-income individuals, on unsecured loans, leading to over-leverage and increased financial vulnerability.

The aforementioned shift (towards non-corporate) can also be attributed to the cyclical characteristics inherent to the ARC industry. This industry experiences substantial growth during periods when NPAs, predominantly of a corporate nature, reach a peak within the banking sector. Such peaks often coincide with economic downturns. Conversely, as corporate NPAs decline following an improvement in economic conditions, ARCs tend to redirect their focus towards Retail and SME stressed assets.

Component Wise Breakup of SRs issued under Retail (Secured/Unsecured)





Source: CRISIL Ratings estimates based on rated ARCs constituting over 60% of industry AUM

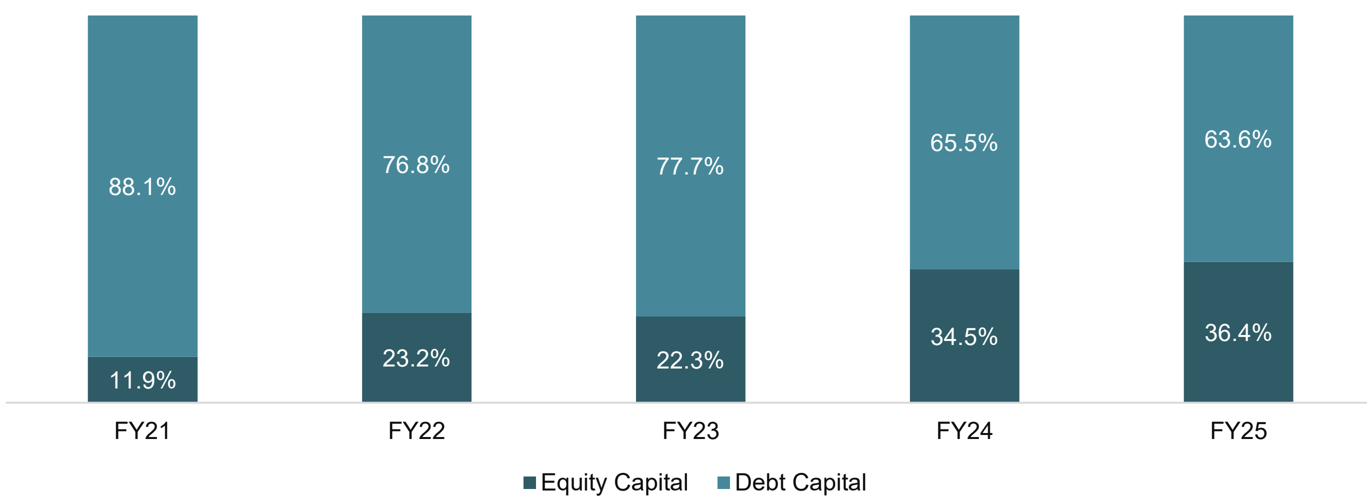
The asset quality of the retail segment (unsecured loans in particular) will likely remain a key monitorable going forward. According to the RBI's half-yearly Financial Stability Report (FSR) released in December 2024, ~50% of borrowers who have taken out credit cards and personal loans also have an outstanding high-value loan, typically in the form of a housing loan and/or vehicle loan.

3.4.2 Funding – increasing shift towards Equity

Funding is essential for ARCs, to drive growth in their AUM as it facilitates the acquisition of stressed assets, fulfils capital requirements for cash deals, and covers operational costs. Proper funding enhances the ability of an ARC to resolve and recover assets, while also enabling regulatory compliance.

Prior to FY19, Debt (NCDs and Bank borrowings) was the major source of funding. Share of equity started rising slowly towards the end of that decade. Regulations also allowed greater equity investment from foreign investors. The share of equity started increasing significantly from FY21. There was continued support from existing investors (along with sponsors), and an increasing share of internal accruals also contributed to a rising share of equity.

Funding Trends of top ARCs: Debt vs Equity (FY21 to FY25)

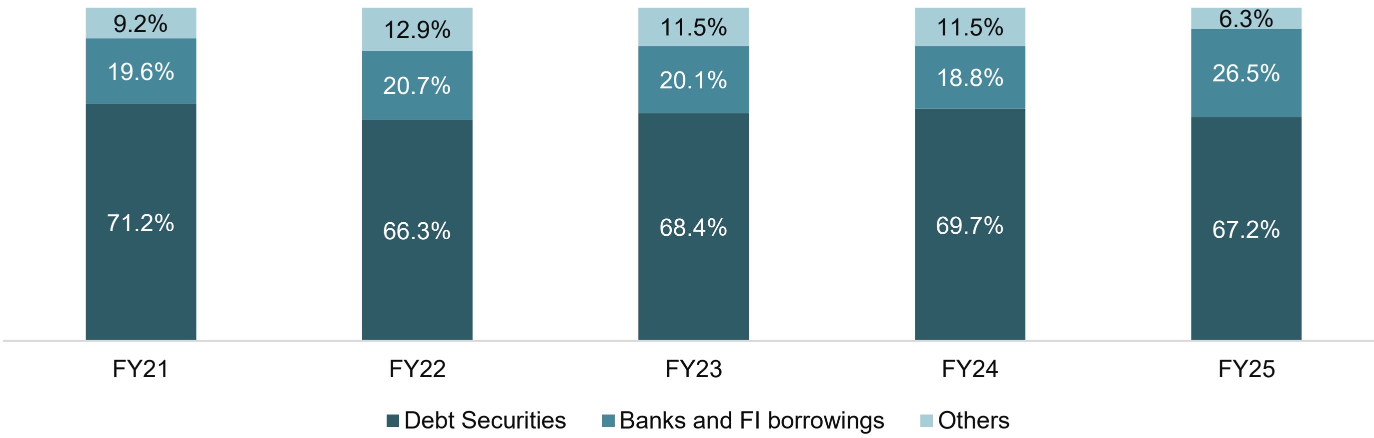


Top 7 ARCs	FY21	FY22	FY23	FY24	FY25
Leverage Ratio (Debt/Equity)	1.3	1.0	1.0	0.7	0.6

Note: Considered the top 7 players (in terms of AUM as of March 31, 2025) for the analysis namely ARCIL, Edelweiss ARC, JM Financial ARC, ACRE, Omkara, Phoenix & NARCL; For each financial year, Leverage Ratio is calculated by dividing total debt of these 7 ARCs by their total Equity (this is done for FY22 to FY25 only and NARCL was excluded in FY20 and FY21 calculation as it was formed in July 2021 only)
Source: Annual reports and Financial Statements of ARCs, CRISIL Intelligence

The ARC industry relies heavily on external investors and group debt to meet its funding needs, as banks generally remained cautious in their participation as evident from the chart below:

Trend in composition of borrowings of top ARCs



Note: Considered the top 7 players (in terms of AUM as of March 31, 2025) for the analysis namely ARCIL, Edelweiss ARC, JM Financial ARC, ACRE, Omkara, Phoenix & NARCL; These 7 players were considered for FY22 to FY25 only and NARCL was excluded in FY20 and FY21 as it was formed in July 2021 only

- *Debt securities comprise of non-convertible debentures (NCD) and commercial paper (CP)*
- *Credit facilities from Banks and other Financial Institutions includes Term loans, Working Capital Term and Demand loan, Interest accrued but not due, Loans repayable on demand from Banks, Cash credit facilities and Overdraft facilities from banks.*
- *Others include Inter corporate deposits (ICD), Loan from related parties and other financial institutions, Loans from related parties and financial lease obligations,*

