

Banks vs NBFCs: Emerging Trends and Outlook



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India's credit market is entering a more mature phase, where the debate is no longer about banks versus NBFCs, but about how both can finance the next leg of growth. Banks bring scale, low-cost funding and systemic stability, while NBFCs offer specialised underwriting, flexibility and deeper access to underserved borrowers.

This complementarity is becoming increasingly important as India's credit cycle broadens beyond large corporates into households, MSMEs, services, trade, supply chains and semi-urban markets.

Growth Trends: Banks and NBFCs

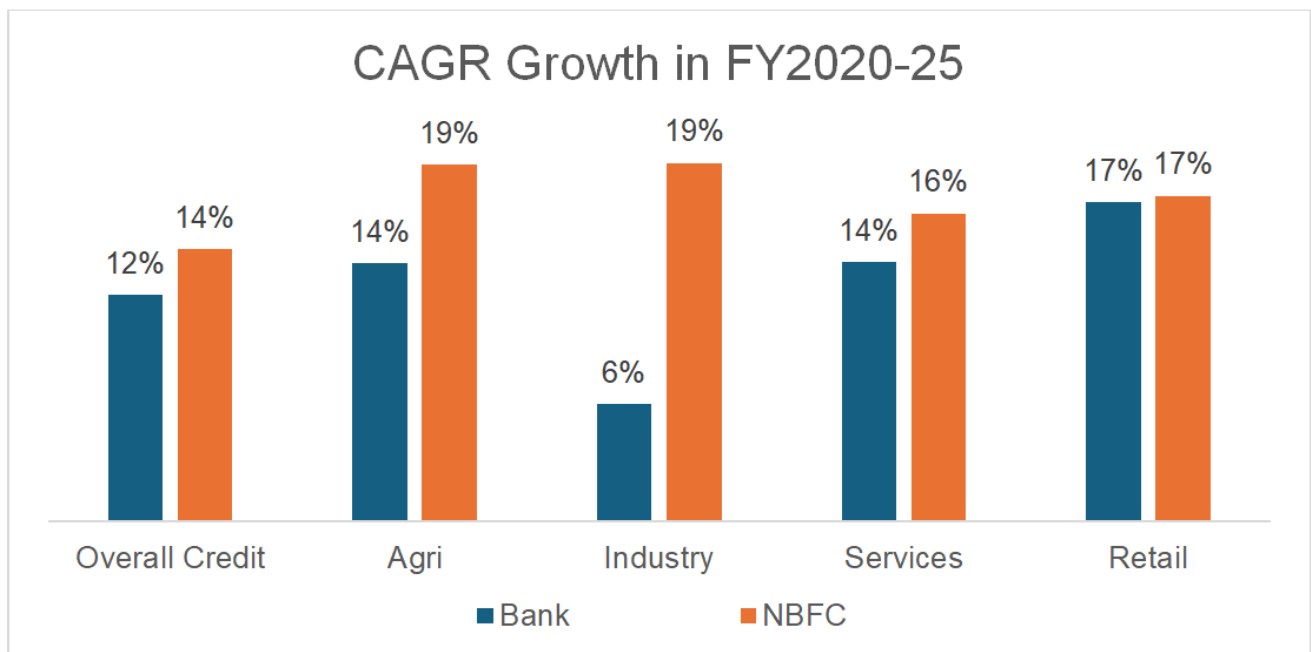
Over the last few years, both banks and NBFCs have recorded strong credit growth, though the drivers have differed significantly.

Scheduled commercial banks' non-food credit increased from Rs. 103.2 lakh crore in March 2020 to Rs. 212.9 lakh crore in March 2026, reflecting a CAGR of around 13%. Growth was led by retail and services lending, with personal loans¹ rising from Rs. 27.3 lakh crore to Rs. 69.4 lakh crore and services credit increasing from Rs. 26.7 lakh crore to Rs. 60.6 lakh crore, registering growth of 16.8% & 14.7%, respectively. Agriculture credit also expanded steadily, while industrial credit grew at a comparatively slower pace of 8% during the period. This underscores the shift in bank lending towards households, MSMEs, trade and services rather than large corporate borrowers.

