Financials - NBFC

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Growth momentum intact; risk calibration key to sustaining returns

We attended the CRISIL NBFC Summit 2026, featuring NBFC industry leaders and experts who shared their insights on the overall NBFC sector and on mortgage financiers, vehicle/ diversified financiers, and specialized lenders. Following are the key takeaways:

Outlook on the NBFC sector

India's NBFC sector is poised to sustain its role as a key driver of credit delivery, supported by rising financial inclusion, deeper penetration in semi-urban and rural markets, and increasing formalization of credit. While the macroeconomic outlook remains broadly supportive, moderate GDP growth, geopolitical uncertainties, and weather-related disruptions could temper the pace of expansion.

- **Sustained growth, evolving portfolio mix**: NBFC Industry AUM is expected to grow at ~20% over FY26-FY28E, led by gold loans and unsecured lending, while mortgage and vehicle finance are likely to deliver steady growth. Unsecured lending is expected to account for ~18% of Industry AUM by FY28, underscoring the growing diversification of NBFC portfolios.
- **Consumption and leverage in focus**: Underlying consumption is expected to remain resilient, supported by deeper credit penetration and improved access to formal finance. Rising household leverage, higher debt-to-GDP levels, and potential interest rate increases warrant close monitoring, particularly for retail-focused lenders.
- **Asset quality to remain range-bound, with pockets of stress**: Sector asset quality is expected to remain broadly stable, albeit with divergent trends across asset classes. MSME and rural portfolios remain vulnerable to rainfall deficiency, El Niño risks and geopolitical disruptions. Gold lenders may see temporary delinquencies following revised interest repayment requirements, reinforcing the importance of early-warning mechanisms and disciplined underwriting.
- **Funding and profitability remain resilient**: Banks are expected to contribute over ~40% of NBFC funding, although rising borrowing costs could pressure margins. Sector RoMA is projected at ~2.4% in FY28, aided by operating efficiencies and disciplined credit costs, partly offset by softer non-interest income and potential regulatory changes.
- **Regulation reshaping business economics**: Proposed norms on insurance commissions could impact profitability by ~10-12bp, while changes to revolving credit products (if enforced by the regulator) may necessitate product and operational realignment. Over time, stronger safeguards should enhance transparency and institutional resilience.
- **Technology as a competitive differentiator**: Gen AI is opening new avenues across origination, underwriting, servicing, and collections. While adoption is more advanced among digital lenders, wider implementation could improve productivity and cost efficiencies. Robust governance, cybersecurity, and human oversight will be essential.

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Vehicle Financiers: Structural growth drivers remain intact, though profitability faces near-term pressure

- Vehicle finance AUM is expected to grow ~13% over FY27-28, supported by infrastructure spending, freight movement, and replacement demand. CV financing should remain the key growth anchor, with healthy utilization of 23-24 days a month supporting demand across haulage, construction, and passenger vehicles. Beyond new CVs, used-vehicle financing, last-mile mobility and EVs are opening incremental opportunities for growth.
- While disciplined underwriting and conservative LTVs have kept delinquencies contained, tractor financing might face near-term pressure from rainfall variability and weaker agricultural cash flows. Smaller fleet operators, first-time buyers, and highly leveraged borrowers also warrant closer monitoring.
- Established players are broadening their lending portfolios through used-vehicle and non-vehicle financing. However, higher funding costs and softer insurance commissions could moderate RoMA to 2.1-2.2% over FY27-28 (vs. 2.3% in FY26).

Mortgage Financiers: Growth remains healthy, with differentiation increasingly driven by underwriting and distribution capabilities

- Mortgage AUM is expected to grow ~17-18% over the next two years, supported by urbanization and housing demand across smaller cities. However, intensifying competition from banks in prime salaried and larger-ticket segments is shifting the advantage toward lenders with differentiated customer franchises. While banks retain an edge in cost-sensitive prime lending, HFCs and specialized NBFCs can leverage their understanding of self-employed and informal-income borrowers, particularly in smaller-ticket segments.
- The affordable housing segment continues to offer a sizeable growth runway, aided by low mortgage penetration and demand for self-construction, home extensions, and resale transactions across Tier 2-4 cities. However, sustainable expansion will increasingly hinge on deeper distribution, skilled manpower, and robust cash-flow-based underwriting rather than geographical expansion alone.
- Rising LAP exposure, borrower leverage, and seasoning-related stress warrant closer monitoring, particularly in smaller-ticket portfolios. While asset quality remains manageable, lenders must preserve underwriting standards as portfolios expand. Mortgage RoMA is likely to moderate ~10bp to ~2% by FY28, making operating leverage and disciplined risk selection critical to sustaining returns.

Gold Financing: Significant headroom for organized lending, with disciplined execution critical to sustaining growth

- The gold loan industry has grown to ~INR23t from ~INR5t five years ago, driven by rising gold prices, improving customer acceptance, and limited access to conventional credit for non-salaried borrowers. With ~60% of the market still unorganized and ~71% of organized portfolios concentrated in five southern states, formalization and geographical expansion provide notable headroom for established lenders. Growth is likely to normalize to ~20-30% as the industry scales.
- Gold loans offer inherently lower credit losses, given borrowers' strong incentive to reclaim pledged gold, with Muthoot Finance reporting credit losses of <0.05% over a credit cycle. Consequently, operational risks around gold purity,

employee fraud, and security assume greater importance than conventional credit risks.

- Revised repayment structures in newer product variants of gold loan could temporarily elevate delinquencies, although the impact should stabilize as customers adapt. Sustaining growth will depend on disciplined borrower assessment, prudent LTVs, and robust operational controls, particularly as lenders expand beyond established markets.

Specialized Lenders: Personal loan recovery and secured MSME resilience to drive growth amid cautious expansion

- Specialized NBFCs are gradually shifting towards risk-adjusted growth, with personal loans expected to lead the recovery as recent vintages demonstrate improved asset quality. Secured MSME lending should remain resilient, supported by formalization, better data availability, and increasing adoption of cash-flow-based underwriting, while unsecured MSME and education finance are likely to see more measured growth amid evolving credit risks and geographical concentration, respectively.
- Sustaining growth will depend on sharper borrower selection, assessment of aggregate leverage and diversification of education loan portfolios across geographies. Meanwhile, co-lending partnerships and diversified funding sources will be important in supporting balance sheet growth while maintaining capital efficiency.

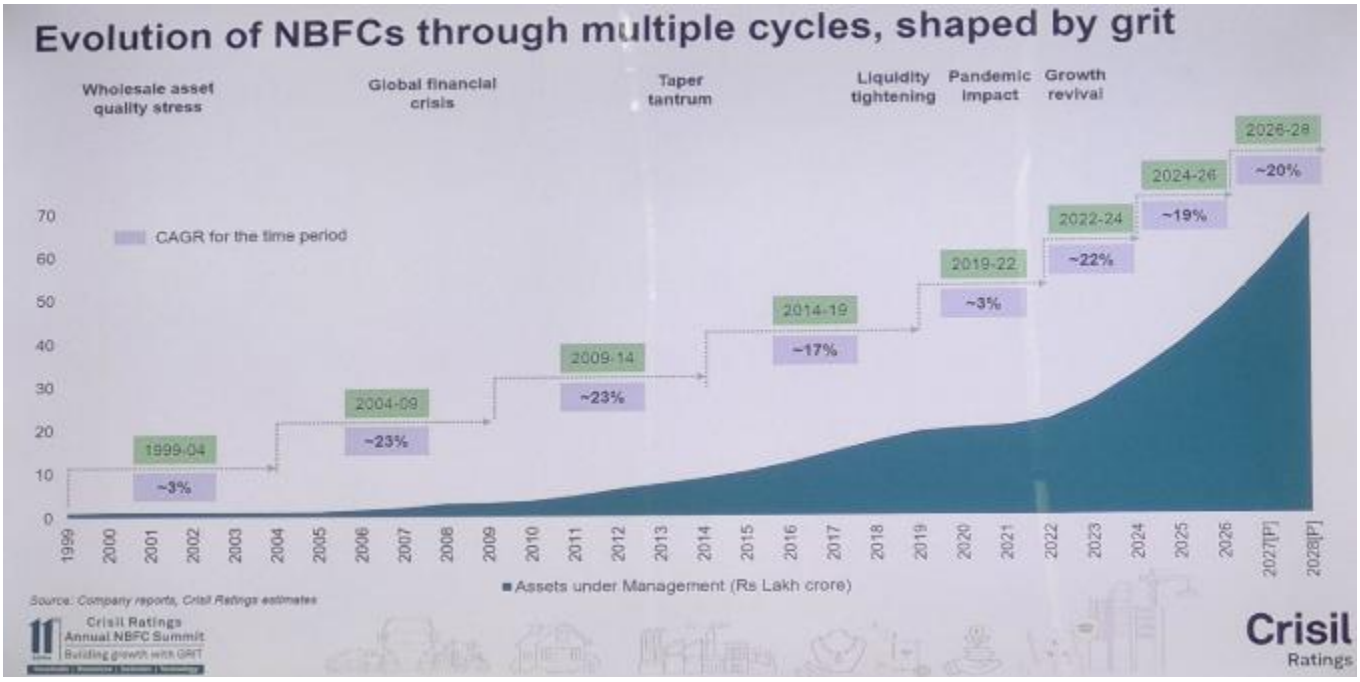
The next phase of NBFC growth will be defined not merely by the ability to expand balance sheets but by the quality of that growth. Sustainable outperformance will hinge on calibrated risk-taking, diversified funding, deeper customer penetration, and technology-led execution, underpinned by strong governance and resilient balance sheets.