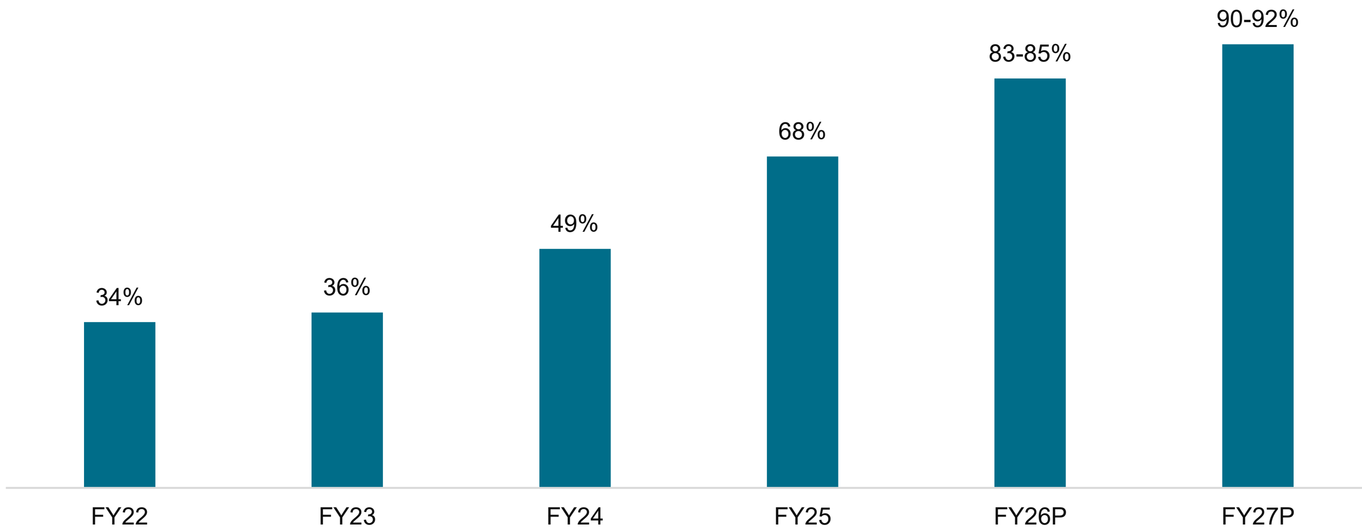
Source: Annual reports and Financial Statements of ARCs, CRISIL Intelligence

The increase in 100% cash deals in the recent past has made external investor participation crucial for ARCs. A few ARCs successfully executed transactions with investor partnerships, adopting a collaborative model that is gaining traction in the industry. Meanwhile, banks continue to maintain a limited exposure to ARCs, primarily providing working capital facilities, due to concerns over the uncertainty of recovering debts from underlying receivables.

3.4.3 Improving Recovery rates in the last few years

Cumulative recovery rates of SRs (across all sectors) continued rising through FY26 and are expected to climb further in FY27 – running ahead of last year's projections. Based on an analysis of ~350 trusts (with outstanding SRs of ~Rs. 33,000 crore), CRISIL ratings estimated an overall cumulative recovery rate of 83-85% for FY26, rising further by ~700 basis points to 90-92% in FY27.

Recovery rates of ARCs (FYs 22-27)



Note: A – Actual; P – projected, Cumulative recovery rate = Cumulative gross recoveries/ cumulative SRs issued
Source: CRISIL Ratings analysis of 350 trusts with outstanding SRs of Rs. 33,000 crore

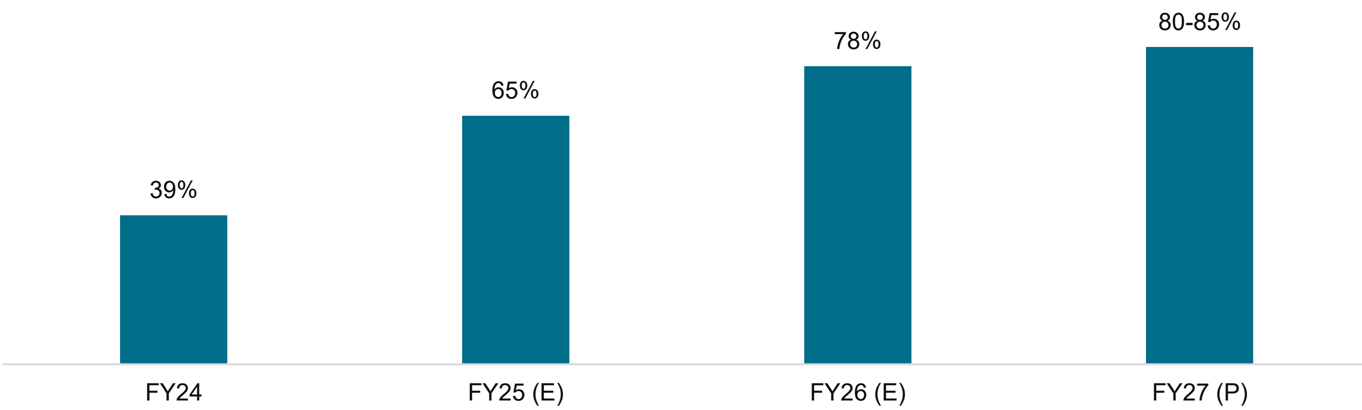
Some of the key factors that drove the recovery rates in the last few years are:

1) One of the key drivers behind this improvement has been the rising share of low-vintage assets in ARC acquisitions. Following an RBI circular in October 2022 permitting ARCs to acquire Special Mention Accounts (SMAs), these accounts accounted for ~30% of new acquisitions in FY25, up from 14% in FY24. This shift enables earlier intervention and faster resolutions – a trend expected to continue as ARCs increasingly prioritize the timely acquisition of stressed assets.

2) Recoveries continue to be dominated by corporate assets, which are expected to contribute ~92% of recoveries in FY27, with retail pools contributing the remaining ~8%. Of the estimated ~Rs. 11,000 crore recovery expected next fiscal:
   - **Real estate** is expected to contribute 40-45%, owing to stable milestone-linked payouts as construction progress remains on track.
   - **Roads** are expected to contribute 10-15%, aided by expected arbitration payouts in terminated road projects.
   - **Diversified sectors (**power, EPC, education services, etc.) are expected to contribute the balance 30-35%, primarily through IBC resolutions and settlements owing to healthy security coverage.
   - **Retail pools** are expected to contribute ~8% of recoveries, driven by secured mortgage pools of lower vintage and low Loan-to-value (LTV), with the overall retail recovery rate expected to inch up to 80-85% next financial year from ~78% estimated in FY26.

3) Cumulative redemption rates of retail assets have also improved significantly over the last two fiscals. With the banking industry's GNPA continuing to stay low, driven by falling corporate NPA levels and better credit culture, ARCs have leaned further into retail stressed assets, and redemption rates for this segments remain elevated.

Trend in Cumulative redemption rates under Retail Segment

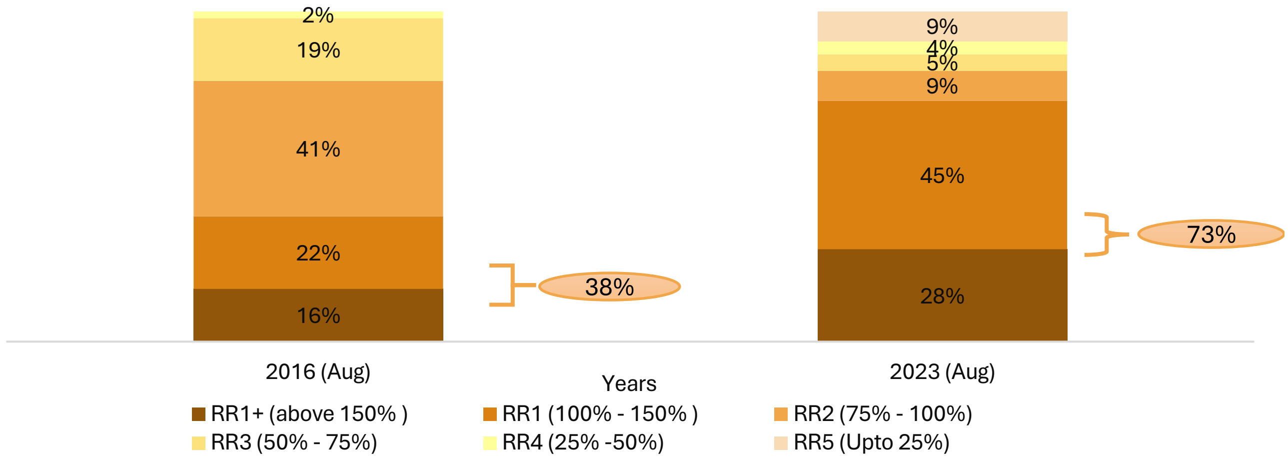


Source: CRISIL Rating analysis of ~46 trusts (FY24-FY25E); CRISIL Ratings press release, March 2026 (FY26E-FY27P, overall only)
Note: Cumulative redemption rate % the cumulative net recoveries as a % of cumulative security receipts issued

Some of the key factors behind improvement in recoveries under retail stressed assets over the years:

- Retail loans have faster churn rate, with a lower redemption time of 2.5-4 years, compared to 5-6 years for corporate assets.
- An increase in the proportion of low-vintage, or Special Mention Account (SMA) from ~5% in fiscal 2023 to ~25% in fiscal 2024 is also driving the recoveries up.
- Borrowers with unsecured loans, excluding microfinance, are motivated to settle their outstanding debt to maintain their credit scores and remain eligible for future loans, which is expected to continue driving recoveries.