NBFCs have grown even faster, with loans and advances rising from Rs. 24.6 lakh crore in March 2020 to Rs. 52.1 lakh crore in September 2025, implying a CAGR of around 15%. Growth was broad-based, with retail loans expanding faster at about 18% over the same period.

Gross Loans (Rs. lakh crore)	FY20	FY21	FY22	FY23	FY24	FY25	CAGR FY2020-25
Banking Sector	103.2	108.9	118.4	136.6	164.1	182.1	12%
NBFC Sector	24.6	27.1	29.0	34.1	40.5	48.4	14%

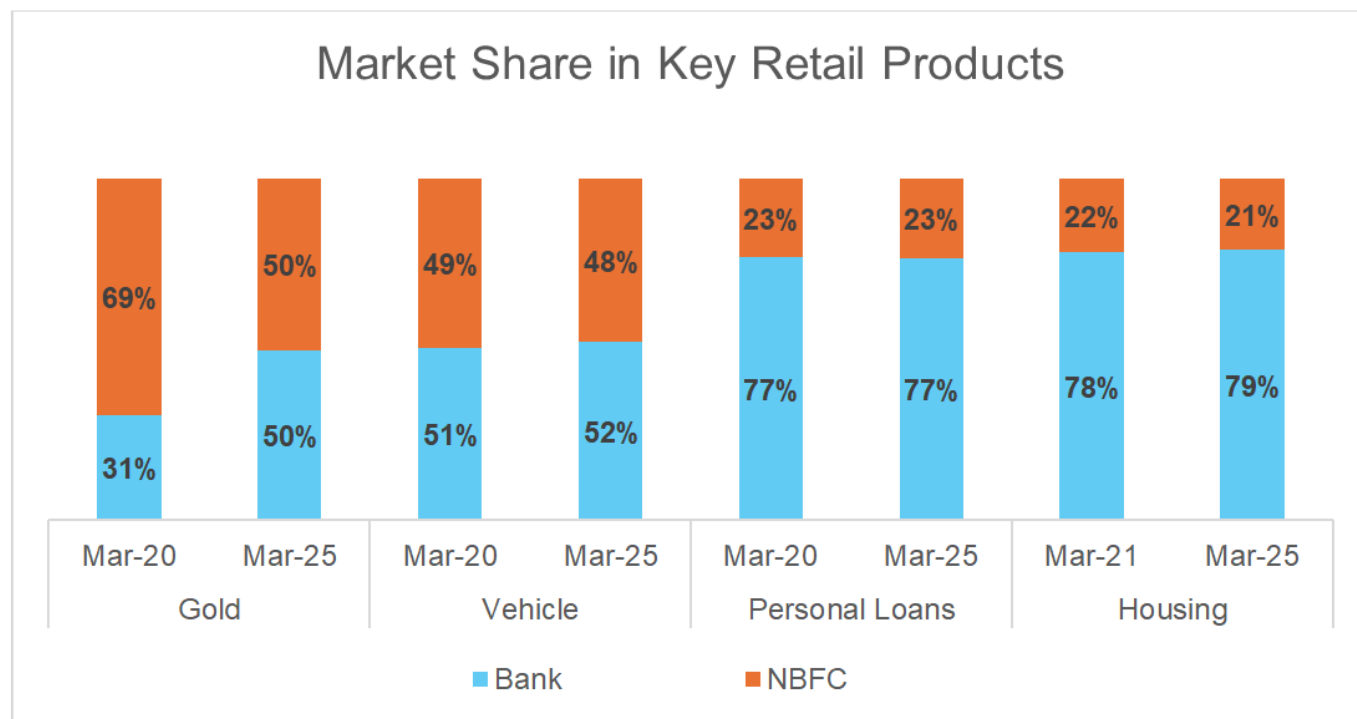
Source: RBI



Source: RBI

Market Share Dynamics: Winners and Losers

While both banks and NBFCs have grown their retail loan book, the competitive landscape between banks and NBFCs varies significantly across different retail products.