Exhibit 1: Key insights in individual product segments

Lending Segment	Key Insight
Vehicle	❖ ~13% AUM growth expected at the industry level, supported by CV financing and used-vehicle opportunities; however, tractor-related stress and funding cost pressures could moderate asset quality and profitability.
Mortgage	❖ Structural housing demand and low mortgage penetration support growth, although rising bank competition, seasoning-related stress and funding costs could moderate returns.
Gold	❖ Formalization, geographical expansion, and strong collateral-backed recovery economics support attractive growth, with operational controls and regulatory transition remaining key monitorable.
LAP / Secured MSME	❖ Increasing penetration offers growth opportunities, but elevated delinquencies in smaller-ticket portfolios and borrower leverage warrant tighter underwriting.
Unsecured	❖ Personal loans are showing signs of recovery as recent vintages improve

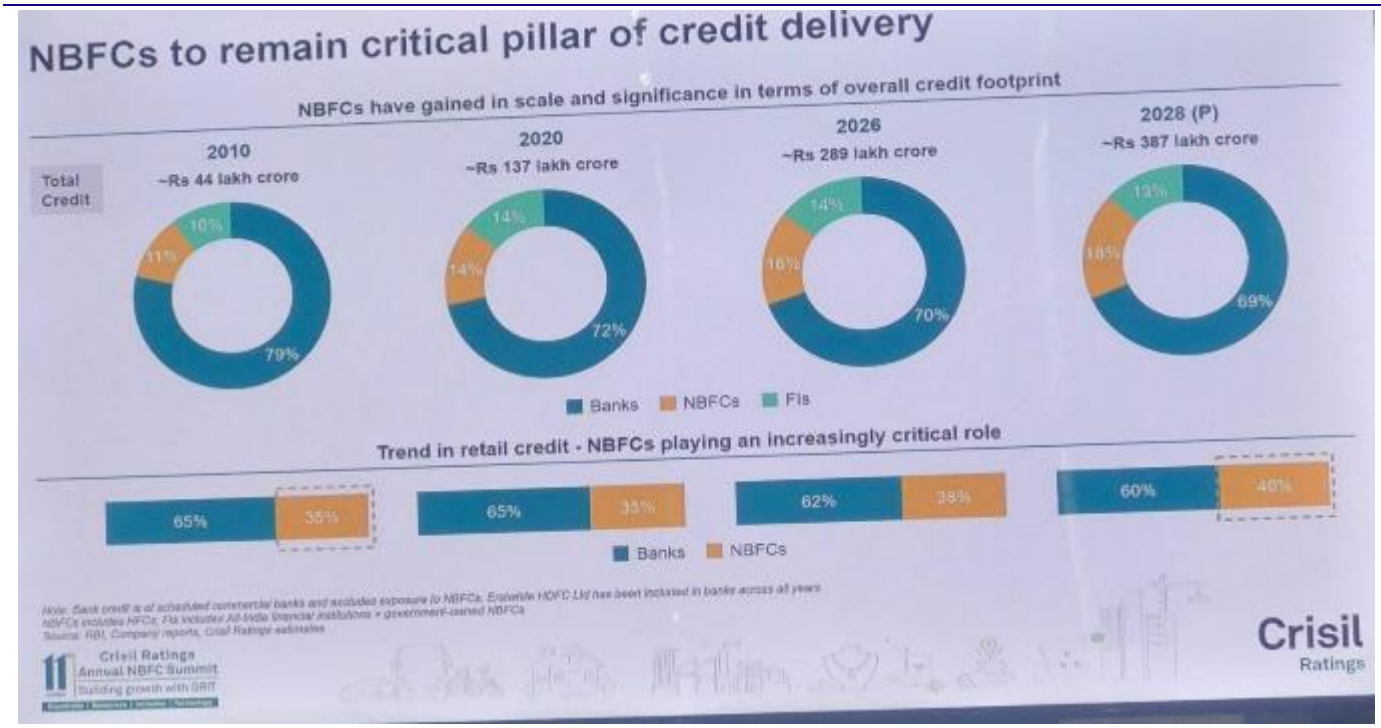
Source: CRISIL, MOFSL

Exhibit 2: NBFCs sustain robust growth amid macro headwinds, reinforcing their role in India's credit ecosystem



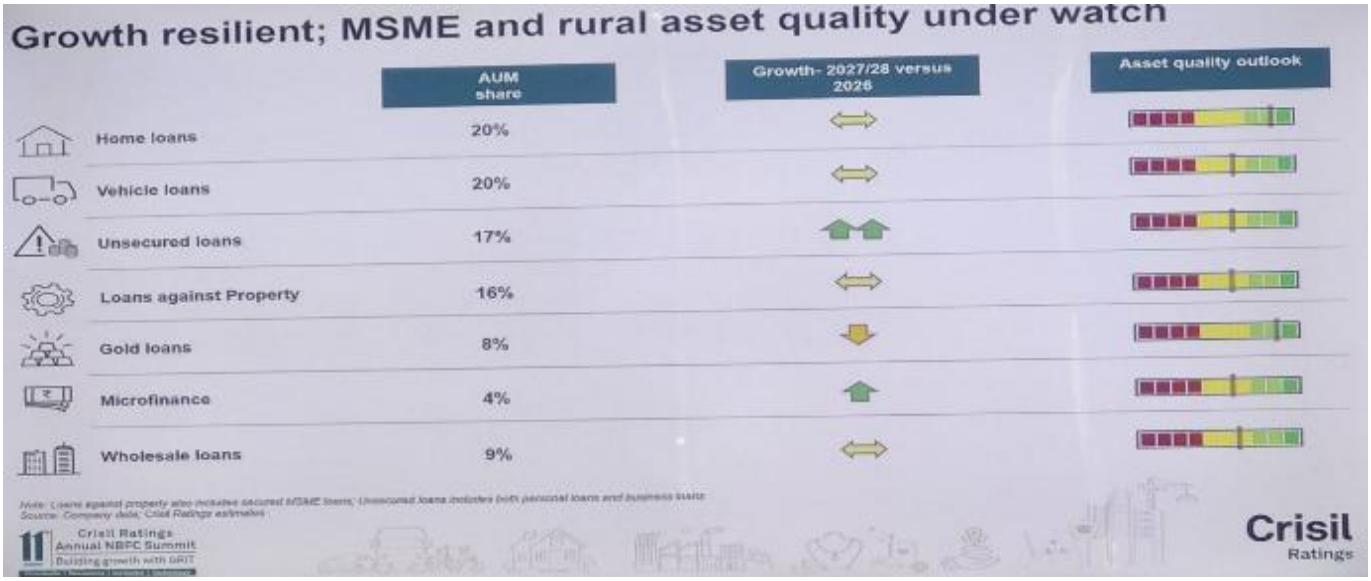
Source: CRISIL, MOFSL

Exhibit 3: NBFCs to deepen credit penetration and strengthen their share in the overall credit ecosystem



