Parameters (₹ billion)	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Savings in the form of gold and silver ornaments	368	456	465	465	467	427	431	384	597

Note: The data is for financial year ending March 31; Physical assets are those held in physical form, such as real estate, etc.
Source: MOSPI, National Accounts National Accounts Statistics, CRISIL MI&A

Household savings growth

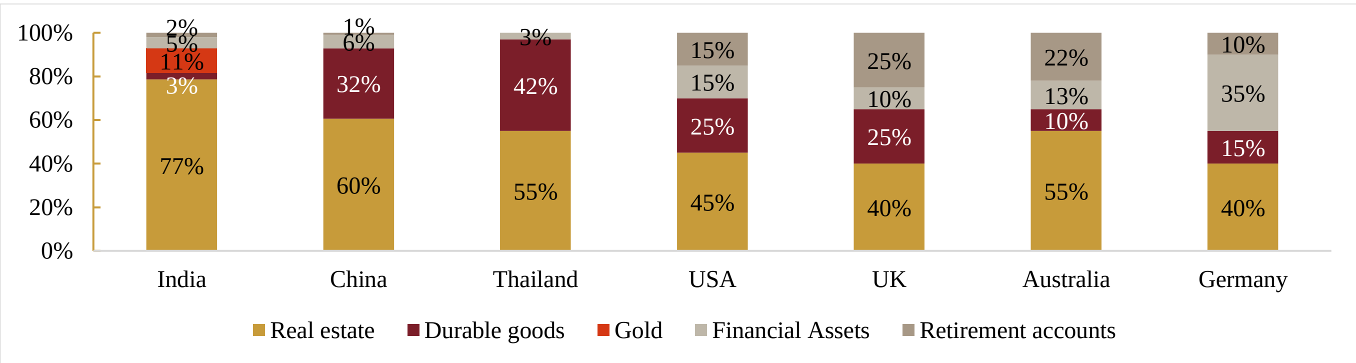
Note: The data is for financial year ending March 31.
Source: MOSPI, CRISIL MI&A

CRISIL MI&A expects India to continue being a high savings economy. CRISIL MI&A is also sanguine on savings rate increasing in the medium-term, as households become more focused post the COVID-19 pandemic-induced uncertainty on creating a nest egg for the future post the COVID-19 pandemic-induced uncertainty. In addition, according to the SEBI, during Fiscal 2021, until the third quarter, the household financial savings deployed in securities market had grown significantly to 1.2% of GDP as compared to 0.3% earlier. Going forward, if the amount of savings deployed in securities market sustained, it is expected to boost the capital markets and economy.

Physical assets still account for majority of the savings

Unlike most other countries, where financial savings account for a significant proportion of savings, physical assets in the form or real estate, gold and silver still account for most household savings in India.

Trend of savings in India and other economies



Source: Report of the Household Finance Committee- July 2017[7], RBI, CRISIL MI&A

Although households' savings in physical assets has declined to 61% in Fiscal 2022 from 69% in Fiscal 2012, it constitutes a substantial share in overall savings. On the other hand, the share of financial savings has witnessed an uptrend to 39% in Fiscal 2022 from 31% in Fiscal 2012.

In the long-term, with increase in financial literacy, CRISIL MI&A expects the share of financial assets as a proportion of net household savings to increase over the next five years, thereby boosting investments in assets such as insurance and mutual funds.

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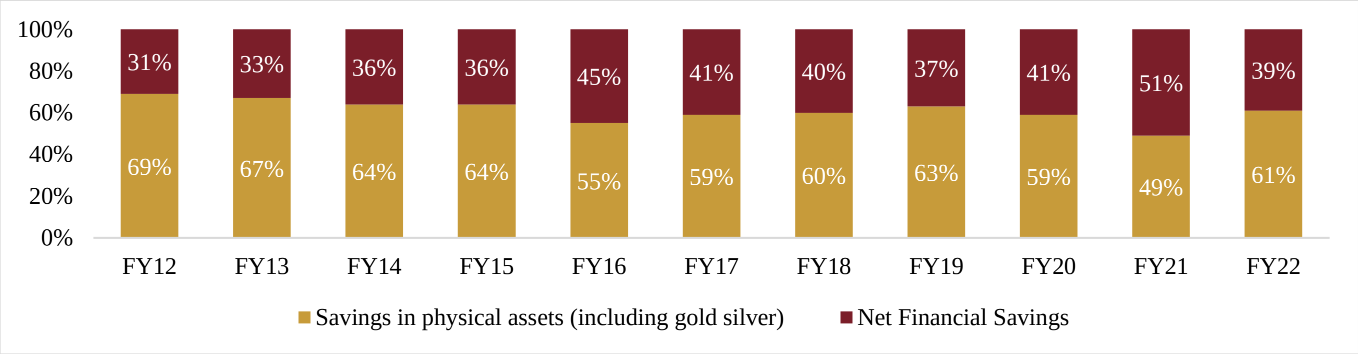
[7] https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/HFCRA28D0415E2144A009112DD314ECF5C07.PDF