4) The overall asset quality of the recent acquisitions is also improving as evident from risk ratings of SRs issued



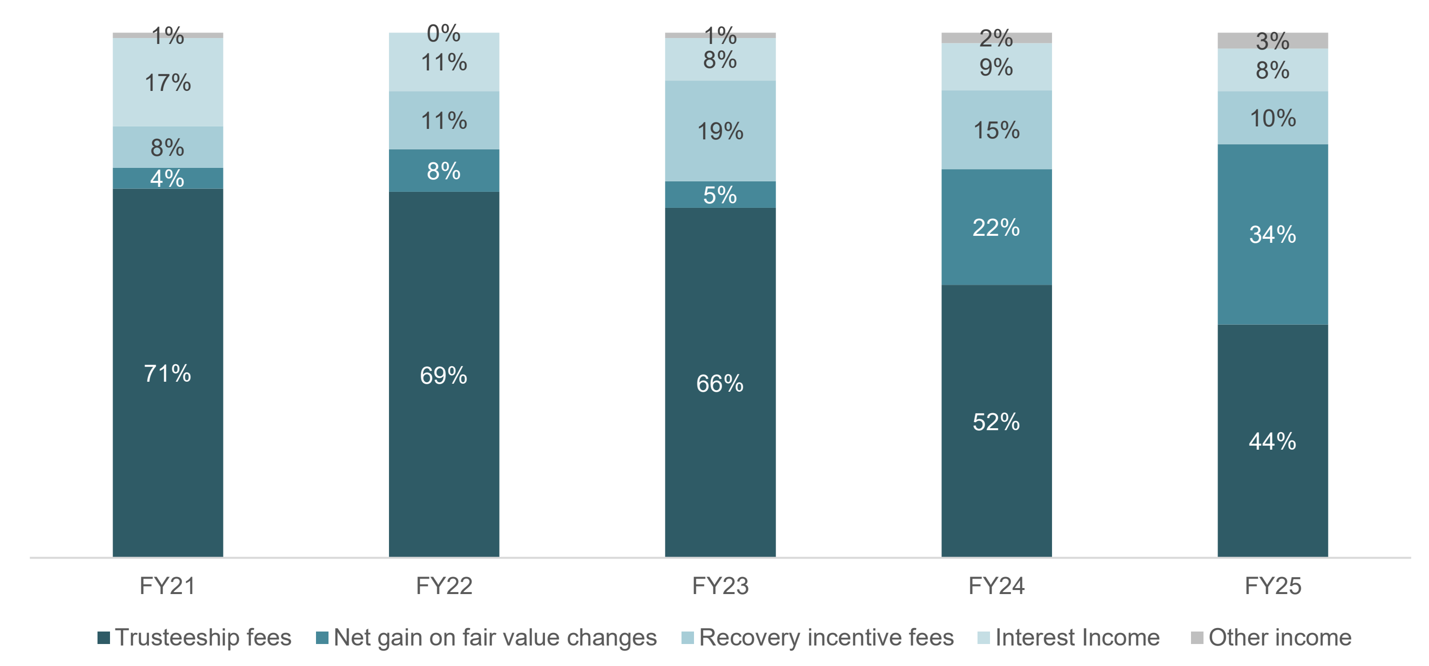
Source: CRISIL Ratings analysis covering ~300 trusts

Recovery Ratings Scale

Recovery Rating	Implied Recovery	Rating Definition
RR1+	More than 150%	The present value of expected recoveries is more than 150% of the face value of outstanding SRs
RR1	More than 100% and up to 150%	The present value of expected recoveries is more than 100% and up to 150% of the face value of outstanding SRs
RR2	More than 75% and up to 100%	The present value of expected recoveries is more than 75% and up to 100% of the face value of outstanding SRs
RR3	More than 50% and up to 75%	The present value of expected recoveries is more than 50% and up to 75% of the face value of outstanding SRs
RR4	More than 25% and up to 50%	The present value of expected recoveries is more than 25% and up to 50% of the face value of outstanding SRs
RR5	Up to 25%	The present value of expected recoveries is up to 25% of the face value of outstanding SRs

The ratings of SRs have shown a steady upward trend over the years. Notably, the share of SRs rated RR1+ and RR1 has increased significantly, rising from 38% in August 2016 to 73% in August 2023. This improvement can be attributed to factors such as a higher proportion of cash transactions, better asset quality, and more efficient implementation of resolution strategies.

3.4.4 Change in income mix of ARCs



Source: CRISIL Rating
Note: Cover over 50% of Private ARC AUM; recovery-linked income includes net gain on fair value changes and recovery incentive fees

The revenue mix of private ARCs has been shifting meaningfully away from management fee income towards recovery-linked income in recent years. The share of recovery-linked income – earned once all outstanding SRs are redeemed and contractual payouts to investors are met – rose to 44% in FY25, up from under 20% in FY22. This shift has been driven by a favourable recovery environment as well as a rising share of cash transactions, which increased 65% of debt acquired in FY25 from 40% in FY22. In cash deals, where the selling lender holds no SRs, there is typically no fixed management fee structure, making ARC income entirely recovery-linked.

3.5 Debt collection industry

In an effort to enhance the recovery of stressed accounts, Banks/FIs have begun to leverage artificial intelligence (AI)-powered digital solutions developed by specialized debt collection agencies. Although this industry is still in its nascent stage, it exhibits substantial potential for growth, driven by the considerable volume of stressed assets being generated, particularly in the retail loan segment.

The total addressable market (TAM) for the debt collection agencies under retail segment (which encompasses housing loans, vehicle loans, personal loans, educational loans, consumer loans, credit loans) is ~Rs. 6.9 Trillion as of 31st March, 2026 (total stress under this segment as per bureau data). Given the estimated growth of 14-16% (till FY27) in overall outstanding retail segment, the TAM for the debt collection agencies is expected to grow at healthy pace going forward.

3.6 Challenges and Opportunities for ARC industry:

Challenges:

1. **Likely emergence of a new alternative in stressed assets market**

ARCs have been one of the most robust channels available for Banks/FIs to dispose of their stressed assets. A new alternative continues to take shape through the securitization of stressed assets framework (SSAF). The RBI released Draft Directions in April 2025 for public comments, but the framework has not yet been notified in final form.

2. **Reduction in supply from traditional sources of stressed assets**

Historically, ARCs have driven their AUM growth by acquiring Corporate NPAs. However, with a decline in corporate NPA levels since FY 2020, ARCs have to rely more on granular retail assets to sustain growth going forward.

3. **Legal delays and procedural friction undermining recovery efficiency**

The business model of an ARC hinges on acquiring stressed assets at a discount and resolving them efficiently, but two separate frictions continue to erode this. First, delays in legal proceedings persist – average IBC resolution time still far exceeds the 330-day limit, eroding NPV, escalating legal costs, and deterring international investors.

4. **Need for Tech-Driven Recovery to acquire Retail stressed assets**

While corporate NPAs continue to decline, retail segments – personal loans, credit cards, and now a rising share of unsecured exposures – present the clearest growth pocket for ARCs, though at a cost: lower implied recovery rates on these retail pools, reflecting the lower quality/older vintage of assets now being offered. To manage growing retail volumes profitably, ARCs need to rapidly adopt tech-enabled recovery platforms that can accelerate resolution timelines, enable digital negotiations/settlements, predict borrower behavior, and customize collection strategies. Without this, ARCs risk margin compression even as volumes grow.

5. **Consolidation risk from rising Net Owned Fund requirements**

The phased increase in minimum NOF requirements has created a bifurcation within the industry. Three ARCs had surrendered their licenses since the requirement was introduced, and two ARCs failed to meet the then-applicable Rs. 200 crore threshold required to continue fresh acquisitions, as of March 2024. As of June' 25, 7-8 ARCs had a NOF below Rs. 250 crore, placing some of these players at a risk of non-compliance (in terms of meeting Rs. 300 crore threshold as of Mar' 26) without fresh capital infusion. Smaller ARCs facing constrained access to capital may be unable to grow their AUM further, potentially triggering consolidation. This may result in well-capitalized ARCs gaining a disproportionate share of new stressed asset acquisitions.

Opportunities:

1. **Playing the role of Resolution Managers**

SSAF[2] can provide a new alternative for a Bank/FI to sell stressed assets to a Special Purpose Entity (SPE), which issues securities to raise funds for the acquisition. However, the SPE in turn has to appoint a Resolution Manager (ReM) to manage the stressed assets. Here, ARCs can play the role of Resolution Managers. This can also provide new opportunities for ARCs to build new business lines.

It is relatively easier for ARCs to bring their current expertise to this task. Moreover, it may be more financially viable for ARCs to operate as a resolution manager even during the early days, compared to new players who want to operate as Resolution Managers alone.