Source: RBI; CRISIL Intelligence, CRIF Highmark. For housing loans market share, NBFCs include HFCs as well

Housing Finance

Banks continue to dominate housing finance. Following the merger of HDFC Ltd. with HDFC Bank, the banking sector's share in housing loans increased substantially. Banks now account for the majority (~80%) of outstanding individual housing credit, benefiting from lower funding costs and strong customer relationships. While housing finance companies remain important players, banks have strengthened their leadership position in this segment.

Gold Loans

Gold loans present a contrasting trend. Historically, NBFCs dominated this market due to their specialised branch networks and quick disbursement processes. However, banks have gained market share in recent years by expanding secured retail lending and leveraging their lower cost of funds. By FY2025, the market share of Banks has inched up to ~50% as compared to 31% a few years earlier. Regulatory efforts aimed at harmonising lending norms for gold-backed loans are likely to further reduce differences between the two sectors.

Vehicle Finance

Vehicle finance remains one of the strongest segments for NBFCs. RBI data indicate that NBFCs increased their share of the combined bank-NBFC vehicle finance market from around 44% in FY2023 to nearly 48% in FY2025. NBFCs possess deeper dealer networks, faster approval processes and greater expertise in financing used vehicles and self-employed borrowers. Their presence in semi-urban and rural markets also gives them access to customer segments that banks often find difficult to serve efficiently.

Personal Loans and Consumer Lending

Personal loans have become one of the most contested retail segments, attracting both banks and NBFCs due to their favourable risk-reward profile. The market is dominated by banks on account of their wide presence. However, NBFCs have carved out a niche in consumer finance, particularly in small-ticket loans, point-of-sale financing and digital lending. Their ability to leverage technology and alternative data has enabled them to serve customers who may not qualify under traditional bank underwriting models.

Over the past two years, growth in these segments has moderated after the rapid expansion of FY2021–FY2024, which led to borrower overleveraging and higher credit costs in some pockets. Going forward, the regulatory action on risk weights as well as intervention with respect to market practices is expected to create a more conducive environment for this segment to grow.

Regulatory Convergence: RBI's Push Towards a Level Playing Field

A key development has been the RBI's move toward regulatory convergence between banks and NBFCs. After the liquidity stress that followed the IL&FS crisis, the RBI strengthened oversight of NBFCs through tighter governance, prudential, liquidity and disclosure norms.

The introduction of the Scale-Based Regulation (SBR) framework for NBFCs marked a significant shift in regulatory philosophy. Under this framework, larger and systemically important NBFCs are subject to tighter prudential norms, governance standards and supervisory oversight, bringing them closer to the regulatory standards applicable to banks. The RBI has also progressively aligned regulations relating to capital adequacy, liquidity risk management, asset classification, provisioning and disclosure requirements.

The increase in risk weights on unsecured consumer credit for both banks and NBFCs, the harmonisation of norms governing lending against gold collateral, and the emphasis on responsible digital lending practices reflect a common regulatory approach across lender categories. The co-lending framework has also been refined to facilitate collaboration between banks and NBFCs while ensuring consistent customer protection standards.

The broader objective is not to make NBFCs identical to banks, but to ensure that similar risks are regulated in a similar manner. This convergence is strengthening confidence in the NBFC sector, improving financial stability and creating a more balanced competitive environment where institutions compete based on efficiency, customer service and underwriting capabilities rather than regulatory differences.

Improving Health of Banks and NBFCs

The health of both banks and NBFCs has improved materially since 2020, supported by balance-sheet repair, stronger capital buffers, tighter regulation and better risk management.

For banks, the improvement is most visible in asset quality and profitability. The gross non-performing assets ratio of banks, which stood at 7.3% in March 2021, declined to a multi-decadal low of 2.3% by March 2025 and further to 2.2% by September 2025. Capital buffers have also remained strong, with the capital to risk-weighted assets ratio of scheduled commercial banks at 17.2% in September 2025, well above regulatory requirements. Profitability has strengthened as well, with banks reporting return on assets of 1.4% in FY2025 as against 0.7% in FY2021.

