The Two-Wheeler Finance Segment For NBFCs to Grow by 18-19% in FY26

October 27, 2025 I BFSI Ratings

Synopsis

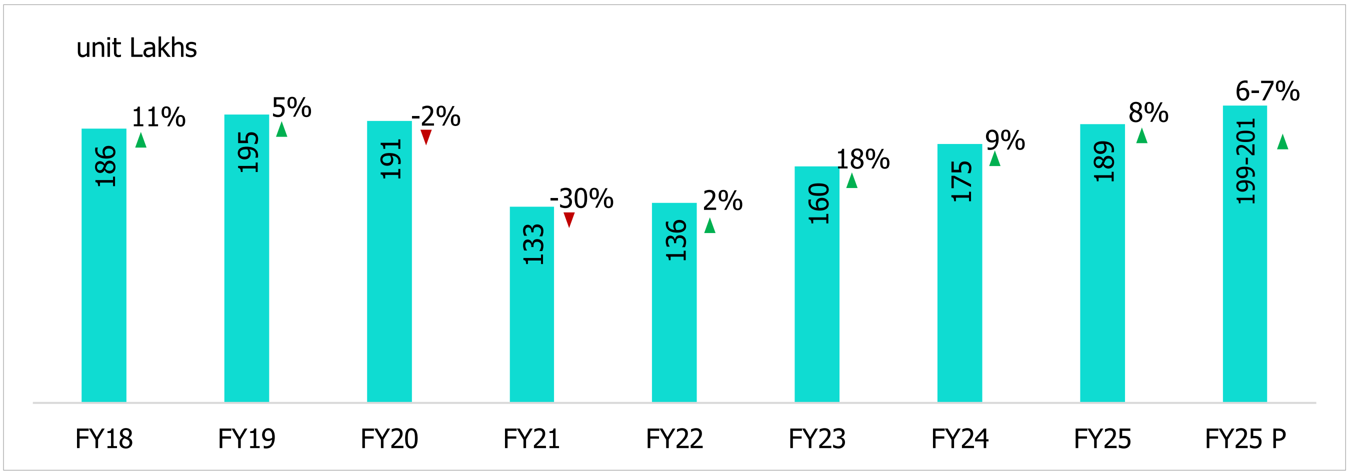
- Two-wheeler (2W) retail sales grew at a 10% compound annual growth rate (CAGR) for three years from FY21-FY24. However, growth slowed to 8% in FY25 led by a high base effect, weak rural sentiments and cautious lending by NBFCs.
- NBFCs dominate the 2W finance market with a 68.5% share in FY25, driven by targeted segmentation of untapped, higher-yield borrowers and captive NBFCs leveraging synergies with parent companies.

  The NBFC 2W finance portfolio grew at a 22% CAGR for four years from FY21-FY25, reaching Rs 1,12,751 crore by March 31, 2025. Growth moderated to 18% in FY25 owing to financiers adopting cautious approach in the wake of general rise in asset quality stress. CARE Ratings Limited (CareEdge Ratings) expects FY26 growth to remain similar to FY25 levels of 18-19%, reflecting a measured approach by financiers.

Domestic 2W Market: Retail sales growth to moderate in FY26, with growth expected to pick-up in H2

The domestic 2W sales experienced strong expansion in the last four years, recording a CAGR of 9% from FY21-FY25, primarily driven by strong domestic demand in FY23 and FY24. Key tailwinds to this growth have been pent-up replacement demand post COVID-19, availability of newer models and higher disposable income and affordability, with better access to finance. This apart, a shift in consumer preference towards electric scooters and executive motorcycles has also reshaped the market. However, retail sales growth normalized to 8% in FY25 led by high base effect, weak rural sentiments and cautious lending by NBFCs owing to borrower over-leveraging.