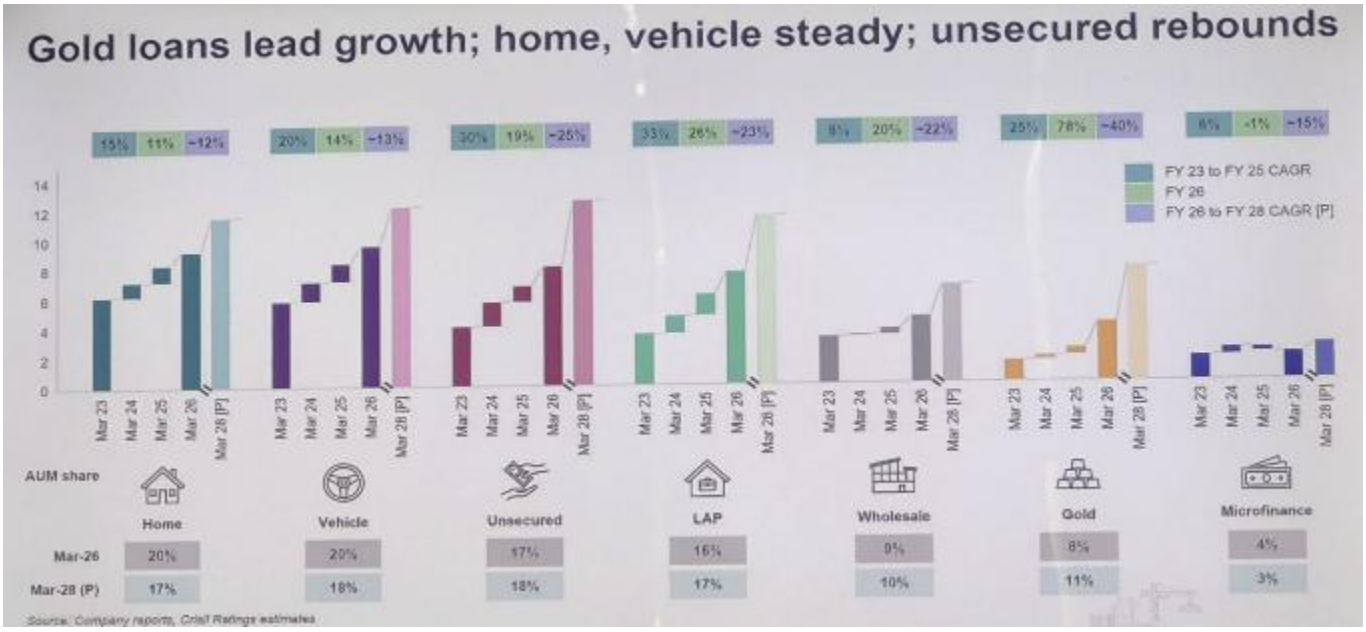
Source: CRISIL, MOFSL

Exhibit 4: Unsecured and MFI lending set to witness a revival in growth momentum



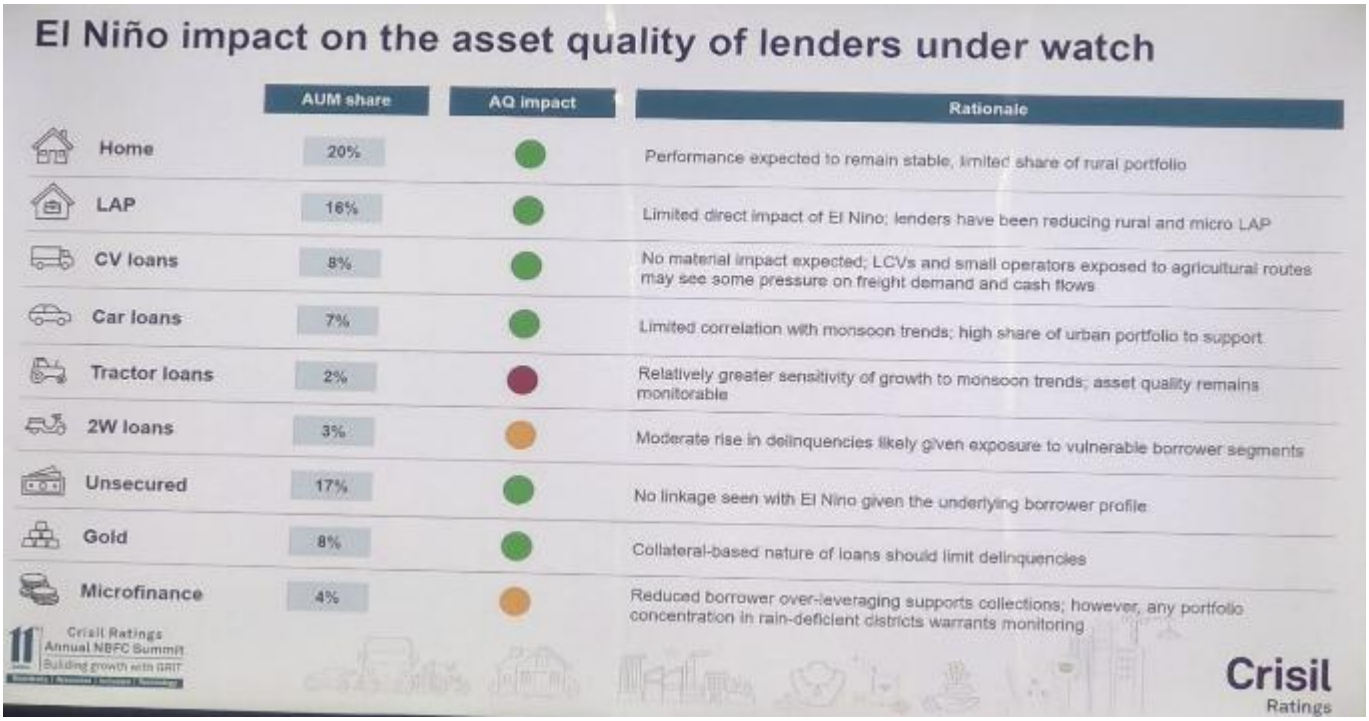
Source: CRISIL, MOFSL

Exhibit 5: Vehicle financing to witness a moderation in growth momentum over FY26-FY28E



Source: CRISIL, MOFSL

Exhibit 6: Impact of El Niño across segments

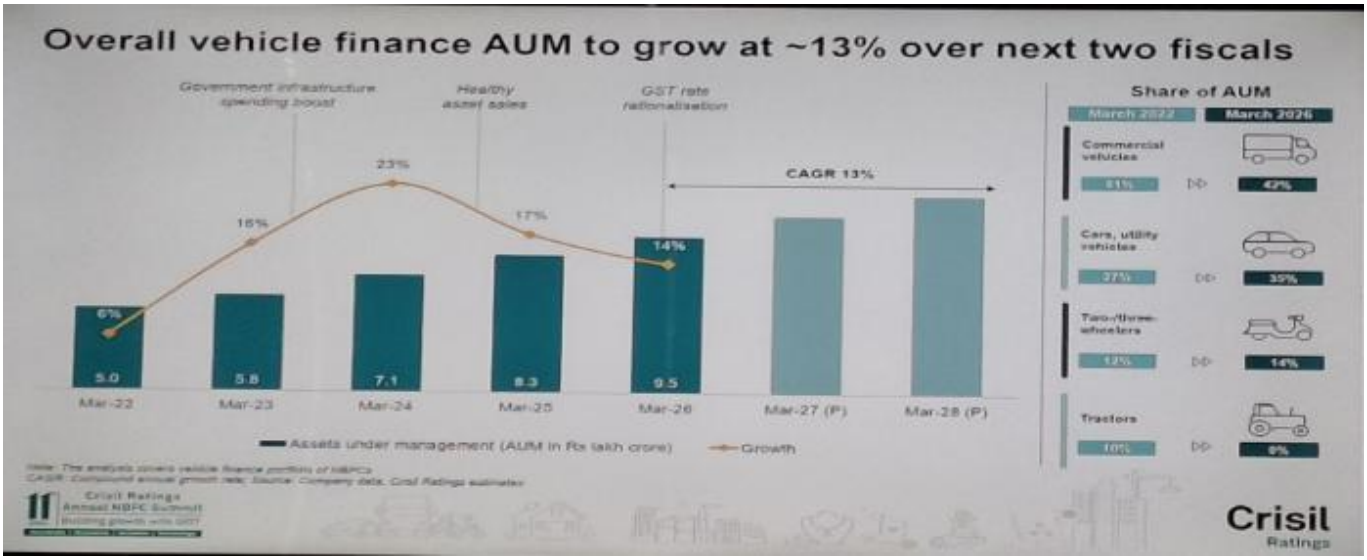


Source: CRISIL, MOFSL

Vehicle Financing: Growth recalibrates amid divergent segment dynamics

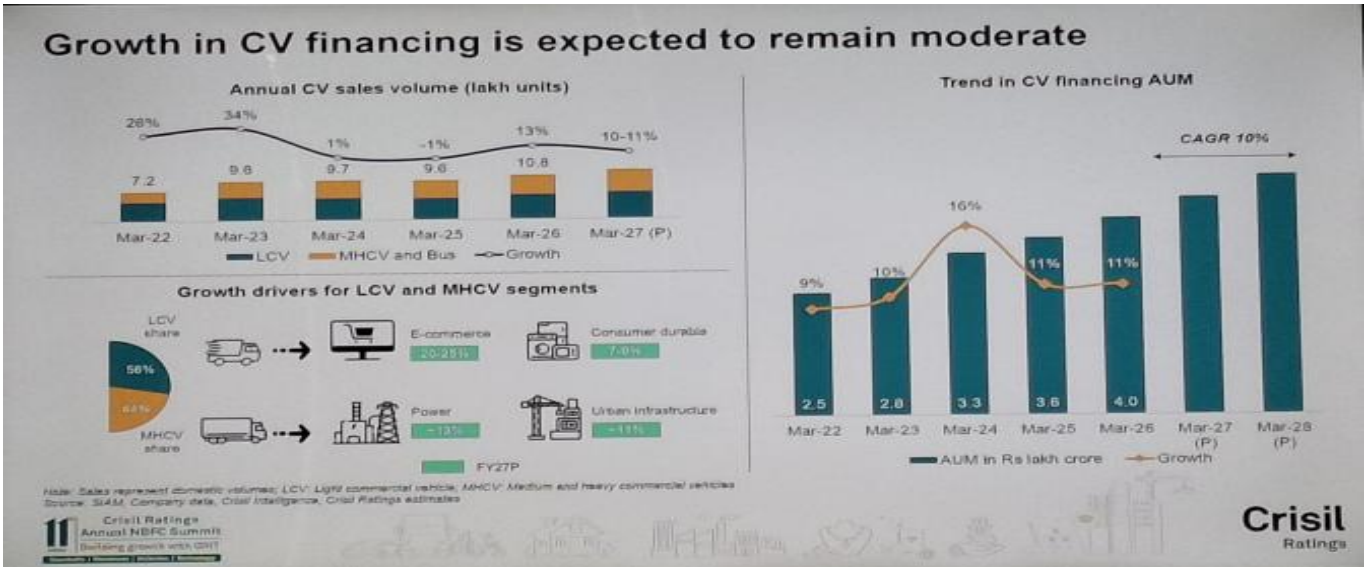
- Vehicle financiers are expected to navigate a period of moderate growth in FY27 and FY28, with vehicle finance AUM projected to grow at ~13%. While the underlying demand environment remains supportive, growth trajectories are likely to diverge across vehicle categories, reflecting differences in end-user demand, infrastructure activity, and sensitivity to rural economic conditions. CV financing is expected to remain relatively resilient, while tractors are likely to face near-term headwinds from monsoon variability and agricultural income pressures.