2. **Favorable Regulatory Environment**

The tightening of capital adequacy may lead to consolidation, and ARCs with strong pedigree can dominate the market. The settlement norms (for dues > Rs. 10 Million) and cap on tenure of management can improve transparency in the operations of ARCs. On the other hand, regulators and government have brought in several key initiatives in the last few years which can fuel the growth of the industry. Some of the key ones include – removing TDS on income earned from SRs, allowing HFCs to invest in SRs, easing settlement process in respect of borrowers with dues < Rs 10 Million, etc.

3. **Strategic Synergy Between Special Situation Funds (SSF) and ARCs**

The introduction of Special Situation Funds (SSFs) by SEBI under Category I AIFs has opened new avenues for the resolution of stressed assets in India. Unlike traditional ARCs, which are often constrained by regulatory limits and capital requirements, SSFs possess the flexibility to invest in a broad spectrum of instruments including equity, debt, and security receipts. This makes them well-suited for co-investing with ARCs and participating directly in resolution plans. By aligning with ARCs, SSFs can bring in financial agility while leveraging the operational (enforcement and recovery) expertise and on-ground experience of ARCs, resulting in more robust resolution strategies.

The example of Tavasya SSF, which successfully launched and closed its first two schemes including Tavasya Mudrikaran Scheme, within a span of just six months, followed by the rollout of Resurgent India Special Situation AIF fund launched in July 2025 – highlights growing investor confidence in this hybrid model. These schemes aim to acquire stressed assets in collaboration with top-tier ARCs. For ARCs, this offers an opportunity to transcend traditional limitations by forming joint investment vehicles with SSFs.

[2] *Securitization of Stressed Assets Framework -draft of this framework was released by RBI in April 2025*

4. Potential to increase acquisition of Special Mention Accounts from Private Sector Banks and NBFCs

Private sector banks and NBFCs have been displaying enhanced interest in offloading loans exhibiting early signs of stress, classified as Special Mention Accounts (SMAs) to ARCs. This trend presents a strategic opportunity for ARCs to acquire distressed assets at a nascent stage, enhancing the potential for successful turnaround and value maximization. By intervening early, ARCs can implement restructuring measures before the loans deteriorate further, thereby improving recovery rates and contributing to the stabilization of the financial system. This proactive approach aligns with the evolving dynamics of the banking sector, where maintaining a healthy credit-deposit ratio and presenting a robust financial profile to investors are paramount.

5. Potential for few pockets to emerge within NBFCs

As per RBI's Report on Trend and Progress of Banking in India (December 2025), NBFC balance sheet expanded 18.9% to ~Rs. 61.09 Trillion in FY25, with the overall sector Gross NPA improving to 2.9% from 3.5% in FY24. However, within NBFCs, the commercial real estate (CRE) segment remains a key sector to watch within NPA levels of 12-15% annually through FY22-24. The NPA levels improved to 10.7% in FY25 and the overall exposure within sector grew at 13.7% during the year to reach ~Rs. 5.2 Trillion as of March 2025. Given this segment's history of cyclical stress and the broader system's uneven asset-quality recovery – any reversal in CRE's improving trend, whether from oversupply or financing cost-pressure, could re-emerge as a source of stress.

6. Leveraging technology to strengthen the business model

ARCs have begun to harness the potential of cutting-edge technologies, including AI-driven solutions and data analytics, to refine and optimize their debt resolution strategies. This is expected to meaningfully enhance operational efficiency in navigating increasingly complex retail recovery volumes, helping ARCs better manage portfolios, mitigate risks, and achieve greater success in resolving stressed assets.

Overall, the evolution of the ARC industry along with an evolving regulatory framework have made ARCs one of the preferred modes for stressed asset resolution for Retail and MSME loans.

7. ECL Transition creating a pre-emptive supply pipeline

RBI's new Expected Credit Loss (ECL) provisioning framework – effective April 2027, with a glide path to FY31 - sharply raises provisioning requirements even on early-stress loans (Stage 2 assets, 30–90 days overdue, will need a ~5% provisioning floor versus ~0.4% today). This can push banks to proactively sell or write off stressed and SMA-stage loans ahead of the transition to manage the one-time capital hit, particularly for lenders with higher unsecured/retail exposure. This may give ARCs a fresh, forward-loaded acquisition opportunity over FY27–28, distinct from organic retail-stress growth.

4. Peer Comparison

Asset Reconstruction Company (India) Limited (ARCIL), established in 2002 as the first ARC in India under the SARFAESI Act, has been a pioneer in the Asset Reconstruction Industry. In this section, CRISIL Intelligence has benchmarked ARCIL with the financial and operating performance of six other peer ARCs (namely Edelweiss Asset Reconstruction Company Limited, Phoenix ARC Private Limited, JM Financial Asset Reconstruction Company Limited, Assets Care and Reconstruction Enterprise Limited, Omkara Assets Reconstruction Private Limited, and National Asset Reconstruction Company Limited) in India based on the latest available data for FY23 to FY25.

For the purpose of peer analysis (based on standalone financials), CRISIL has considered these ARCs primarily based on their AUM size as of March 31, 2025. We have considered only standalone financials of these top 7 ARCs (based on AUM as of March 31, 2025) to maintain consistency in terms of analysis, given the difference in the approaches (based on disclosures) followed by these ARCs in preparation of consolidated financials. In respect of ARCIL, all line items in relation to trusts (in scenarios where the outstanding investment of the ARCIL in SRs > 25%) are identified as subsidiaries and considered as a part of consolidated financials. JM Financial Asset Reconstruction Company Limited considers subsidiaries as those entities over which the company has control. Phoenix ARC Private Limited and Edelweiss Asset Reconstruction Company Limited (mentions about considering accounts of 86 trusts for FY25 consolidated numbers) did not clearly disclose in their annual reports about treatment of subsidiaries for the purpose of calculating consolidated financials. Moreover, the assets and liabilities of the trusts are legally distinct from an ARC's assets and liabilities.

All the peers considered are unlisted players operating in this industry. There is no listed ARC operating in India as of now. Publicly traded ARCs (operate under the name of Asset Management Companies) exist in other countries. Moreover, some of these such as China Huarong Asset Management Co., Ltd in China and Bangkok Commercial Asset Management in Thailand operate in a domain similar to ARCs. But a direct comparison with ARCIL is not feasible. This is due to the fact that these AMCs are either directly or indirectly backed by their respective governments. Moreover, the establishment of some of these AMCs was driven by distinct circumstances. The Chinese AMCs also got involved in government programs such as debt-equity swap schemes which is not the case in respect of Indian ARCs. Thus, the regulatory framework (including acquisition of assets, operations of business and resolution methods) pertaining to distressed asset industries of other countries would be different to that of Indian ARCs. Considering these differences in respect of regulatory environment, circumstances of creation, Crisil has opted not to compare these AMCs with ARCIL in this peer analysis.

Similarly, ARCs are different in operations compared to other players in the distressed assets market like distressed funds. These funds raise large amounts of money from various investors to invest in distressed assets that are facing financial difficulties but still have a viable business model and potential for growth. The goal is to acquire these assets, turn them around, and generate cash flows from them. The scope of ARCs is much broader, and they are involved in resolution of stressed assets through various mechanisms available at their disposal. Thus, there are key differences between ARCs and distressed funds in terms of operational scope and objectives. In view of this, ARCs cannot be directly compared with distressed funds.

Snapshot of Top 7 ARCs based on AUM (in Rs Billion)

Legal name (Company referred here as)	Year of formation	AUM (March 31, 2025)	AUM (March 31, 2026)	Market Share basis AUM (March 31, 2025)	Key Sponsors (As of March 31, 2025)	
Asset Reconstruction Company (India) Limited (ARCIL)	**2002**	**168.5**	**201.5**	**12.6%**	**Avenue India Resurgence Pte. Ltd (~70%)**	**SBI (~20%)**
Edelweiss Asset Reconstruction Company Limited (Edelweiss ARC)	2009	147.2	90.5	11.0%	Edelweiss Group (~56%)	CDPQ (~20%)
Phoenix ARC Private Limited (Phoenix)	2007	133.4	NA	9.9%	Kotak Mahindra Bank Group (~50%)	-
JM Financial Asset Reconstruction Company Limited (JM Financial ARC)	2007	128.8	118.5	9.6%	JM Financial Credit Solutions Limited (~82%)	-
Assets Care and Reconstruction Enterprise Limited (ACRE)	2002	92.7	NA	6.9%	ARES ASIA Ltd (49%)	Axis Bank (~14%)
Omkara Assets Reconstruction Private Limited (Omkara)	2014	82.7	NA	6.2%	A Sakthivel (~11%)	Sakthivel Kaleswara Vignesh (~11%)
National Asset Reconstruction Company Limited (NARCL)	2021	241.7	NA	18.0%	Canara Bank (12%)	-

Note: Market share calculated based on overall AUM data published by Association of ARCs for March 31, 2025
Sponsor is an entity/individual holding at least 10% of the shares; Numbers are rounded off to nearest billion; For Omkara, Value of Security Receipts pending redemption as at the end of the Financial Year 2025 has been considered as AUM.
NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

The size (AUM) of the Indian ARC industry as of March 31, 2025 is Rs 13,41,610 Million. It is a fairly concentrated market, with the top 7 players (in terms of AUM as of March 31, 2025) accounting for ~74% of the market share. ARCIL is the second largest ARC in India (in terms of AUM) with an AUM of Rs 1,68,525.70 Million as of March 31, 2025. Edelweiss ARC, Phoenix, JM Financial ARC, ACRE, and Omkara are the primary competitors of ARCIL. All the companies mentioned above are private ARCs. NARCL is not considered as a primary competitor as it is involved in dealing with stressed assets with minimum size of Rs 5 Billion and the remaining 6 ARCs mentioned here can operate across all types of segments (i.e. below Rs 5 Billion as well).