Chart 1: 2W retail sales trajectory



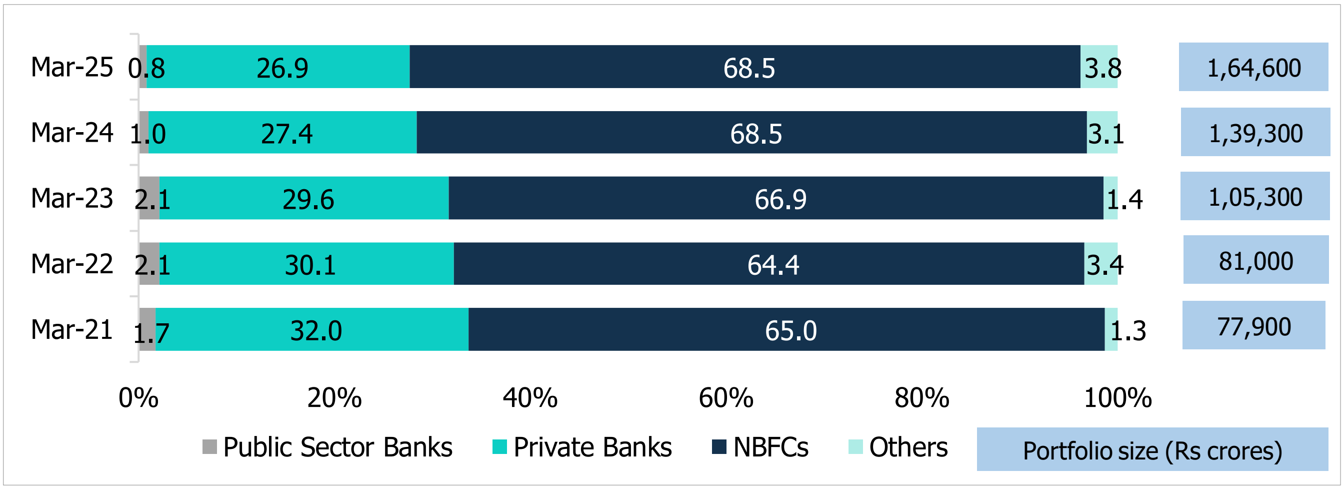
Source: CMIE, CareEdge Ratings

In Q1FY26, the 2W industry registered sales of 48 lakhs units, up 5% on a y-o-y basis. Lower sales volumes witnessed in Q1 is broadly a seasonal phenomenon where the 2W sales generally pick up in the onset of the festive season in H2. Looking ahead, CareEdge Ratings anticipates the FY26 sales growth to be in the 6-7% range driven by expectation of improved rural incomes considering above-normal monsoon and higher sales in H2 post GST cut from 28% to 18% on September 22, 2025, for 2W with engine capacity up to 350 cc.

NBFCs continue to dominate 2W finance market

The 2W financing market has grown at a CAGR of 16% since 2021; touching Rs 1.64 lakh crore as on March 31, 2025. NBFCs have continued to dominate the 2W financing market while both public and private sector banks have seen a decline in their share.

Chart 2: Market share in 2W financing industry



Source: CRIF Highmark

NBFCs cater to this segment by serving underbanked markets through faster underwriting and disbursement. Despite 2W loans being secured, customers usually provide minimal documentation and are often new to credit. Their targeted segmentation allows NBFCs to serve this higher-risk group effectively. On the other side, captive NBFCs, which account for ~20% of the market share in disbursements, benefit from easier customer access through their parent companies.

Looking ahead, CareEdge Ratings anticipates that NBFCs will continue to lead the 2W financing market as the banks remain focussed on relatively less risky asset classes.

Growth in 2W mainly driven by premiumization and rising ticket size

Per CareEdge Ratings' estimates, average loan amount in the 2W segment has seen a notable rise—from Rs 86,111 in FY21 to Rs 1,14,929 in FY25. This upward trend is attributed to inflation-driven raw material cost hikes, increased vehicle ownership expenses following implementation of OBD-II Phase-B norms1, and a rising consumer inclination toward higher cubic capacity two-wheelers, indicating a shift toward premiumisation.

[1] On-Board Diagnostics (OBD) - Requires real-time monitoring and reporting of vehicle emissions

Chart 3: Average sale price per 2W (Rs)

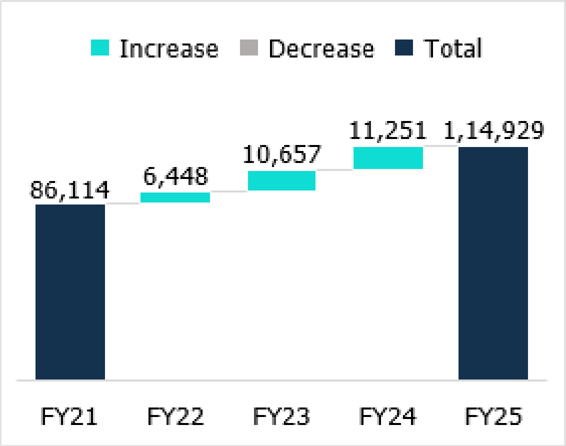
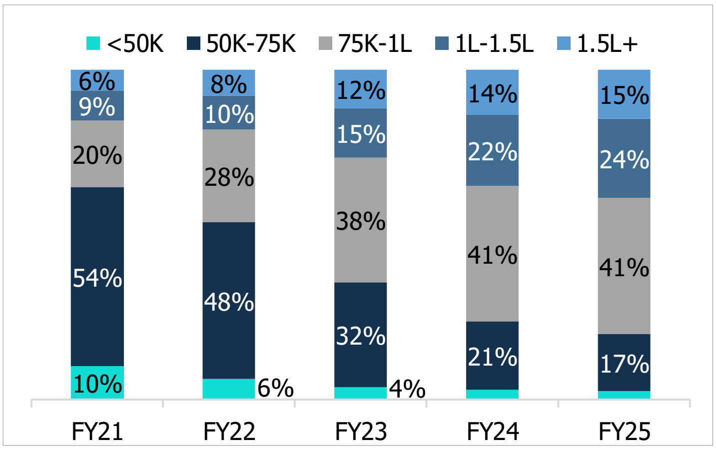