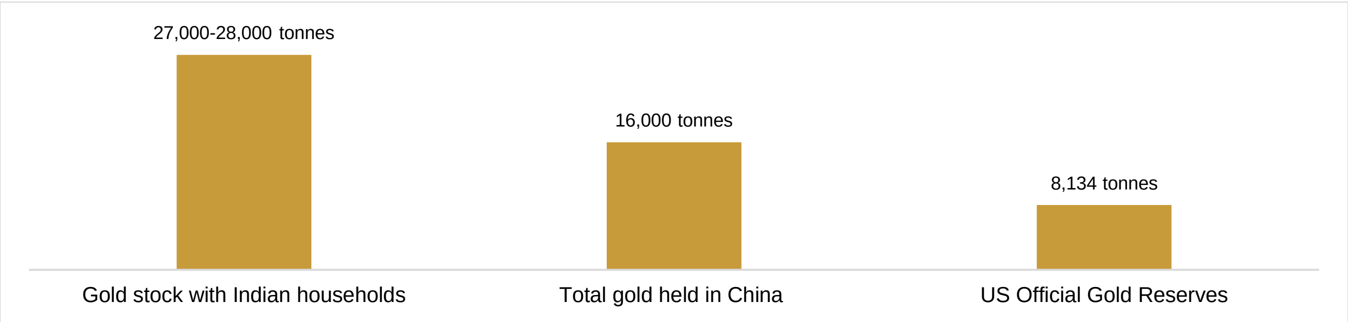
Trend of household savings in India



Note: The data is for financial year ending March 31
Source: Handbook of Statistics on Indian Economy 2020-21, RBI, MOSPI, CRISIL MI&A

As of March 2011, Indian households had gold stock of around 19,000 to 20,000 tonnes. In addition, as of March 2023, the gold pledged with financiers constituted around 7% of the 28,000 tonnes of gold holdings in Indian Households as per CRISIL MI&A estimates.

India has world's largest private gold holdings



Source: World Gold Council, CRISIL MI&A estimates

As more and more households become more open to monetising their gold holdings to meet either personal or business needs and the ease of obtaining a gold loan improves, the addressable market for financiers would expand significantly. At the average market price of ₹ 58,718 per 10 gram of gold in August 2023, monetising even 20% of the gold stock in the form of a loan at a 70% loan-to-value ratio ("**LTV**") is expected to lead to a ₹ 23 trillion market opportunity for financiers.

NBFC OVERVIEW

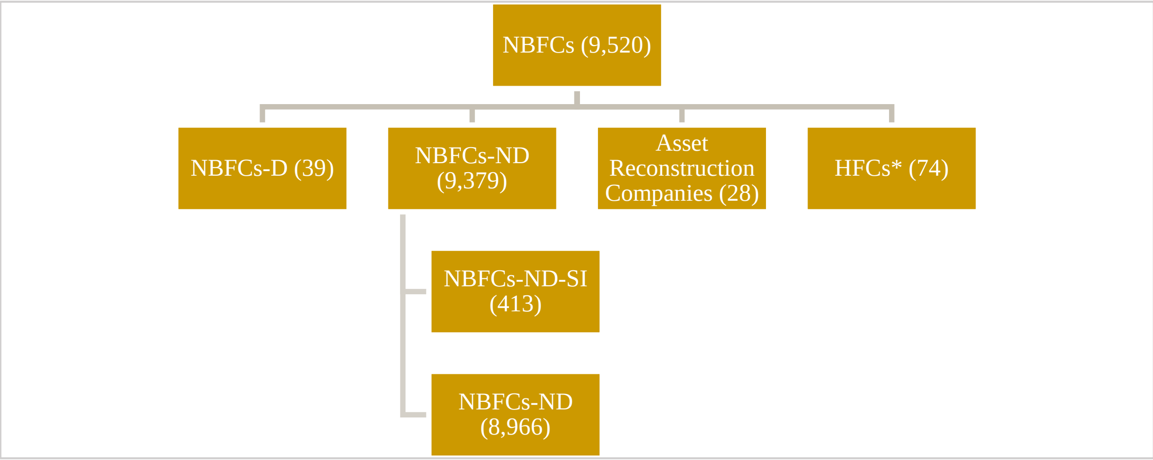
Constituents of NBFC industry in India

The Indian financial system includes banks and NBFCs. Though the banking system dominates financial services, NBFCs have grown in importance by carving a niche for themselves by catering to customers in underbanked regions or those who would not be catered to by traditional financial institutions, due to absence of credit history or lack of proper collateral records.