Exhibit 7: Overall vehicle finance AUM expected to clock ~13% CAGR over FY27-28



Source: CRISIL, MOFSL

Exhibit 8: CV financing growth expected to moderate to ~10% in FY27 and FY28



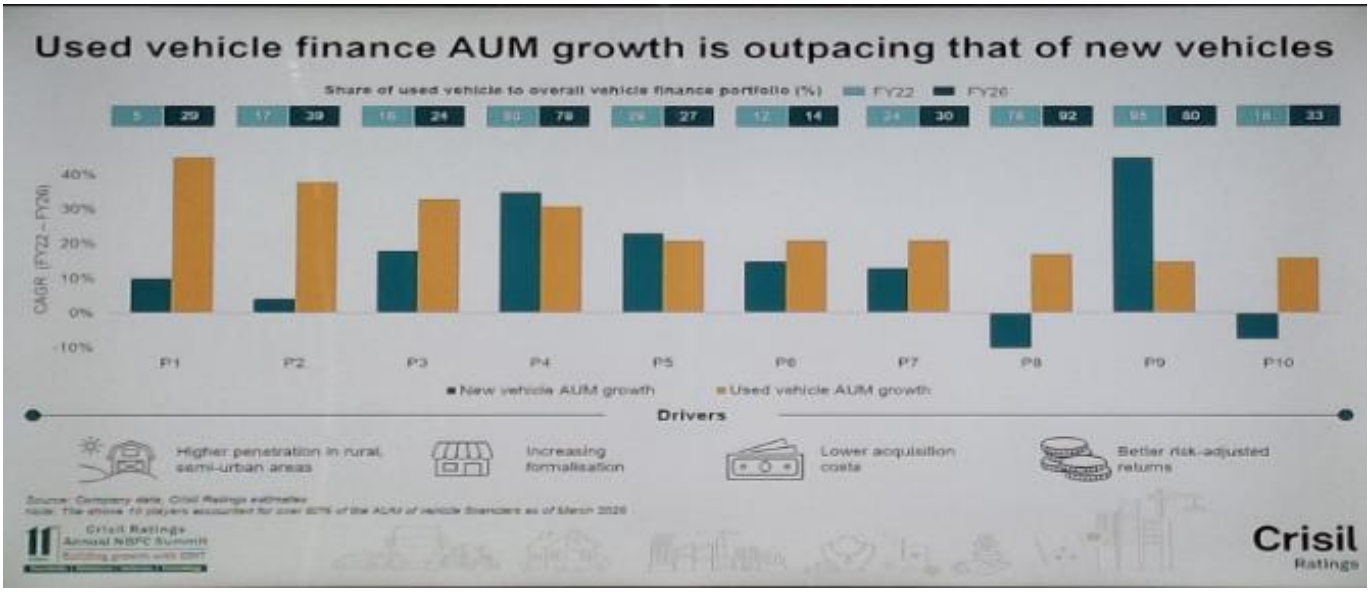
Source: CRISIL, MOFSL

- Within CV financing, replacement demand, rising goods movement, and sustained infrastructure development should support growth of ~10% over the next two years. Demand is expected to remain broad-based, with haulage

vehicles benefiting from transportation activity, while tippers and transit mixers should gain from construction-related demand. Bus financing could also experience an improvement, supported by replacement requirements and increasing intra-city and inter-city mobility. Importantly, CV utilization remains healthy, with trucks operating for ~23-24 days a month, indicating that underlying freight activity remains strong despite the evolving macro environment.

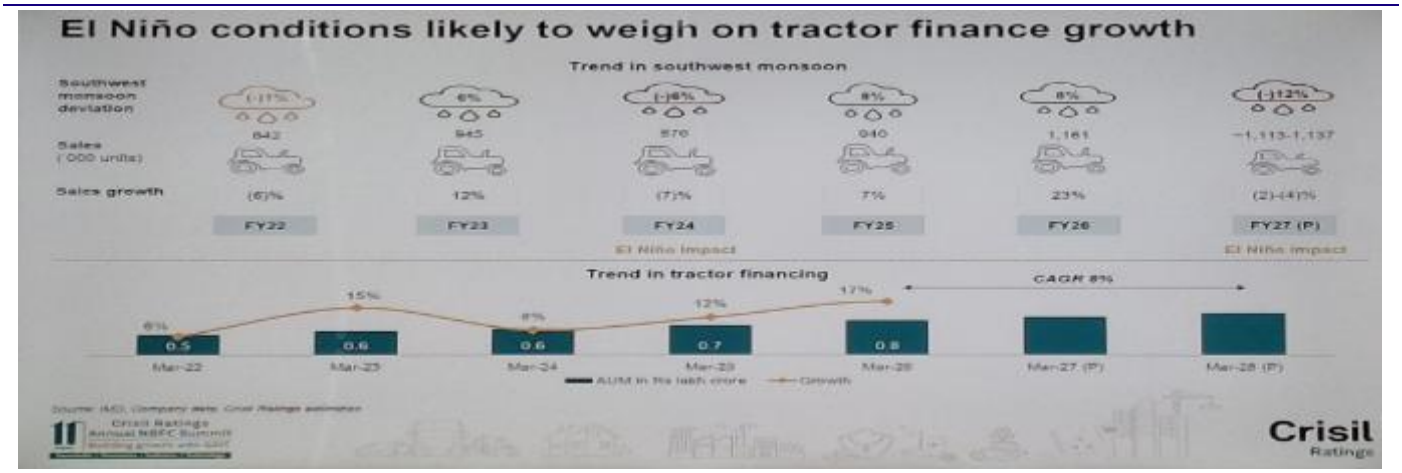
- The opportunity is also expanding beyond traditional new-vehicle financing. Used vehicle financing continues to offer attractive growth potential, supported by a large existing vehicle base, increasing formalization and the ability of established financiers to assess asset valuations and borrower behavior. Last-mile mobility and small LCVs are benefiting from the expansion of e-commerce and urban logistics, while EV penetration is creating an additional financing opportunity.

Exhibit 9: Used vehicle financing gaining momentum; set to outpace new vehicle financing growth



Source: CRISIL, MOFSL

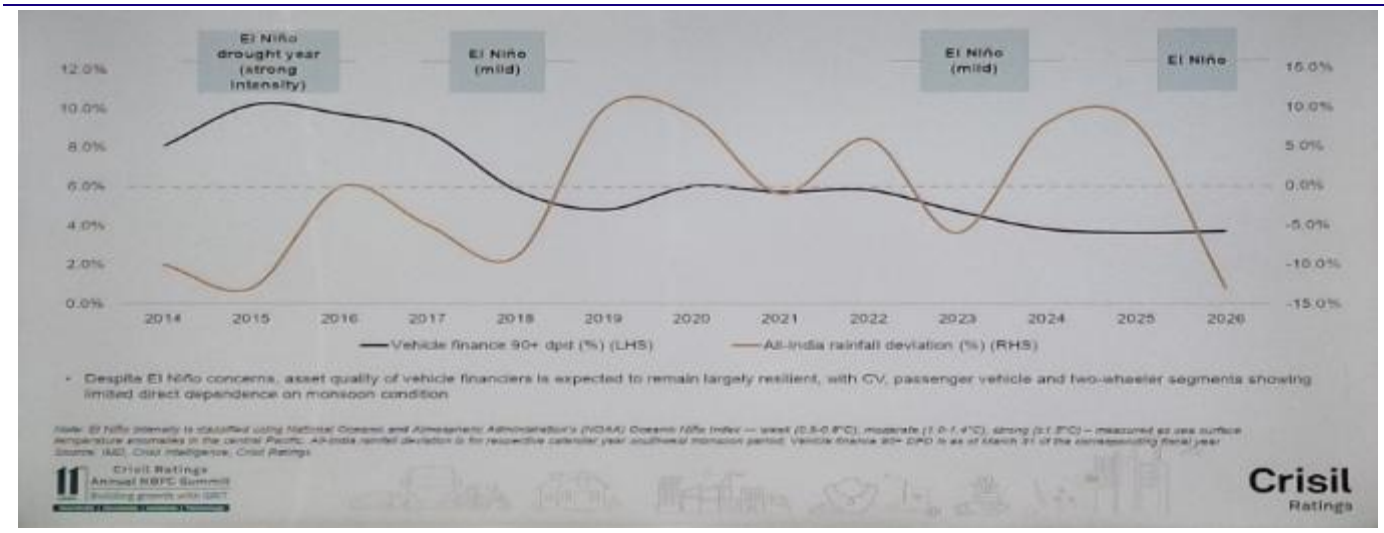
Exhibit 10: Tractor financing to be hit by El Niño



Source: CRISIL, MOFSL

- In contrast, tractor financing is likely to remain the most vulnerable segment, given its direct linkage with monsoon conditions and agricultural cash flows. Rainfall deficiency of ~12-13%, lower reservoir levels, and the possibility of El Niño could affect agricultural yields and rural repayment capacity. The current rainfall deficit is comparable to the levels witnessed in 2015, when tractor asset quality deteriorated even as other vehicle categories remained relatively resilient. However, the increasing diversification of rural incomes through livestock, transportation, and small businesses should provide some cushion against agricultural volatility. The impact is also likely to vary across micro-markets, necessitating closer monitoring of regional portfolio performance rather than a uniform assessment of rural credit conditions.
- Asset quality across vehicle financiers remains broadly resilient, supported by disciplined underwriting, conservative LTVs, and prudent loan-tenure practices over the past four to five years. Early-stage delinquencies across have largely remained within normal ranges. However, the increasing divergence in borrower profiles warrants closer attention. Larger CV fleet operators remain relatively well positioned due to diversified routes and stronger balance sheets, while smaller operators with limited vehicles, concentrated contracts, and high leverage remain more vulnerable. Similarly, first-time vehicle buyers and single-vehicle operators require sharper monitoring, given their limited ability to absorb income disruptions.