Chart 4: Ticket size wise disbursements mix for industry



Source: CareEdge Ratings estimates, CRIF Highmark

The 2W market is segregated into motorcycles, scooters and mopeds accounting for 62:35:03 mix respectively. The scooter segment recorded strong double-digit sales growth for the third consecutive year, which ended March 2025, with 26% increase in the last fiscal.

Within motorcycles, while sales volume of entry-level motorcycles grew by only 8% y-o-y in FY25 (PY: 6%), executive and premium motorcycle volumes grew by 12% (PY: 14%) and 10% (PY: 16%) respectively. This shift and rising cost of ownership together has pushed up average ticket size of 2W disbursements for financiers. As a result, disbursements having ticket size in the range of Rs 1-1.5 lakhs have witnessed sharpest rise in the last few years.

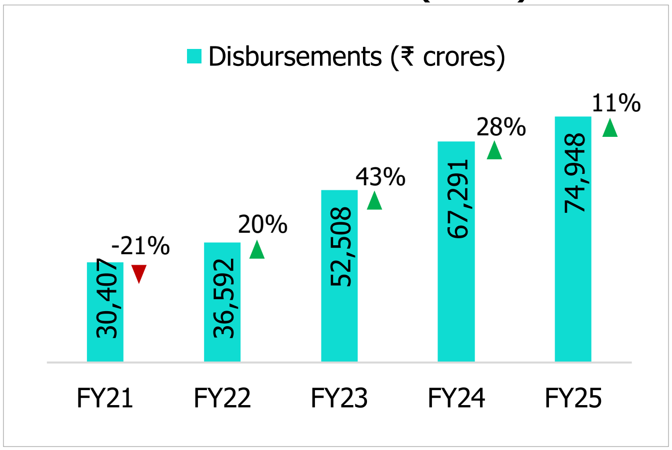
Share of 2W priced above Rs 1,50,000 in total disbursements rose from 6% in FY21 to 15% in FY25, supported by increased discretionary income of consumers.

CareEdge Ratings expects 2W sales volumes to grow by 6-7% in FY26 following the improved affordability post GST cut from 28% to 18% for 2W with engine capacity up to 350 cc and better rural incomes as a result of above-normal monsoon.

Cautious lending has slowed NBFCs' 2W portfolio growth in FY25

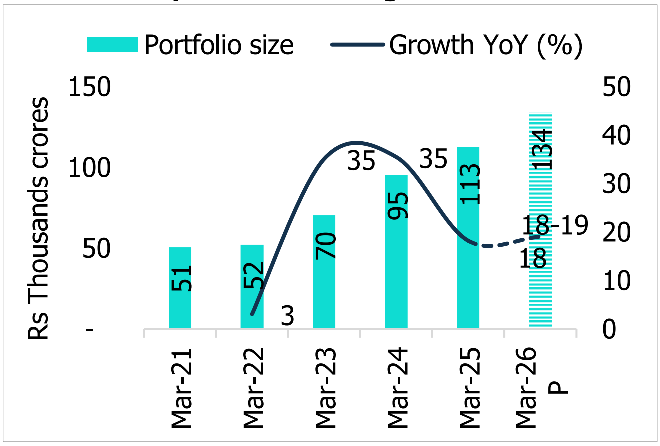
The 2W financing disbursements by NBFCs recorded a 4-year CAGR of 25%, amounting to Rs 74,948 crore in FY25. However, the growth rate moderated to 11% in FY25, down from 28% in the previous year. Led by slowdown in disbursements, the portfolio's growth rate moderated to 18% in FY25 reaching Rs 1,12,751 crore as on March 31, 2025.