NBFCs have also emerged stronger after the liquidity and confidence challenges of the FY2018-2020 period. As the RBI highlighted in its recent Financial Stability Report, NBFCs maintained robust capital buffers (CRAR of 25.8% as of March 2025) and recorded an improvement in asset quality with Gross NPA ratio dropping from 6.4% in March 2021 to ~3% in March 2025.

While the improvement in financial health across both sectors provides a stronger foundation for credit expansion, lending remains inherently cyclical and sensitive to underwriting discipline. Institutions with diversified loan portfolios, granular exposures and prudent risk management are likely to deliver more stable performance through credit cycles, compared with lenders with high concentrations in relatively riskier segments such as unsecured personal loans and microfinance. Recent trends in FY2025 and FY2026 further reinforce that entities with higher share of personal and microfinance loans saw weakness in profitability.

Banking Sector	FY2019	FY2021	FY2023	FY2025	H1FY26
Gross NPA (%)	9.2%	7.3%	3.9%	2.3%	2.2%
Net NPA (%)	3.8%	2.4%	1.0%	0.5%	0.5%
Return on Assets (%)	-0.1%	0.7%	1.1%	1.4%	1.3%
CRAR / Capital adequacy (%)	14.3%	16.2%	17.2%	17.4%	17.2%

Source: RBI

NBFC Sector	FY2021	FY2022	FY2023	FY2024	FY2025
GNPA ratio (%)	6.4%	6.2%	4.3%	4.0%	3.0%
Return on Assets (%)	~1.5%	2.1%	3.3%	3.3%	2.4%
CRAR / Capital adequacy (%)	25.0%	26.9%	27.5%	26.6%	25.8%

Source: RBI; FY2025 data is for NBFC UL and NBFC ML but covers ~95% of assets of the sector

Outlook and Emerging Trends

The outlook for both sectors remains stable, although growth is likely to become more balanced.

For banks, credit growth should continue to be supported by retail lending, housing, MSMEs and services. Asset quality remains strong, capital levels are comfortable and corporate balance sheets are healthier than in previous cycles. However, deposit mobilisation and margin pressures may emerge as key challenges.

For NBFCs, growth opportunities remain significant in vehicle finance, gold loans, equipment finance, supply-chain finance and MSME lending. Well-capitalised NBFCs with diversified funding sources and strong governance standards are likely to deliver healthy growth with stable profitability.

Several structural trends are likely to shape both sectors –

1. Co-lending partnerships between banks and NBFCs will expand, combining low-cost funding with specialised origination capabilities.
2. Securitisation and direct assignment will remain important tools for liquidity management of NBFCs. These provide access to priority sector and retail loans for banks without expanding their physical infrastructure.
3. Secured lending is likely to gain preference over unsecured consumer credit as lenders focus on risk-adjusted growth. There will be pockets where unsecured consumer credit will grow at a healthy pace, albeit with a better risk calibration by lenders.
4. Digital public infrastructure, including Account Aggregators and GST-based underwriting, will improve credit access for underserved borrowers.
5. NBFCs often serve as the first point of formal credit for borrowers with informal income streams. Over time, many such borrowers graduate to the banking system after building a formal repayment record. This trend is likely to continue to expand the formal credit network amongst borrowers.
6. Regulatory convergence between banks and NBFCs will reduce arbitrage opportunities and strengthen systemic resilience.

Conclusion

India's credit ecosystem is unlikely to be defined by a zero-sum contest between banks and NBFCs. Its future will depend on how effectively both sectors combine bank balance-sheet strength with NBFC origination, underwriting and last-mile capabilities. Banks provide stability, scale and low-cost funding, while NBFCs offer innovation, flexibility and last-mile reach.

Market share will continue to shift across products—banks may gain ground in secured retail and gold loans, while NBFCs are likely to remain strong in vehicle finance and specialised MSME lending. At the same time, collaboration through co-lending, securitisation and digital partnerships will become increasingly important.

As India moves toward becoming a larger and more formalised economy, both banks and NBFCs will remain indispensable pillars of the financial system, working together to expand credit access and support sustainable growth.

¹ Personal Loans as per RBI definition and includes both secured and unsecured lending to individuals.

² Source for financial performance of both the sectors is from various reports of RBI

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.