Exhibit 11: No material correlation of El Niño with vehicle financiers' asset quality

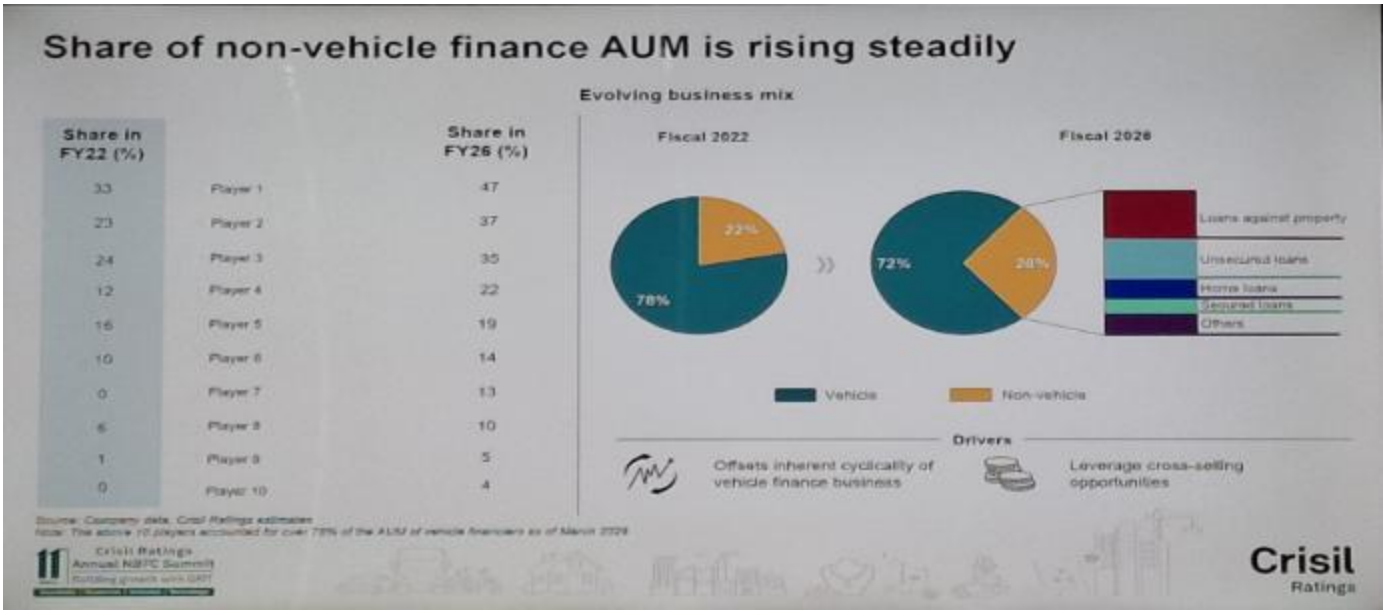


Source: CRISIL, MOFSL

- The key risks in vehicle financing continue to be excessive borrower leverage and incorrect vehicle valuation, particularly as financiers expand into newer customer categories and asset classes. While customers generally demonstrate a higher willingness to repay loans backed by income-generating assets, lenders will need to monitor vehicle utilization, resale values, and borrower cash flows throughout the loan lifecycle. Overall, 90+ DPD is expected to increase marginally to ~3.9% by Mar'27, with tractors likely to account for a larger share of the deterioration, although credit costs should remain manageable.

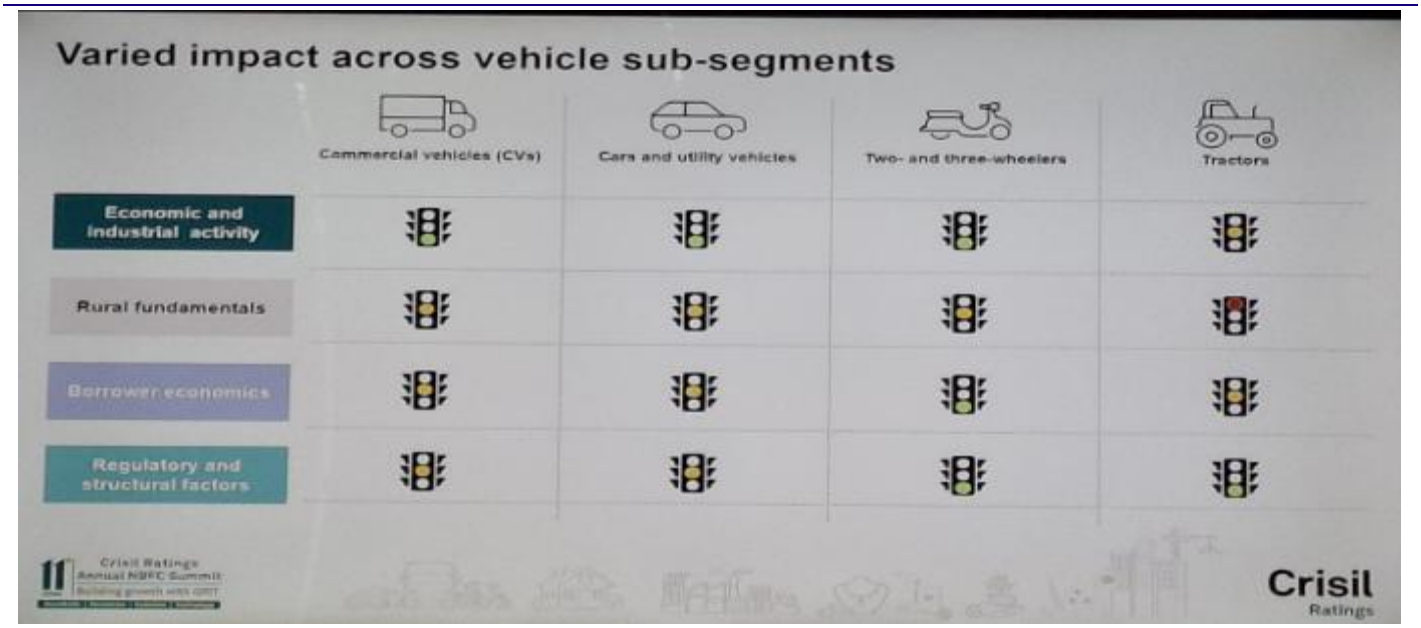
- Against the cyclical nature of vehicle financing, established players are increasingly pursuing a two-pronged diversification strategy: expanding into non-vehicle lending businesses while increasing the share of used vehicle financing within their core portfolios. This should help reduce dependence on individual vehicle categories and provide greater earnings stability through different economic cycles. Nevertheless, vehicle finance profitability could moderate, with RoMA expected at ~2.1-2.2% over FY27-28, reflecting higher funding costs and potential moderation in insurance commission income.

Exhibit 12: Diversification turning out to be a key theme for NBFCs



Source: CRISIL, MOFSL

Exhibit 13: Impact of different parameters across vehicle sub-segments

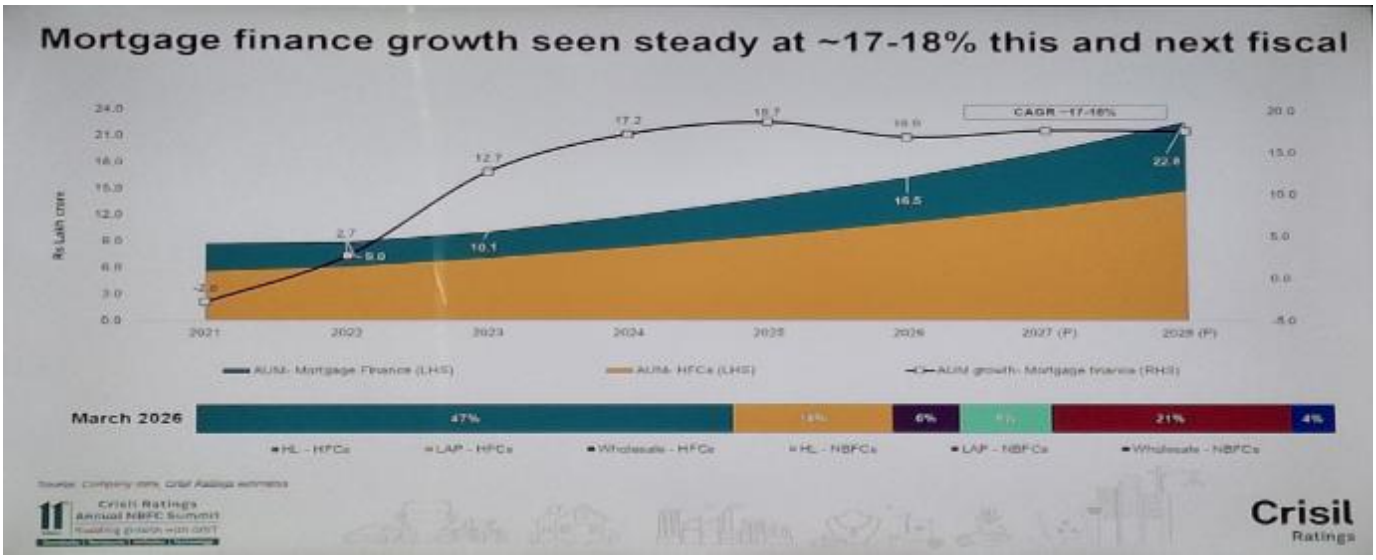


Source: CRISIL, MOFSL

Mortgage Financing: Growth remains steady; AHFCs to grow at a comparatively faster pace