NARCL is still considered in the peer analysis given that its AUM size is in the range of other players considered above. NARCL can be considered a government-backed ARC since public sector banks in India hold a majority stake of ~84%. Additionally, the SRs issued by this ARC are backed by the Government of India. Notably, Omkara is a relatively new entrant (incorporated in 2014) in the market among the private ARCs. Consequently, NARCL and Omkara are categorized separately in the analysis presented in this section to account for their distinct characteristics.

Most of the ARCs with vintage, in the peer set maintained a well-balanced portfolio mix during FY23-FY25; However, only ARCIL & Phoenix recorded a positive growth among private vintage players during the period (FY23-FY25)

Notably, many of the established ARCs have begun to diversify their portfolios by expanding their non-corporate segment, comprising Retail, and Small & Medium-sized Enterprise (SME) assets, in response to the recent decline in corporate NPAs. This trend is particularly evident in the latest portfolio compositions of ARCIL, Phoenix, and JM Financial ARCs.

AUM growth of top 7 ARCs (based on AUM as of March 31, 2025)

(Amount in Rs Billion)

Players		Portfolio Mix (FY25*)	FY23	FY24	FY25	FY26	Growth / (Fall) during FY23-25)	CAGR (FY23 - 25)
Private ARCs with vintage	**ARCIL**	**Corporate (~75%), Retail (~16%), SME (~8%)**	**162.2**	**152.3**	**168.5**	**201.5**	**6.3**	**1.9%**
	Edelweiss ARC	Corporate (~82%), Retail (~18%)	371.0	315.9	147.2	90.5	-223.8	-37.0%
	Phoenix	Retail, SME and Corporate loans	119.7	146.3	133.4	NA	13.6	5.5%
	JM Financial ARC	Corporate (~61%), SME (~25%), Retail (~15%)	135.6	145.0	128.8	118.5	-6.8	-2.5%
	ACRE	Mostly Corporate loans	112.6	109.4	92.7	NA	-19.9	-9.3%
New Private ARC	Omkara	Mostly Corporate loans	50.0	50.8	82.7	NA	32.6	28.5%
Govt backed	NARCL	Corporate	36.7	101.8	241.7	NA	205.1	156.8%

Note: (*) Only the segments are mentioned wherever data is not available, NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

Market Share in %, of top 7 ARCs (based on AUM as of March 31, 2025)

<table>
<tr><th colspan="2">Players</th><th>FY23</th><th>FY24</th><th>FY25</th><th>Growth / (Fall) during FY23-25</th></tr>
<tr><td rowspan="5">Private ARCs with vintage</td><td>ARCIL</td><td>11.6%</td><td>10.3%</td><td>12.6%</td><td>1.0%</td></tr>
<tr><td>Edelweiss ARC</td><td>26.6%</td><td>21.3%</td><td>11.0%</td><td>-15.6%</td></tr>
<tr><td>Phoenix</td><td>8.6%</td><td>9.9%</td><td>9.9%</td><td>1.3%</td></tr>
<tr><td>JM Financial ARC</td><td>9.7%</td><td>9.8%</td><td>9.6%</td><td>-0.1%</td></tr>
<tr><td>ACRE</td><td>8.1%</td><td>7.4%</td><td>6.9%</td><td>-1.2%</td></tr>
<tr><td>New Private ARC</td><td>Omkara</td><td>3.6%</td><td>3.4%</td><td>6.2%</td><td>2.6%</td></tr>
<tr><td>Govt backed</td><td>NARCL</td><td>2.6%</td><td>6.9%</td><td>18.0%</td><td>15.4%</td></tr>
</table>

Note: AUM of the ARC industry was taken from RBI for FY23-FY24 and Association of ARCs data for FY25; Numbers are rounded off to nearest billion; For ARCIL, SME & Others include SME and other accounts based on internal assessment of resolution verticals; Classification of stressed assets done by ARCs (e.g. SME) is different to the classification generally done by RBI (Retail, MSME, Corporate/Large borrower)
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

While the market share of a few top ARCs increased marginally during FY23-FY25, Edelweiss ARC witnessed a significant decline of 15.6% during this period. This subpar growth (for most of the top ARCs) can be primarily attributed to a decrease in Corporate NPAs. As a result, the overall acquisition numbers for most of these ARCs have been impacted. On the other hand, these ARCs have also seen an improvement in recoveries from both corporate portfolios (previously acquired assets) and the retail segment (comprising low-vintage and newly acquired assets), which has contributed to a lesser growth in their overall SRs outstanding/AUM.

NARCL acquired 8 large stressed asset accounts during FY25, bringing the total number of accounts under its management to 26, while taking it's AUM of Rs. 101.8 billion in FY24 to 241.7 billion in FY25. These acquisitions along with a lower AUM base enabled the entity to register a CAGR of 156.8% during FY23-FY25.

ARCIL is the second largest private ARC with vintage in India in terms of average revenue from operations (excluding fair value changes unrealized) on a standalone basis during FY23-FY25

Total Revenue from Operations (excluding fair value changes unrealized) on a standalone basis of top 7 ARCs based on AUM (as of March 31, 2025)

(Amount in Rs Million)

Players		Total Operating Income				
		FY23	FY24	FY25	FY26	AVG (FY23 - 25)
Private ARCs with vintage	**ARCIL**	**5,073.85**	**5,701.41**	**4,779.75**	**5,578.77**	**5,185.01**
	Edelweiss ARC	9,645.63	9,395.07	13,957.71	8,859.39	10,999.47
	Phoenix	3,096.04	5,498.31	5,432.04	NA	4,675.46
	JM Financial ARC	2,521.20	4,652.10	3,304.80	3,528.00	3,532.73
	ACRE	3,363.77	3,466.82	2,684.29	NA	3,171.62
New Private ARC	Omkara	1,933.56	2,389.13	4,958.79	NA	3,093.83
Govt backed	NARCL	140.62	1,349.97	2,611.42	NA	1,367.34

Note: Total operating income here includes 3 segments – management fees, interest income, and fair value changes (realized)+other operating income. Fair value changes (net) was considered wherever realized vs unrealized split is not available – Omkara for all 3 FYs; NA- not Available
Source: Companies' annual reports/financial statements, CRISIL intelligence

ARCIL was the third largest private ARC with vintage in terms of Revenue from operations as of FY25

ARCIL has the third highest revenue from operations – excluding fair value changes realized on a standalone basis (as a % of average total AUM) among private ARCs with vintage in peer set during FY25

Total Revenue from Operations (excluding fair value changes unrealized) on a standalone basis as a % of average total AUM

Players		FY23	FY24	FY25	FY26	AVG (FY23-25)
Private ARCs with vintage	**ARCIL**	**3.35%**	**3.63%**	**2.98%**	**3.02%**	**3.32%**
	Edelweiss ARC	2.50%	2.74%	6.03%	7.46%	3.75%
	Phoenix	2.86%	4.13%	3.88%	NA	3.63%
	JM Financial ARC	2.06%	3.32%	2.50%	2.85%	2.63%
	ACRE	3.20%	3.12%	2.66%	NA	2.99%
New Private ARC	Omkara	3.47%	4.74%	7.43%	NA	5.21%
Govt Backed ARC	NARCL	0.77%	1.95%	1.57%	NA	1.74%

*Note: * Revenue from operations excluding fair value changes unrealized*
Total operating income (as a % of AUM) in a given year is calculated by dividing total operating income by Avg. of AUM of current & previous years; NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