Chart 5: Disbursements – 2W (NBFCs)



Source: CRIF Highmark

Chart 6: 2W portfolio size & growth



Source: CRIF Highmark, CareEdge Ratings

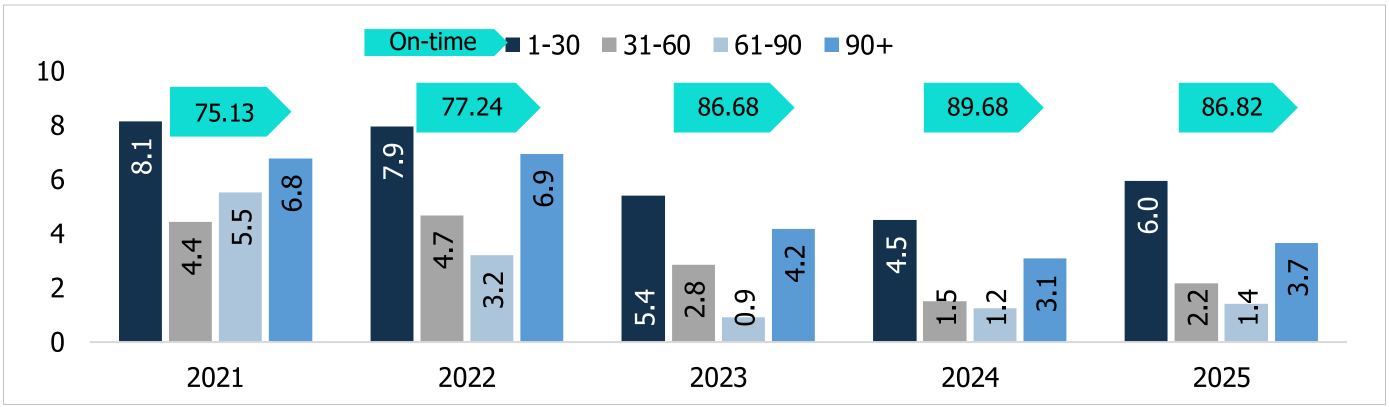
Moderation in growth is attributed to vehicle financiers adopting cautious approach in financing vulnerable borrowers in the wake of general rise in asset quality stress particularly in unsecured segments. Among 2W financiers rated by CareEdge Ratings, the share of 2W in total assets under management (AUM) declined from 9% as on March 31, 2021, to 7% as on March 31, 2025. Rising delinquencies among vulnerable borrowers has led to shift in NBFC lending towards secured asset classes with better customer profiles. Notably, share of new-to-credit customers in the 2W finance portfolio too has declined to 49.20% in FY25 from 64.50% in FY19.

However, CareEdge Ratings expects 2W finance growth for NBFCs to remain stable at 18-19% in FY26, in line with FY25 growth and supported by improved rural sentiments and GST cut in September 2025. Downside risks of focusing on diversification towards non-auto loans, increased caution in extending credit to higher-risk borrowers, and the impact of a higher base are expected to persist.

2W credit costs may inch up amid higher slippages in early delinquency buckets

In sync with rise in industry asset quality stress particularly emanating from vulnerable borrowers and owing to rise in borrower indebtedness, GNPAs in 2W portfolio of NBFCs increased to 3.7% as on March 31, 2025 (PY: 3.1%). Signs of stress remain evident in the softer buckets, with delinquencies increasing in the 31–60 days past due (dpd) and 61–90 dpd categories (harder buckets). As on March 31, 2025, the share of loans in the 31–60 dpd bucket rose to 2.2% (PY: 1.5%), while the share of loans in the 61–90 dpd bucket increased to 1.4% (PY: 1.2%).

Chart 7: 2W – bucket wise delinquencies (%)



Source: CareEdge Ratings, based on top 6 financiers

2W delinquencies showed noticeable increase in FY25 with on-time portfolio declining by roughly 290 bps to 86.8% as on March 31, 2025. CareEdge Ratings notes that the Stage III Provision Coverage Ratio (PCR) for the two-wheeler segment typically ranges between 40% and 50% and may marginally increase with a rise in softer delinquencies. Consequently, credit costs for CareEdge rated 2W financiers inched up by 40 bps in FY25 to 3.8% [PY: 3.4%) and are expected to be in the range of 3.9-4.1% for FY26 due to higher delinquency in softer buckets.

Outlook

- CareEdge Ratings anticipates that the 2W retail domestic industry is expected to report a sales growth of ~6-7% in FY26. While the high base of FY25 and the rollout of OBD-II Phase-B emission norms may temper the pace slightly, overall sectoral outlook remains strong post GST cuts in September 2025.
- While 2W sales growth is expected to slightly moderate, NBFCs 2W AUM is expected to grow at 18-19% in FY26 driven by higher cost of vehicle ownership (considering implementation of OBD-II Phase-B norms).
- NBFCs are expected to continue their cautious stance with more focus on selective underwriting of better-quality customers. CareEdge Ratings estimates credit costs for 2W portfolio in FY26 to remain in the range of 3.9-4.1%.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91 - 81080 07676
Priyesh Ruparelia	Director	priyesh.ruparelia@careedge.in	+91 - 22 - 6754 3539 / +91 - 98335 58385
Disha Potagevan	Lead Analyst	Disha.potagevan@careedge.in	+91 - 22 - 6754 3588
Shivam Katkar	Lead Analyst	Shivam.katkar@careedge.in	+91 – 22 – 6754 3580
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About Us:
CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.