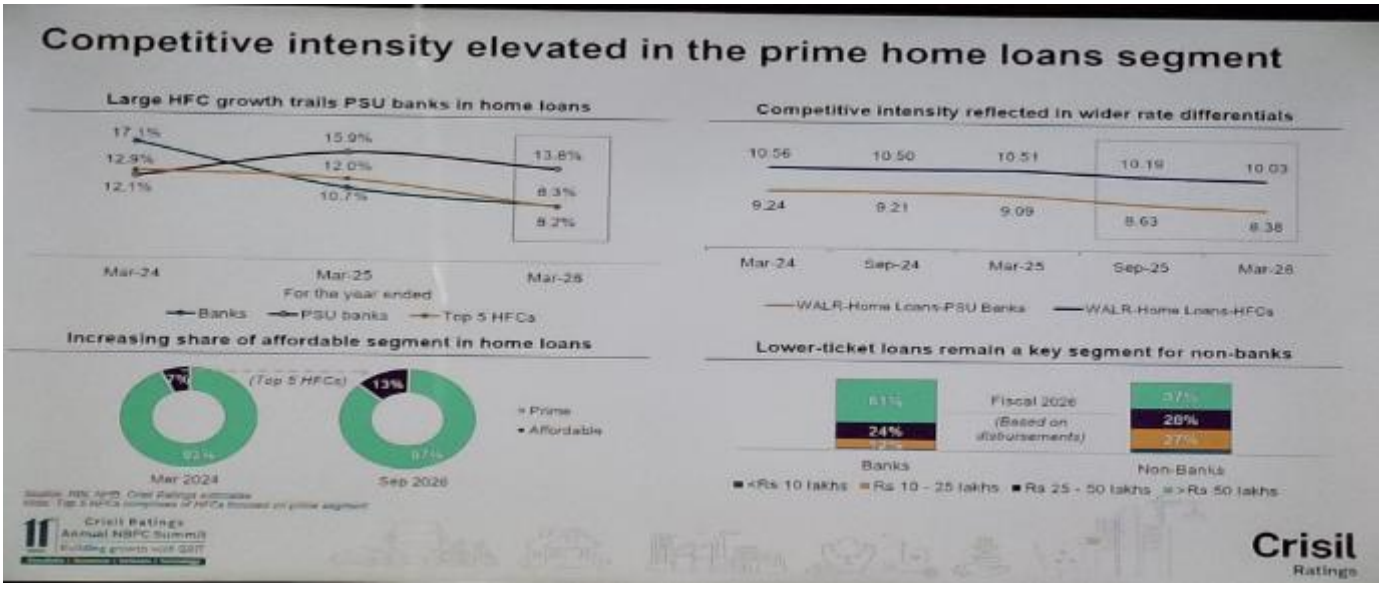
- Mortgage finance is expected to deliver a steady AUM growth of ~17-18% over the next two years, supported by structural housing demand, urbanization, and improving infrastructure across smaller cities. However, the industry is becoming increasingly differentiated by customer profile, ticket size, and income characteristics, making a uniform lending strategy less effective. The ability to identify underserved customer segments and build specialized underwriting and distribution capabilities will increasingly determine the growth trajectory of individual lenders.

Exhibit 14: Mortgage finance to grow at ~17-18% in FY27 and FY28



Source: CRISIL, MOFSL

Exhibit 15: PSU-led competition intensifies pressure in the prime housing finance segment



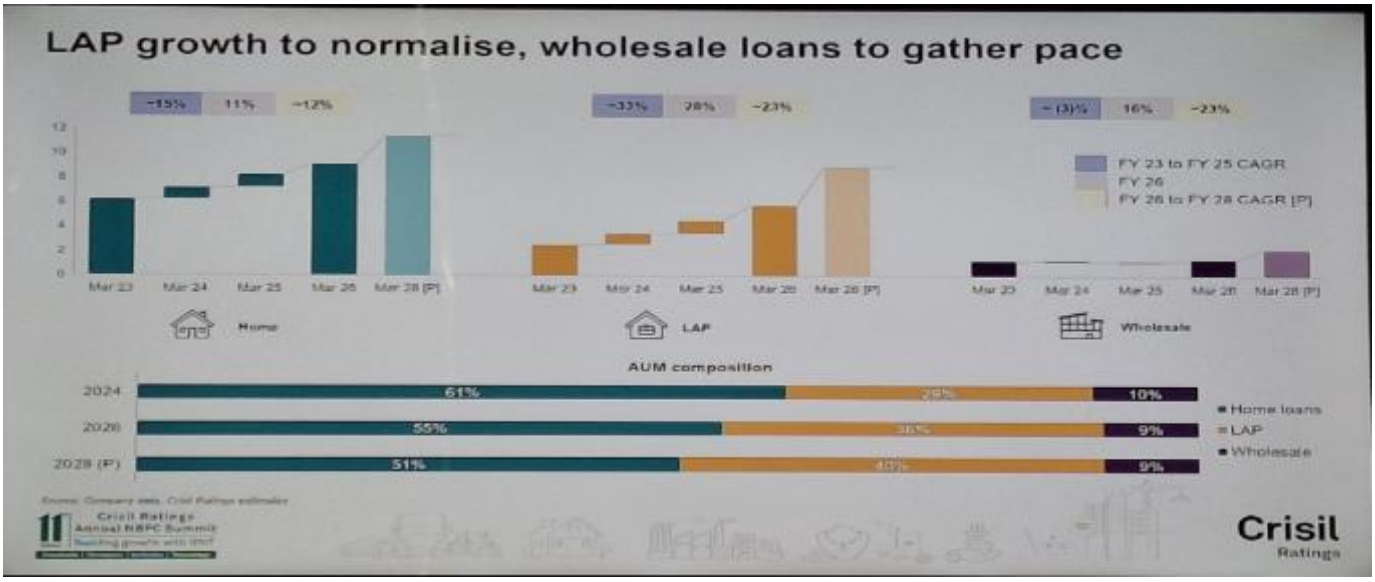
Source: CRISIL, MOFSL

- Competitive intensity has mounted, particularly in the prime salaried home-loan segment, where few large banks are actively targeting customers traditionally

served by HFCs. Improved access to customer data has enabled banks to expand into relatively unexplored borrower categories, while their lower funding costs provide a competitive advantage in rate-sensitive segments. Consequently, HFCs will need to differentiate through faster turnaround times, service quality, and a deeper understanding of informal and semi-formal income profiles rather than competing purely on pricing.

- The competitive landscape is therefore likely to become increasingly segmented, with banks retaining an advantage in larger-ticket and prime mortgage lending, while HFCs and specialized NBFCs remain relatively better positioned in smaller-ticket and self-employed borrower categories.
- Beyond traditional home loans, LAP is gradually gaining importance within mortgage portfolios, increasing the need for product-specific underwriting and risk assessment. While smaller-ticket LAP offers access to relatively underserved borrowers, the segment is more sensitive to income disruptions and local economic conditions. Delinquencies in LAP, particularly in smaller-ticket portfolios, have been relatively elevated, with 90+ DPD likely to witness some increase. The earlier MFI stress cycle has also highlighted the vulnerability of certain small-ticket borrowers, particularly those with overlapping borrowing exposures.

Exhibit 16: LAP growth to normalize going forward

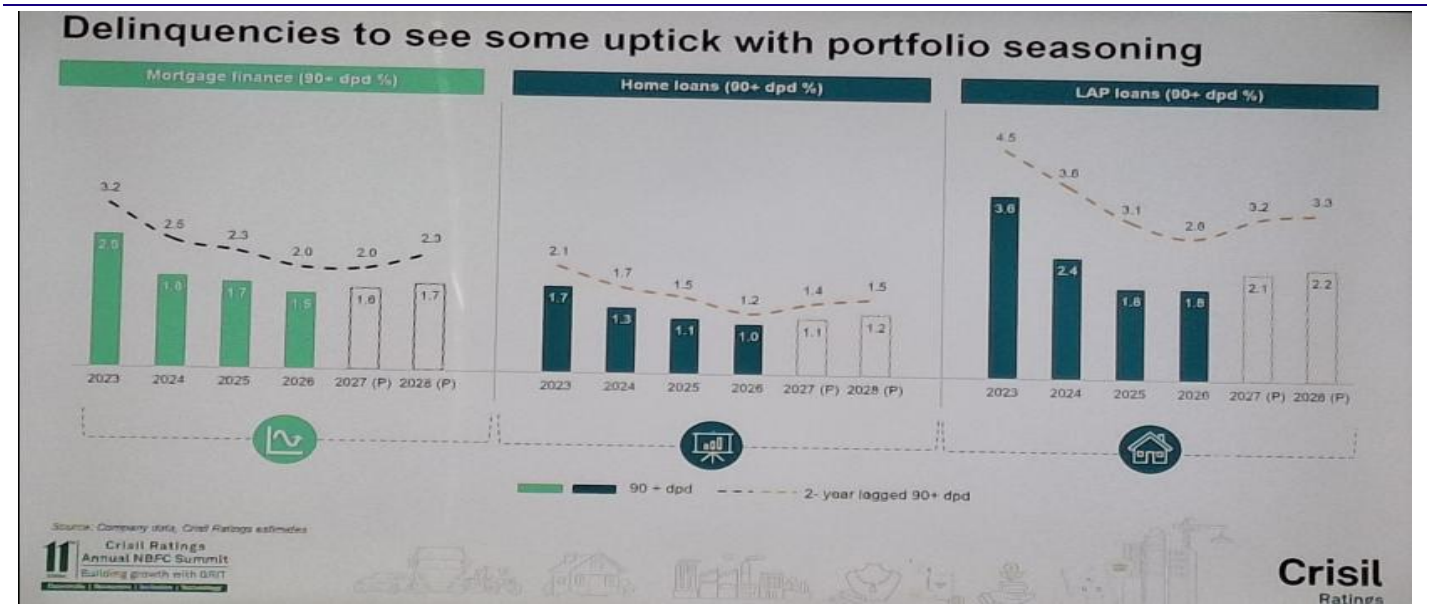


Source: CRISIL, MOFSL

- The changing nature of borrower income profiles is also making cash-flow-based underwriting increasingly important. Lenders operating in self-employed and informal-income segments need to assess the stability of business cash flows and the borrower's ability to absorb financial shocks rather than relying primarily on collateral value.
- Asset quality across mortgage portfolios remains broadly resilient, although portfolio seasoning and income volatility could result in a gradual increase in delinquencies. Small-ticket borrowers remain relatively more vulnerable to climatic disruptions, local economic weakness, and multiple borrowing obligations. Some lenders have observed that borrowers are increasingly using

gold loans to meet mortgage EMI obligations, which has helped sustain repayment behavior. However, such trends also reinforce the need to monitor aggregate borrower leverage, as continued repayment through additional borrowing could mask underlying cash-flow stress.