Classification of NBFCs

NBFCs are classified on the basis of liabilities into two broad categories – deposit-taking and non-deposit-taking. Deposit-taking NBFCs ("**NBFC-D**") are subject to requirements of capital adequacy, liquid assets maintenance, exposure norms, etc. In addition, in 2015, non-deposit-taking NBFCs with an asset size of ₹ 500 crore and above were labelled as "systemically important non-deposit taking NBFCs" ("**NBFC–ND–SI**") and separate prudential regulations were made applicable to them.

Classification of NBFCs based on liabilities



Note: Figures in brackets represent the number of entities registered with RBI as of March 2023.
Source: RBI, CRISIL MI&A

Key regulations for NBFC

Over the past three decades, NBFCs have become part and parcel of formal credit system. RBI, on its part, has been continuously refining the regulations with a view to improve regulatory oversight as well as to be in tune with business dynamics of NBFC segment.

Here are a few key legislative and regulatory developments:

Amendments to the RBI Act in 1997 bestowed comprehensive powers on RBI to regulate and supervise NBFCs. Prominent features of the amendments include:

- Making it mandatory for NBFCs to obtain certificate of registration from RBI and maintain a minimum level of net owned funds ("**NoF**")
- Requiring deposit taking NBFCs to maintain a certain percentage of assets in unencumbered approved securities
- Empowering RBI to determine policy and issue directions with respect to income recognition, accounting standards, etc
- Empowering RBI to order special audit of NBFCs
- Asset Liability management guidelines
- Corporate governance framework

Key regulations pertaining to NBFCs

Given the importance of NBFCs in financial system especially by accessing public funds and inter-connectedness with banking, they are subject to prudential regulations by RBI as given below

Regulatory distinction between banks and NBFCs

	NBFC – ND –SI	***NBFC – D***	***Banks (Basel-III)***
Minimum NoF	*₹ 20 million*	*₹ 20 million*	*N.A.*
Capital Adequacy	*15.0%*	*15.0%*	*11.5%*
Tier I Capital	*10.0%*	*10.0%*	*9.5%*
Stage III assets	*90 days#*	*90 days#*	*90 days*
Cash Reserve ratio (CRR)	*N.A.*	*N.A.*	*3.0%*
Statutory liquidity ratio (SLR)	*N.A.*	*15.0%*	*18.00%*
Priority Sector	*N.A.*	*N.A.*	*40% of advances*
SARFAESI eligibility	*Yes**	*Yes**	*Yes*

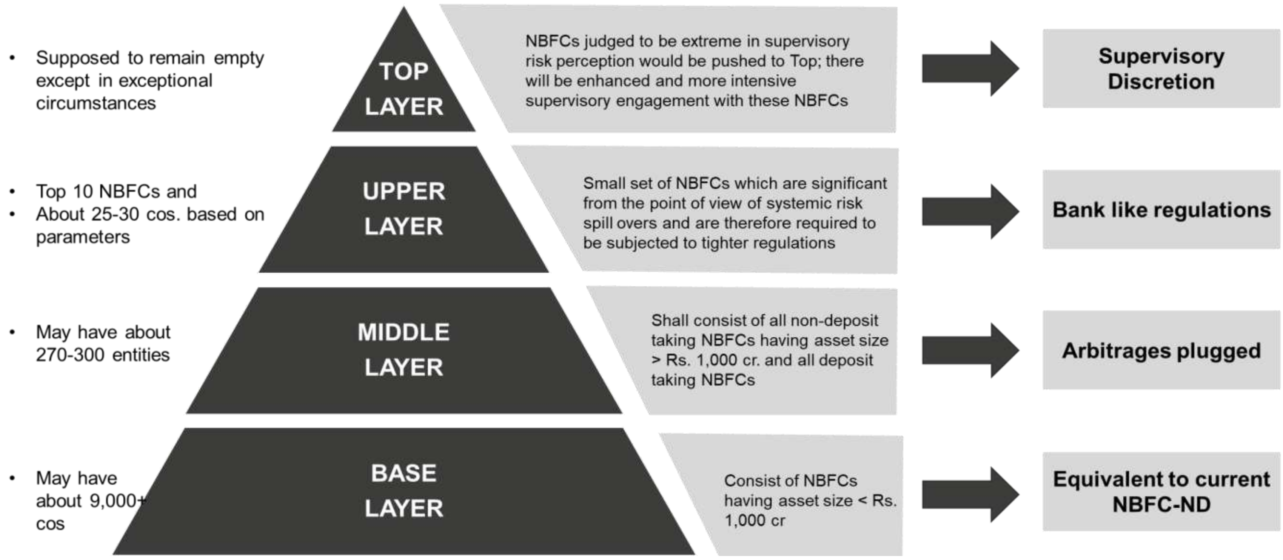
	NBFC – ND –SI	*NBFC – D*	*Banks (Basel-III)*
Exposure norms (% of NOF)	*Single borrower: 15% (+10% for IFC)*	*Single borrower: 15%*	*Single borrower: 15% (+5% for infrastructure projects)*
	Group of borrowers: 25% (+15% for IFC)	*Group of borrowers: 25%*	*Group of borrowers: 30% (+10% for infrastructure projects)*