ARCIL has the highest average investment income on a standalone basis (as a % of average total AUM) among all the ARCs in the peer set during FY23-FY25

Investment income (Fair value changes-Realized and Other operating income) on a standalone basis as a % of average total AUM

Players		FY23	FY24	FY25	FY26	AVG (FY23-25)
Private ARCs with vintage	**ARCIL**	**2.01%**	**2.35%**	**1.82%**	**1.39%**	**2.06%**
	Edelweiss ARC	0.48%	1.10%	4.27%	4.88%	1.95%
	Phoenix	0.10%	0.90%	1.29%	NA	0.76%
	JM Financial ARC	0.16%	0.76%	1.44%	0.57%	0.79%
	ACRE	0.33%	1.00%	1.01%	NA	0.78%
New Private ARC	Omkara	-0.09%	0.36%	1.67%	NA	0.65%
Govt Backed ARC	NARCL	0.00%	0.00%	0.00%	NA	0.00%

Note: Investment income as % of AUM of a given year is calculated as fair value changes (realized)+other operating income in a given financial year/Average of AUM of current and previous years; Fair value changes (net) was considered wherever realized vs unrealized split is not available – Omkara for all 3 FYs
NA: Not Available
Source: Companies' annual reports/financial statements, CRISIL intelligence

ARCIL recorded the highest average investment income of 2.06% (as a % of average total AUM) during FY23 to FY25 among all the ARCs in the peer set. Other private ARCs in the peer set also witnessed a reasonable rise in their investment income levels (as a % of AUM) during FY23-FY25. However, AUM levels of Edelweiss ARC, JM Financial ARC and ACRE declined from their FY23 levels.

The revenue profiles of Omkara, Phoenix, and ACRE are predominantly characterized by fee-based and commission-driven income streams

Fee and commission income (on a standalone basis) as a % of average total AUM

Players		FY23	FY24	FY25	FY26	AVG (FY 23-25)
Private ARCs with vintage	**ARCIL**	**1.15%**	**1.14%**	**1.07%**	**1.51%**	**1.12%**
	Edelweiss ARC	1.84%	1.38%	1.44%	1.94%	1.55%
	Phoenix	2.61%	3.04%	2.48%	NA	2.71%
	JM Financial ARC	1.36%	1.89%	0.78%	1.18%	1.34%
	ACRE	2.87%	2.11%	1.49%	NA	2.16%
New Private ARC	Omkara	3.55%	4.22%	5.77%	NA	4.51%
Govt Backed ARC	NARCL	0.77%	1.86%	1.49%	NA	1.67%

Note: Fee and commission income as % of AUM of a given year is calculated as fee and commission income in a given financial year/Average of AUM of current and previous years; NA: Not Available
Source: Companies' annual reports/financial statements, CRISIL intelligence

ARCIL has the lowest expenses (on avg. basis during FY23-FY25) on a standalone basis among all the private ARCs in the peer set

Total Expenses (on a standalone basis) of top 7 ARCs based on AUM (as of March 31, 2025)

(Amount in Rs Million)

Players		FY23	FY24	FY25	FY26	AVG (FY23-25)
Private ARCs with vintage	**ARCIL**	**535.68**	**898.45**	**1,094.47**	**1,485.43**	**842.87**
	Edelweiss ARC	5,716.46	5,909.11	3,544.53	4,586.89	5,056.70
	Phoenix	527.61	1,328.10	1,693.75	NA	1,183.15
	JM Financial ARC	2,896.40	3,443.10	2,140.20	1,805.50	2,826.57
	ACRE	2,172.10	2,208.29	1,278.12	NA	1,886.17
New Private ARC	Omkara	1,067.39	978.42	4,333.52	NA	2,126.44
Govt backed	NARCL	496.59	596.92	1,239.40	NA	777.64

Note: Total expenses exclude unrealized fair value changes (losses), tax related expenses and Security Receipts and Unrealized expenses written off; In case an ARC did not report/disclose any written off expense for a financial year, the same has been considered to be zero; NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

ARCIL recorded the lowest expenses on a standalone basis (as a % of average total AUM) in the peer set during FY25

Total Expenses (on a standalone basis) as a % of average total AUM

Players		FY23	FY24	FY25	FY26	AVG (FY23-25)
Private ARCs with vintage	**ARCIL**	**0.35%**	**0.57%**	**0.68%**	**0.80%**	**0.54%**
	Edelweiss ARC	1.48%	1.72%	1.53%	3.86%	1.58%
	Phoenix	0.49%	1.00%	1.21%	NA	0.90%
	JM Financial ARC	2.36%	2.45%	1.56%	1.46%	2.13%
	ACRE	2.07%	1.99%	1.26%	NA	1.77%
New Private ARC	Omkara	1.91%	1.94%	6.49%	NA	3.45%
Govt Backed ARC	NARCL	2.71%	0.86%	0.72%	NA	0.79%

Note: Total expenses (as a % of AUM) in a given year is calculated by dividing total expenses by Average of AUM of current and previous years (except for FY23 of NARCL); Excluded unrealized fair value changes (losses), and technical write offs under total expenses; NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

ARCIL recorded the lowest average interest expenses on a standalone basis (as a % of average total AUM) during FY23-FY25, among all ARCs in the peer set

Interest expenses (on a standalone basis) as a % of average total AUM

Players		FY23	FY24	FY25	FY26	AVG (FY23-25)
Private ARCs with vintage	**ARCIL**	**0.01%**	**0.03%**	**0.08%**	**0.20%**	**0.04%**
	Edelweiss ARC	1.16%	1.30%	1.03%	2.76%	1.16%
	Phoenix	0.43%	0.64%	0.55%	NA	0.54%
	JM Financial ARC	1.96%	2.09%	1.40%	1.14%	1.82%
	ACRE	1.76%	1.57%	0.60%	NA	1.31%
New Private ARC	Omkara	1.16%	1.08%	5.67%	NA	2.63%
Govt Backed ARC	NARCL	0.01%	0.02%	0.14%	NA	0.08%

Note: Interest expenses (as a % of AUM) in a given year are calculated by dividing that cost item by Average of AUM of current and previous years; In respect of ACRE, considered fees/commission (charged by parent company for subscribing ACRE NCDs) as a part of interest expenses; NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

ARCIL's notably low interest expenses underscore its effective management of debt. Furthermore, the company's strategic relationship with its primary sponsor, Avenue, provides an additional layer of support. Similarly, NARCL, another prominent ARC, also benefits from substantial backing from its major shareholders, comprising public sector banks that hold ~84% of its shares, thereby enhancing its financial stability and operational flexibility.

Phoenix and ACRE exhibited a relatively lower sensitivity of their profits among all the ARCs in the peer set during FY25 due to lesser dependence on unrealized gains and losses resulting from fair value adjustments

Fair Value Changes -unrealized (on a standalone basis) as a % of average total AUM

Players		FY23	FY24	FY25	FY26	AVG (FY23-25)
Private ARCs with vintage	**ARCIL**	**-1.61%**	**0.16%**	**-0.74%**	**-1.05%**	**-0.73%**
	Edelweiss ARC	-0.11%	-0.50%	-0.82%	-1.90%	-0.48%
	Phoenix	0.29%	0.71%	-0.23%	NA	0.25%
	JM Financial ARC	1.38%	1.47%	0.92%	-0.03%	1.26%
	ACRE	-0.27%	0.10%	-0.18%	NA	-0.12%
New Private ARC	Omkara	NA	NA	NA	NA	NA
Govt Backed ARC	NARCL	0.00%	-1.50%	-2.00%	NA	1.75%

Note: Fair Value Changes -unrealized (as a % of AUM) in a given year is calculated by dividing that item by Average of AUM of current and previous years; Here -ve indicates unrealized gains and +ve indicates unrealized losses; NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

ARCIL recorded the fastest PAT growth (on a standalone basis) during FY23-FY25 among all the private ARCs with vintage in the peer set

PAT (on a standalone basis) of top 7 ARCs based on AUM (as of March 31, 2025)

(Amount in Rs Million)

Players		FY23	FY24	FY25	FY26	CAGR (FY23-25)
Private ARCs with vintage	**ARCIL**	**2,391.24**	**3,053.41**	**3,553.19**	**4,078.44**	**21.90%**
	Edelweiss ARC	3,183.93	3,551.95	3,850.61	3,495.28	9.97%
	Phoenix	1,694.42	2,091.99	1,969.28	1,641.89	7.81%
	JM Financial ARC	-1,549.30	-9,424.40	-297.90	118.40	N.M
	ACRE	1,141.33	892.71	1,223.24	NA	3.53%
New Private ARC	Omkara	727.71	1,065.82	478.94	NA	-18.87%
Govt Backed ARC	NARCL	282.41	1,621.82	4,242.68	NA	287.60%

Note: N.M.: Non-Measurable as there are losses in either beginning/ending year used for CAGR calculation; NA: Not Available
Source: Companies' annual reports/Financial statements/Credit Rating reports, CRISIL intelligence

NARCL is the most profitable ARC in India during FY25 with a PAT of Rs 4,242.68 Mn. It also recorded the fastest PAT CAGR of 287.60% during FY23 to FY25, driven by a low base in FY23. ARCIL is the second most profitable private ARC (in the peer set) during FY25 with a PAT of Rs 3,553.19 Mn on a standalone basis.