Exhibit 17: Uptick in delinquencies expected across all the mortgage finance sub-segments



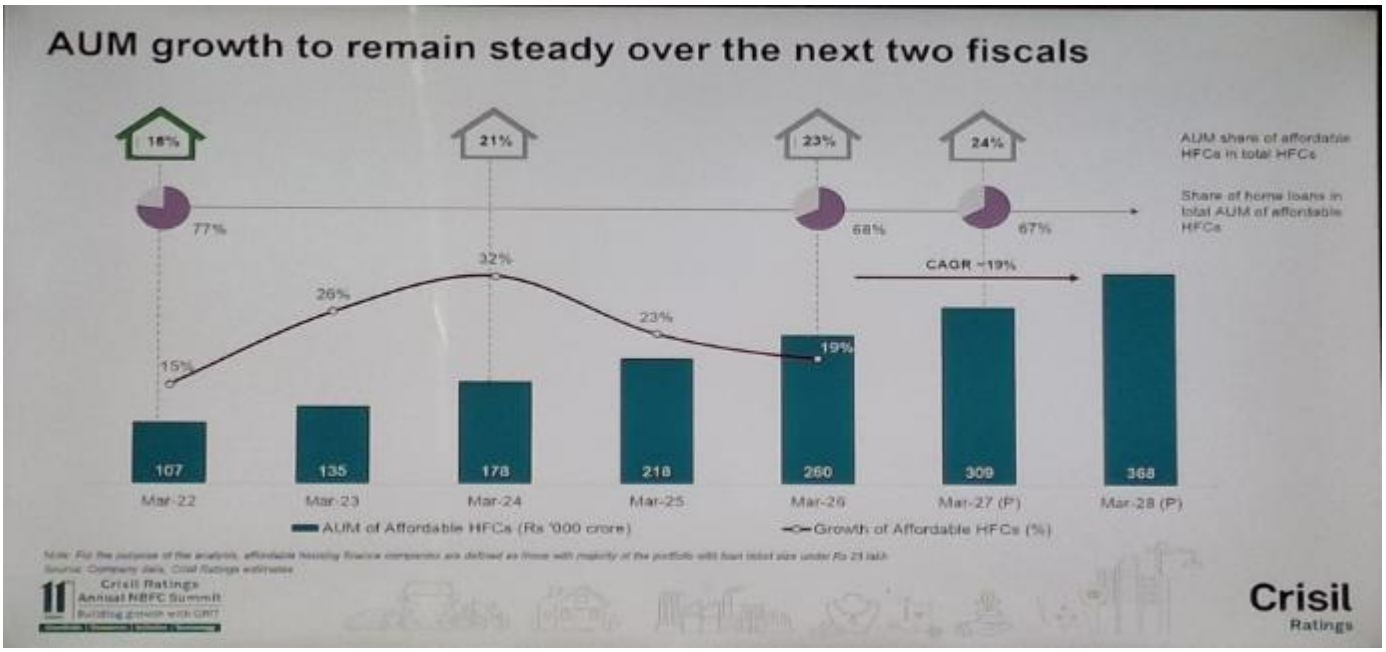
Source: CRISIL, MOFSL

- Mortgage finance profitability is likely to remain comfortable, although RoMA could moderate by ~10bp to ~2% by FY28. While lenders continue to benefit from operating efficiencies and disciplined underwriting, rising funding costs and potential changes in insurance commission income could offset some of the benefit from margin improvement.

Affordable Housing: Structural opportunity intact despite calibrated growth

- Affordable housing finance continues to offer a relatively attractive structural growth opportunity, supported by low mortgage penetration, rising urbanization, and increasing demand for homeownership across smaller cities. Affordable housing finance companies are expected to outpace the broader mortgage industry, although growth is likely to remain more moderate than the elevated levels witnessed in earlier years. The moderation appears to reflect a calibration in lender appetite and expansion capacity rather than any meaningful deterioration in underlying housing demand.

Exhibit 18: Affordable housing growth expected to moderate; but still would outpace the overall mortgage finance growth rate



Source: CRISIL, MOFSL

- An important differentiator for affordable housing lenders is their ability to serve customers with informal and semi-formal income profiles, who remain relatively underserved by traditional banks. Demand is supported not only by new housing construction but also by self-construction, incremental additions to existing homes, and resale transactions. This makes affordable housing demand relatively less dependent on new housing supply and provides lenders with a wider addressable market across Tier 2, 3, and 4 cities.
- The ability to scale profitably, however, will increasingly depend on distribution strength and the availability of skilled employees. Affordable housing lenders require a deeper on-ground presence to assess customers with limited formal income documentation, making employee capabilities, local market understanding, and faster service delivery important competitive differentiators. While established players with strong distribution networks can continue to expand faster than the industry, talent availability and the ability to build credit assessment capabilities could constrain the pace of growth.
- The portfolio mix is also evolving, with LAP gradually increasing its contribution to affordable housing portfolios. While this provides an opportunity to address a wider set of customer financing requirements, it also increases the importance of product-level underwriting, given the differences in borrower cash flows, end-use requirements, and repayment behavior between home loans and LAP. Lenders will need to ensure that portfolio expansion does not dilute their underwriting standards, particularly in smaller-ticket categories.
- Asset quality could witness some moderation as portfolios season and lenders expand into deeper geographies. Small-ticket borrowers are more susceptible to income shocks arising from climatic disruptions and local economic conditions, while certain LAP portfolios could remain vulnerable to the after-effects of stress in the microfinance segment. However, the overall mortgage portfolio is expected to remain manageable, with lenders increasingly focusing on

repayment capacity and the ability of borrowers to withstand temporary income disruptions.

- Overall, affordable housing finance remains a structurally attractive segment, with the opportunity increasingly shifting towards lenders that can combine deeper geographical penetration with strong customer assessment capabilities. Sustainable growth will depend less on expanding distribution alone and more on the ability to scale granular portfolios without compromising asset quality or risk-adjusted returns.

Gold Financing: Formalization and rising customer acceptance create a structural growth opportunity

- The gold loan industry has surged to ~INR23t from ~INR5t five years ago, supported by rising gold prices, improving customer acceptance, and tighter credit availability across certain other lending segments. Gold loans are increasingly emerging as an alternative source of formal credit, particularly for non-salaried individuals and borrowers who may face constraints in accessing unsecured financing. With only ~10% of the population receiving regular salaries, the segment addresses a meaningful financing requirement among households and small businesses with limited access to conventional credit.
- The opportunity extends beyond the increase in gold prices, with formalization and geographical expansion providing additional growth drivers. Nearly 60% of the gold loan market remains unorganized, indicating substantial scope for organized lenders to gain share through stronger processes, transparent pricing, and wider distribution. Further, ~71% of gold loan portfolios are concentrated in five southern states, leaving considerable headroom for expansion across northern, eastern, and western India. Regulatory changes permitting wider branch expansion and the introduction of co-lending arrangements between regulated entities should further support the ability of established players to penetrate newer markets.
- Customer acceptance has also improved materially, with borrowers becoming increasingly comfortable monetizing household gold for personal and business requirements. The average ticket size has increased from ~INR20-30k historically to over INR200k currently, indicating greater participation from relatively affluent borrowers. The increasing visibility of gold loans, wider product awareness, and growing competition are further supporting adoption. Importantly, the sentimental value attached to household gold makes borrowers generally reluctant to forfeit pledged ornaments, providing lenders with an additional layer of repayment comfort even during periods of declining gold prices.
- Growth, however, is expected to moderate from the unusually elevated levels of 80-100% witnessed recently as the portfolio base expands. Sustainable industry growth of ~20-30% appears more reasonable, supported by continued formalization and underlying demand. Gold loan companies are also exploring adjacent secured lending opportunities, including microfinance-backed secured products and mortgage loans against property, which could provide incremental avenues for customer acquisition and portfolio diversification.
- Asset quality remains one of the key structural strengths of gold loan financing, with conventional borrower defaults translating into negligible credit losses.

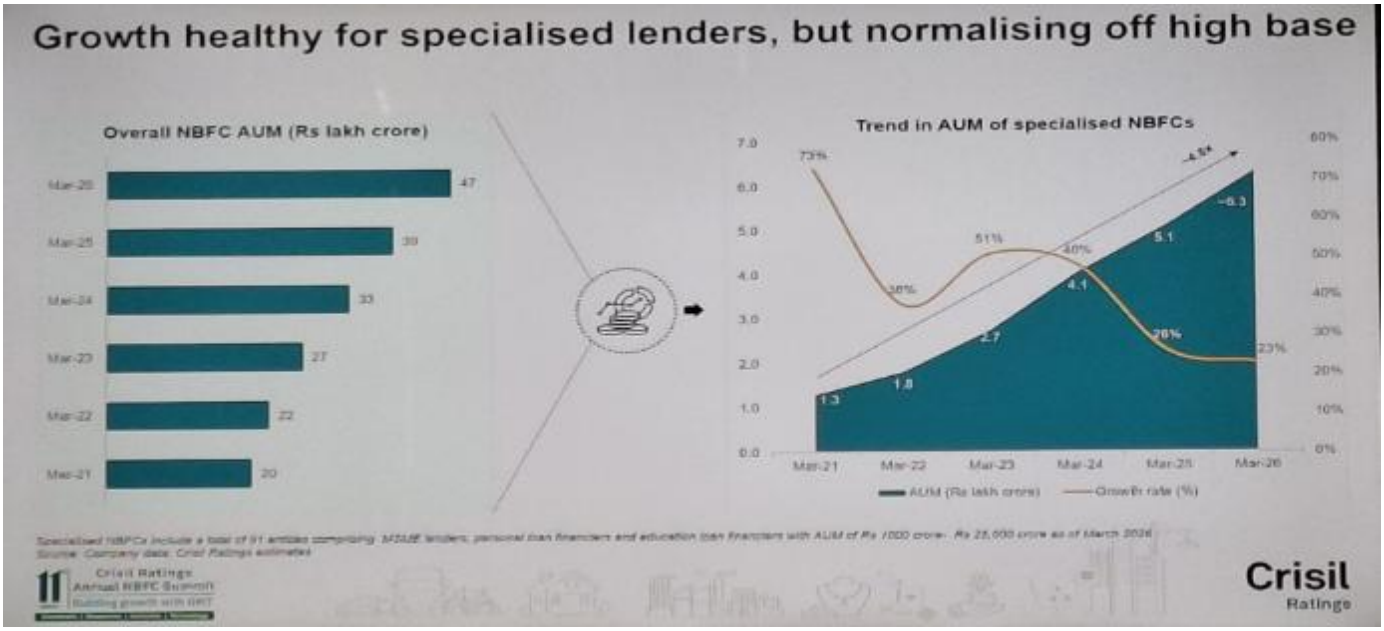
Muthoot Finance, for instance, reported annual credit losses of less than ~0.05% of assets. This is largely because borrowers have a strong incentive to repay and recover their pledged gold, even when their accounts become delinquent. Consequently, reported NPAs do not necessarily translate into equivalent economic losses, unlike unsecured lending portfolios.