ARCIL recorded the highest PAT on a standalone basis (as % of average total AUM) among ARCs in the peer set during FY25

ARCIL recorded highest PAT level of 2.22% (as a % of average total AUM) in FY25 as compared to 1.58% in FY23 and 1.94% in FY24, thereby showcasing a continuously improving trend. In FY25, Edelweiss ARC recorded the second highest PAT level of 1.66% (as a % of average total AUM) among ARCs with vintage.

PAT (on a standalone basis) as a % of AUM of top 7 ARCs based on AUM (as of March 31, 2025)

Players		FY23	FY24	FY25	FY26	AVG (FY23 -25)
Private ARCs with vintage	**ARCIL**	**1.58%**	**1.94%**	**2.22%**	**2.20%**	**1.91%**
	Edelweiss ARC	0.82%	1.03%	1.66%	2.94%	1.17%
	Phoenix	1.56%	1.57%	1.48%	NA	1.52%
	JM Financial ARC	-1.27%	-6.72%	-0.23%	0.10%	-2.73%
	ACRE	1.09%	0.80%	1.32%	NA	1.03%
New Private ARC	Omkara	1.30%	2.11%	0.58%	NA	1.38%
Govt Backed ARC	NARCL	1.54%	2.34%	1.76%	NA	2.41%

Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence
NA: Not Available

ARCIL has the lowest leverage ratios (on a standalone basis) and best capitalization profiles among all private ARCs in the peer set during FY23-FY25

ARCIL has the lowest debt to equity ratio amongst the private ARCs in the peer set as of March 31, 2025. ARCIL has also exhibited a notable strength in maintaining a low debt profile, boasting the lowest debt levels among private ARCs as at March 31, 2025 despite its over two-decade-long presence in the industry. This achievement underscores the robust support and backing provided by its sponsor, which has enabled the company to uphold a prudent capital structure and minimize its reliance on debt, thereby ensuring a prudent capital structure.

NARCL has also low DER levels which is attributable to the robust equity support provided by its Public Sector Bank (PSB) shareholders.

Debt/Equity (standalone basis) of top 7 ARCs based on AUM (as of March 31, 2025)

Players		FY23	FY24	FY25	FY26	AVG (FY23 -25)
Private ARCs with vintage	**ARCIL**	**0.05**	**0.06**	**0.11**	**0.39**	**0.07**
	Edelweiss ARC	1.04	0.63	0.35	0.14	0.67
	Phoenix	1.26	1.16	0.74	0.74	1.05
	JM Financial ARC	2.03	4.76	1.31	1.29	2.70
	ACRE	2.91	1.77	1.14	NA	1.94
New Private ARC	Omkara	1.77	1.00	1.85	NA	1.54
Govt Backed ARC	NARCL	0.00	0.00	0.60	NA	0.20

Note: NA: Not Available; D/E numbers are as on 31st March of each financial year mentioned here
Source: Companies' annual reports/Financial statements/Credit Rating reports, CRISIL intelligence;

CRAR of top 7 ARCs based on AUM (as of March 31, 2025)

Players		FY23	FY24	FY25	FY26
Private ARCs with vintage	**ARCIL**	**95.82%**	**98.14%**	**88.41%**	**65.31%**
	Edelweiss ARC	47.10%	60.30%	90.50%	80.03%
	Phoenix	38.46%	39.22%	54.74%	NA
	JM Financial ARC	24.67%	2.91%	31.90%	18.26%
	ACRE	14.76%	24.30%	30.69%	NA
New Private ARC	Omkara	33.23%	47.41%	28.30%	NA
Govt Backed ARC	NARCL	190.00%	143.00%	75.00%	NA

Note: NA: Not Available
Source: Companies' annual reports/Financial statements/Credit Rating reports, Crisil intelligence

ARCIL's relatively low DER levels also indicates significant headroom to increase leverage for further growth in future especially considering the fact that increasing Retail and SME deals are 100% cash based only. This can also potentially drive-up RoE for ARCIL.

ARCIL's capital adequacy ratio (as of March 31, 2025) is significantly higher than most of the ARCs in the peer set. This substantial margin underscores the company's robust ability to generate returns from its core business operations, as well as the strong backing and support provided by its primary sponsor.

ARCIL recorded the highest RoA on a standalone basis in the peer set during FY25

ARCIL emerged as the top performer in the peer set, achieving the highest Return on Assets (RoA) among all ARCs in the peer set during FY25. Closely following ARCIL's lead, NARCL posted an impressive RoA of 10.1% during FY25.

Total Assets on a standalone basis of top 7 ARCs based on AUM (as of March 31, 2025)

(Amount in Rs Million)

Players		FY23	FY24	FY25	FY26
Private ARCs with vintage	**ARCIL**	**25,237.96**	**27,953.36**	**32,638.16**	**44,608.52**
	Edelweiss ARC	59,469.03	53,584.07	49,739.23	35,252.57
	Phoenix	17,751.11	22,377.85	22,198.61	25,104.15
	JM Financial ARC	47,110.60	35,284.70	27,192.30	27,241.10
	ACRE	24,927.00	20,688.96	17,925.32	NA
New Private ARC	Omkara	11,723.62	10,639.18	16,289.05	NA
Govt Backed ARC	NARCL	14,485.01	29,967.41	55,601.94	NA

Note: NA: Not Available

Source: Companies' financial statements/annual reports/ Credit Rating reports, CRISIL intelligence

ROA in % on a standalone basis of top 7 ARCs based on AUM (as of March 31, 2025)

Players		FY23	FY24	FY25	FY26	AVG (FY23 -25)
Private ARCs with vintage	**ARCIL**	**9.83%**	**11.48%**	**11.73%**	**10.56%**	**11.01%**
	Edelweiss ARC	5.30%	6.28%	7.45%	8.22%	6.34%
	Phoenix	10.90%	10.43%	8.84%	6.94%	10.06%
	JM Financial ARC	-3.52%	-22.88%	-0.95%	0.44%	-9.12%
	ACRE	4.75%	3.91%	6.34%	NA	5.00%
New Private ARC	Omkara	6.12%	9.53%	3.56%	NA	6.40%
Govt Backed ARC	NARCL	1.98%	7.30%	10.10%	NA	6.40%

Note: RoA is calculated as PAT as % of Average assets for current and previous year; NA: Not Available
Source: Companies' financial statements/annual reports/ Credit Rating reports, CRISIL intelligence;

Edelweiss ARC and ARCIL are the top two private ARCs in the peer set in terms of net worth on a standalone basis as of March 31, 2025; But Phoenix and ACRE recorded the highest return on equity

ARCIL is the second largest private ARC in India (in terms of net worth) with a net worth of Rs. 27,677.98 Mn (on a standalone basis) as of March 31, 2025.

In October 2022, RBI raised minimum capital requirement for ARCs from Rs 1 Billion to Rs 3 Billion and existing ARCs must achieve a Net Owned Funds of Rs 2 Billion by March 31, 2024 and Rs 3 Billion by March 2026. ARCIL was one of the few ARCs having Net Owned Fund in excess of such regulatory requirement in October 2022 itself. The Rs 3 Billion milestone is expected to be more challenging, with around 7-8 ARCs (as of June 2025) likely to face difficulties in meeting the capital requirement

Similarly, in October 2022, RBI permitted ARCs with a Net Owned Fund of more than Rs 10 Billion to act as a 'resolution applicant' under the IBC. ARCIL is one of the 4 ARCs (NARCL, JM Financial ARC, and Edelweiss ARC being the other three) with Net Owned Funds in excess of such regulatory requirement in October 2022 itself. As of March 31, 2025, ARCIL remains as one of the five ARCs which met this criterion.