- The primary risks in gold lending are therefore operational rather than conventional credit-related, including fake or stolen gold, employee fraud, and security breaches. Established lenders have responded by strengthening centralized vault controls, surveillance, and gold verification processes. Muthoot Finance's investments in security infrastructure have resulted in virtually no burglaries over the past few years, highlighting the importance of operational controls in protecting portfolio economics. Its current LTV stands at ~77%, even after the recent moderation in gold prices, while the 2012-13 gold price correction demonstrated the resilience of focused gold loan NBFCs.
- The transition to revised regulatory requirements, particularly monthly repayment structures replacing traditional bullet repayments, could result in a temporary increase in Stage 2 and Stage 3 delinquencies. Borrowers accustomed to repaying principal and interest at maturity will require time to adapt, while branch-level processes will also need to evolve. This transition is expected to stabilize over the next one to two quarters as customer familiarity and operational execution improve. Importantly, the revised framework also requires additional customer assessment for loans above INR250k, although established players already undertake detailed customer assessments, limiting the incremental implementation challenge.
- The underlying quality of gold loan portfolios will increasingly depend on lenders' ability to assess borrower repayment capacity rather than relying exclusively on collateral value. Rapid portfolio expansion, particularly at rates materially exceeding the broader market, could weaken customer selection and increase operational risks.

Specialized NBFCs: Growth opportunities improve as portfolios undergo risk recalibration

- Specialized NBFCs and digital lenders continue to leverage their expertise in underpenetrated lending segments, including personal loans, MSME finance and education loans. While growth opportunities remain attractive, lenders are increasingly prioritizing risk-adjusted returns over volume-led expansion. Personal loans are expected to lead growth, supported by improving portfolio performance and a gradual recovery in disbursement momentum, whereas secured MSME lending should remain relatively steady. Unsecured MSME and education finance growth could moderate as lenders recalibrate their exposure to evolving credit and market risks.

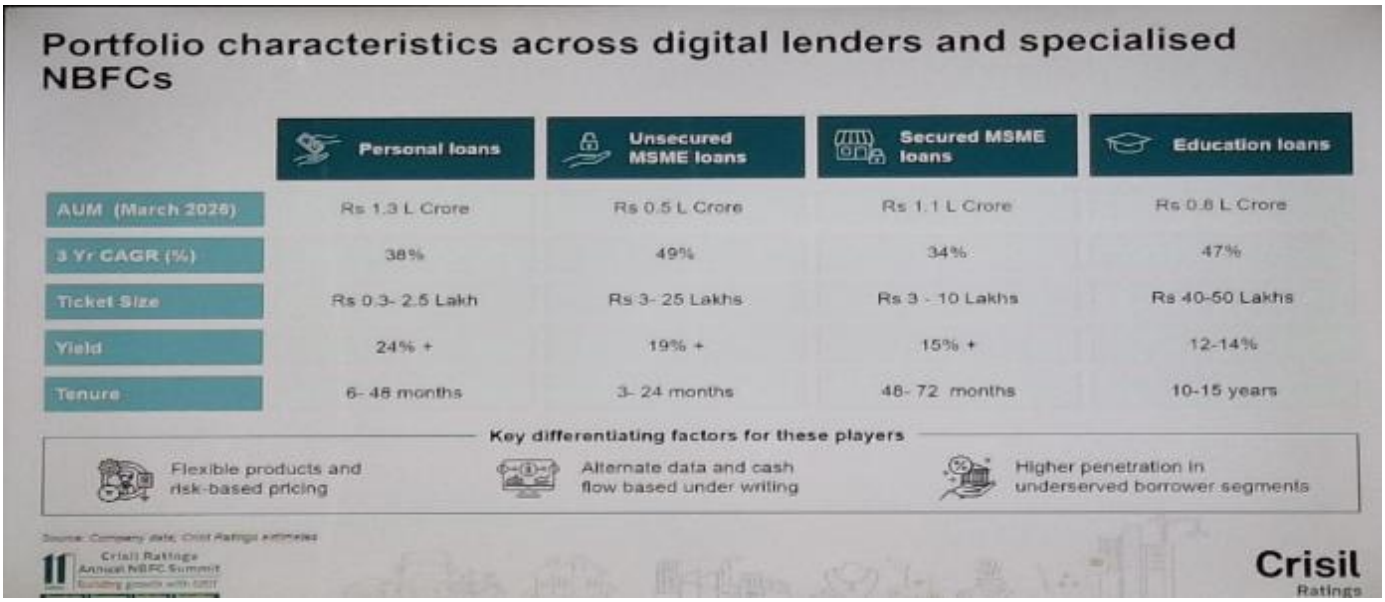
Exhibit 19: Growth remains healthy for specialized lenders



Source: CRISIL, MOFSL

- Personal lending is showing signs of recovery following the risk-calibration measures undertaken over the past few years. Recent loan vintages are exhibiting improved asset quality, providing lenders with greater confidence to gradually rebuild disbursements. The improvement also reflects a more selective approach toward customer acquisition and underwriting, with lenders increasingly prioritizing borrower quality over rapid portfolio expansion. The ability to sustain this improvement across customer cohorts will remain important for supporting growth and profitability.
- MSME lending continues to benefit from increasing formalization, improved availability of bureau information, and greater access to transaction-level data. The sector's importance across corporate supply chains and consumer demand also provides a structural growth opportunity. Importantly, underwriting practices are evolving beyond conventional asset-backed lending, with lenders increasingly incorporating business cash flows and actual repayment capacity into credit assessments. This should improve the ability to distinguish between borrowers with sustainable business operations and those whose repayment capacity is more vulnerable to economic disruptions.
- Within the MSME segment, secured lending is expected to remain relatively resilient, while unsecured lending could witness more measured growth amid the need to maintain portfolio quality. Recent stress in certain borrower categories has reinforced the importance of assessing leverage across lenders and identifying overlaps with other granular retail exposures. The gradual improvement in corporate investment activity and demand across MSME supply chains should nevertheless provide a favorable backdrop for credit expansion.

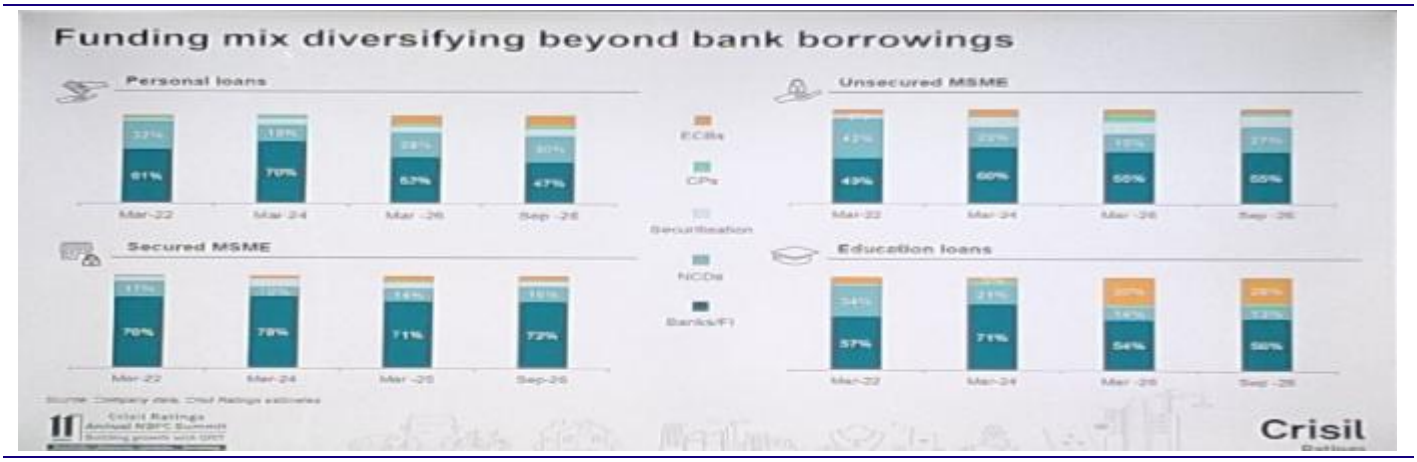
Exhibit 20: Portfolio parameters for specialized lenders



Source: CRISIL, MOFSL

- Education finance continues to offer attractive long-term growth opportunities, although lenders are increasingly diversifying their geographical exposure as growth in the US education market moderates. Expanding opportunities across other international education destinations should help offset concentration risks, while maintaining disciplined borrower selection will remain important given the relatively long-tenor nature of these loans. The ability to balance geographical diversification with prudent underwriting should determine the segment's sustainable growth trajectory.

Exhibit 21: Banks remain the major source of lending for specialized lenders



Source: CRISIL, MOFSL

- Funding diversification is also becoming increasingly important for specialized lenders, particularly those with limited access to diversified liability pools. While banks and large NBFCs will continue to remain significant funding partners, co-lending arrangements and strategic partnerships can help lenders expand distribution and improve capital efficiency without proportionately increasing balance-sheet requirements. Adequate capital buffers and periodic capital raises will remain important to support growth through different credit cycles.

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