Net-Worth on a standalone basis of top 7 ARCs based on AUM (as of March 31, 2025)

(Amount in Rs Million)

Players		FY23	FY24	FY25	FY26
Private ARCs with vintage	**ARCIL**	22,397.43	24,625.11	27,677.98	**30,793.93**
	Edelweiss ARC	27,941.28	31,498.54	35,348.79	29,854.92
	Phoenix	7,186.44	9,278.05	11,246.33	12,887.85
	JM Financial ARC*	15,330.90	5,923.40	11,601.20	11,725.90
	ACRE	6,013.94	6,623.01	7,562.04	NA
New Private ARC	Omkara	4,055.34	5,091.26	5,540.29	NA
Govt Backed ARC	NARCL	14,314.21	29,345.93	33,588.86	NA

Note: (*) JM Financials' net worth position improved after the rights issue post FY 2024; NA: Not Available
Source: Companies' financial statements/annual reports/ Credit Rating reports, CRISIL intelligence

ROE in % on a standalone basis of top 7 ARCs based on AUM (as of March 31, 2025)

Players		FY23	FY24	FY25	FY26	AVG (FY23 -25)
Private ARCs with vintage	**ARCIL**	**11.19%**	**12.99%**	**13.59%**	**13.95%**	**12.59%**
	Edelweiss ARC	12.08%	11.95%	11.52%	10.72%	11.85%
	Phoenix	26.73%	25.41%	19.19%	13.61%	23.78%
	JM Financial ARC	-9.63%	-88.68%	-3.40%	1.02%	-33.90%
	ACRE	20.57%	14.13%	17.25%	NA	17.32%
New Private ARC	Omkara	19.64%	23.31%	9.01%	NA	17.32%
Govt Backed ARC	NARCL	1.99%	7.43%	13.74%	NA	7.63%

Note: NA: Not Available
Source: Companies' financial statements/annual reports/ Credit Rating reports, CRISIL intelligence

Phoenix delivered return on equity (RoE) of ~24% during the period FY23-FY25, but its DER level is relatively much higher (avg. DER of 1.05 during FY23-FY25) than ARCIL. However, ARCIL is the only private ARC to deliver growing RoE every year continuously from FY23 to FY25 despite lowest DER levels among the top private ARCs from FY23-FY25.

ARCIL has the lowest cost of borrowings on a standalone basis among all the private ARCs in the peer set during FY23 to FY25

During FY23 to FY25, ARCIL stands out among private ARCs for its exceptionally low dependence on debt, a testament to the robust support provided by its sponsor. This is further reinforced by the company's limited utilization of its credit limits with banks. Moreover, borrowings of ARCIL were made for short periods only. These factors indicate a prudent approach to debt management and a reduced reliance on external borrowing. The strong backing of its sponsor has enabled ARCIL to maintain a conservative capital structure, minimizing its exposure to debt and associated risks. Although the company's debt levels rose by ~4 times during FY26, DER is still relatively lower.

Borrowings on a standalone basis of top 7 ARCs based on AUM (as of March 31, 2025)

(Amount in Rs Million)

Players		FY23	FY24	FY25	FY26	AVG (FY23 -25)
Private ARCs with vintage	**ARCIL**	**1,180.13**	**1,499.47**	**3,059.29**	**12,054.95**	**1,913.12**
	Edelweiss ARC	29,168.97	19,743.61	12,363.84	4,228.92	20,425.47
	Phoenix	9,035.26	10,764.87	8,356.40	9,568.37	9,385.51
	JM Financial ARC	31,179.30	28,197.60	15,177.20	15,174.70	24,851.37
	ACRE	17,494.94	11,732.63	8,616.49	NA	12,614.69
New Private ARC	Omkara	7,192.09	5,066.93	10,263.74	NA	7,507.59
Govt Backed ARC	NARCL	0.0	0.0	20,215.55	NA	6,738.52

Note: Borrowings Include Debt securities & Borrowings (other than debt securities); NA: Not Available
Source: Companies' financial statements/annual reports/ Credit Rating reports, CRISIL intelligence

Cost of Borrowings in %, on a standalone basis of top 7 ARCs based on AUM (as of March 31, 2025)

Players		FY23	FY24	FY25	FY26	AVG (FY23 -25)
Private ARCs with vintage	**ARCIL**	**1.31%**	**3.91%**	**5.48%**	**4.79%**	**3.56%**
	Edelweiss ARC	14.33%	18.22%	14.81%	39.58%	15.79%
	Phoenix	5.84%	8.64%	8.12%	7.94%	7.53%
	JM Financial ARC	8.83%	9.87%	8.82%	9.32%	9.17%
	ACRE	10.89%	11.89%	5.95%	NA	9.58%
New Private ARC	Omkara	8.66%	8.87%	49.33%	NA	22.29%
Govt Backed ARC	NARCL	0.00%	0.00%	2.43%	NA	0.81%

Note: Cost of Borrowing: Total Interest expenses/Finance expense as % of Average Borrowing for current and previous year; Borrowings Include Debt securities & Borrowings (other than debt securities). For calculation of cost of borrowings of ACRE, considered fees/commission (charged by parent company for subscribing ACRE NCDs) as a part of interest expenses; NA: Not Available
Source: Companies' financial statements/annual reports/ Credit Rating reports, CRISIL intelligence

ARCs recorded the high cumulative SR redemption rates in FY25

The significantly higher Security Receipt (SR) redemption rates achieved by ACRE, Phoenix, Edelweiss ARC and ARCIL demonstrate their underwriting and recovery capabilities.

Cumulative SR Redemption rate% of top 7 ARCs based on AUM (as of March 31, 2025)

Players		March 31, 2023	March 31, 2024	March 31, 2025
Private ARCs with vintage	**ARCIL**	**45.4%**	**51.3%**	**51.8%**
	Edelweiss ARC	45.8%	50.3%	55.6%
	Phoenix	44.6%	49.0%	56.1%
	JM Financial ARC	46%	47%	50%
	ACRE	43%	54%	63%
New Private ARC	Omkara	NA	NA	NA
Govt Backed ARC	NARCL	NA	10.6%	13.7%

Note: For cumulative SR Redemption rate (i.e. cumulative SRs redeemed till end of a FY / cumulative SRs issued till end of that FY), wherever data not available in March, taken it from other Quarter in that Calander year
NA: Not Available; numbers are captured upto 1 decimals for ARCIL, Edelweiss ARC, Phoenix & NARCL, data for JM Financial ARC and ACRE not available till 1st decimal
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

Redemption of a higher proportion of SRs enables an ARC to generate better returns for their investors and stakeholders.

ARCIL is the only private ARC in the set to increase their own investment continuously (on a standalone basis) during FY23-FY25

Investment (on a standalone basis) of top 7 ARCs based on AUM (as of March 31, 2025)

(Amount in Rs Million)

Players		Investment			
		FY23	FY24	FY25	FY26
Private ARCs with vintage	**ARCIL**	**17,769.62**	**20,623.94**	**27,716.51**	**40,246.84**
	Edelweiss ARC	44,393.80	42,659.63	31,515.60	23,673.84
	Phoenix	15,316.97	19,753.31	17,148.40	22,001.73
	JM Financial ARC	36,223.30	24,712.60	18,810.70	18,625.10
	ACRE	23,039.98	17,046.67	15,313.58	NA
New Private ARC	Omkara	11,365.02	10,170.71	15,405.56	NA
Govt Backed ARC	NARCL	5,496.89	18,526.47	41,727.67	NA

NA: Not Available
Source: Company reports/Companies' Credit Rating reports, CRISIL intelligence

Credit ratings (Latest Available Ratings) of top 7 ARCs based on AUM (as of March 31, 2025)

Players		Long term Credit Rating (Latest)	Date of Report
Private ARCs with vintage	ARCIL	Crisil AA-/Stable	30th June, 2026
	Edelweiss ARC	ACUITE A/Stable	7th July, 2026
	Phoenix	Crisil AA/Stable	2nd December, 2025
	JM Financial ARC	Crisil AA-/Stable	2nd April, 2026
	ACRE	CRISIL A+/Stable	18th July, 2025
New Private ARC	Omkara	IVR A/Stable	16th March, 2026
Govt Backed ARC	NARCL	CRISIL AAA/Stable	27th January, 2026

Source: Companies' Credit Rating reports, CRISIL intelligence

In respect of credit rating reports pertaining to JM Financial ARC and Phoenix, the rating agencies emphasized more on the financial, operational, and management support provided by their parent companies, JM Financial and Kotak respectively, and highlighted about the operational synergies between these ARCs and their parent organizations. In respect of NARCL, the rating agency emphasized on the company's strategic importance to the Government of India

In respect to ARCIL, the rating agency's commentary focused more on the company's track record along with the operational support provided by its sponsor.

The above comparison indicates that ARCIL with its total asset size and experience, is well positioned as a key player in the asset reconstruction industry to resolve issues relating to stressed assets, with a focus on managing the assets and reaching optimal solutions for all stakeholders wherever possible.

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