Note: NA = Not applicable
Minimum NoF for NBFC-MFI and NBFC - Factors is Rs 50 million, while for IFC it is Rs 3000 million
**The Ministry of Finance in its union budget of 2021 has proposed the SARFAESI threshold to be reduced from the existing level of ₹5 million to ₹2 million*
 # Discretion with the audit committee of NBFCs to defer stage 3 classification beyond 90+dpd
Source: CRISIL MI&A

Scale based approach proposed for NBFCs

RBI in January 2021 had proposed a tighter regulatory framework for NBFCs by creating a four-tier structure with a progressive increase in intensity of regulation in a discussion paper titled "Revised Regulatory Framework for NBFCs – A Scale-based Approach". Based on the inputs received, in October 2021, RBI put in place a revised regulatory framework for NBFCs which is slated to be effective from October 2022.

In Framework for Scale Based Regulation for NBFCs, RBI has said the regulatory and supervisory framework of NBFCs should be based on a four-layered structure based on their size, activity, and perceived riskiness: Base Layer, Middle Layer, Upper Layer and Top Layer. NBFCs in lower layer are expected to be known as NBFC-Base Layer ("**NBFC-BL**"). NBFCs in middle layer are expected to be known as NBFC-Middle Layer ("**NBFC-ML**"). An NBFC in the Upper Layer is expected to be known as NBFC-Upper Layer ("**NBFC-UL**") and is expected to invite a new regulatory superstructure. There is also a Top Layer, ideally supposed to be empty.



Source: RBI, CRISIL MI&A

RBI has taken a balanced view, and instead of going for a one size fits all, it has opted for differential regulation based on size and the systemic importance of an NBFC. In addition, the importance of NBFCs in providing credit to underserved customers has been recognised. RBI has not proposed imposition of CRR and SLR on NBFCs, which would come as a relief to NBFCs.

The proposed 9% common equity tier-1 ratio should not be difficult to manage as majority of the NBFCs remain well capitalised. Cap on leverage levels would impact NBFCs in the mortgage business if limits are proposed in line with other asset classes. Differential standard asset provisioning is expected to have a negative impact for NBFCs who have large exposure to sensitive sectors like commercial real estate (for example: CRE @ 1.00%, CRE-RH @ 0.75%; current norm for NBFCs is 0.4%). Cap of ₹ 1 crore on IPO financing per individual would hurt NBFCs operating in this space. Post this regulatory change, few NBFC-UL category may consider conversion into universal banks.
Overall, we believe the scale-based approach is expected to translate into greater regulatory oversight and better governance practices, which is expected to structurally strengthen the sector.

RBI tightens provisioning norms on Standard assets for NBFC Upper Layer

On June 6, 2022, RBI released a circular aligning provisioning for standard assets by NBFCs in the upper layer as per RBIs scale-based regulations with that prevalent with the banks, which would be effective from October 1, 2022. The impact of the norms is unlikely to be material as most large NBFCs already maintain Stage 1 and Stage 2 provisioning, which is comfortably higher than the required levels.

Supreme Court removes regulatory overhang for NBFCs

The legislatures of Kerala and Gujarat had sought to bring NBFCs under the ambit of their respective legislations (the Kerala Money Lenders Act, 1958 and the Gujarat Money-Lenders Act, 2011) to regulate the interest rate charged by moneylenders and protect borrowers. However, in May 2022, the Supreme Court put to rest the uncertainty around applicability of state legislations on NBFCs, underscoring the primacy of RBI as the regulator and supervisor of NBFCs in India, with oversight on the rate of interest they charge the borrowers.

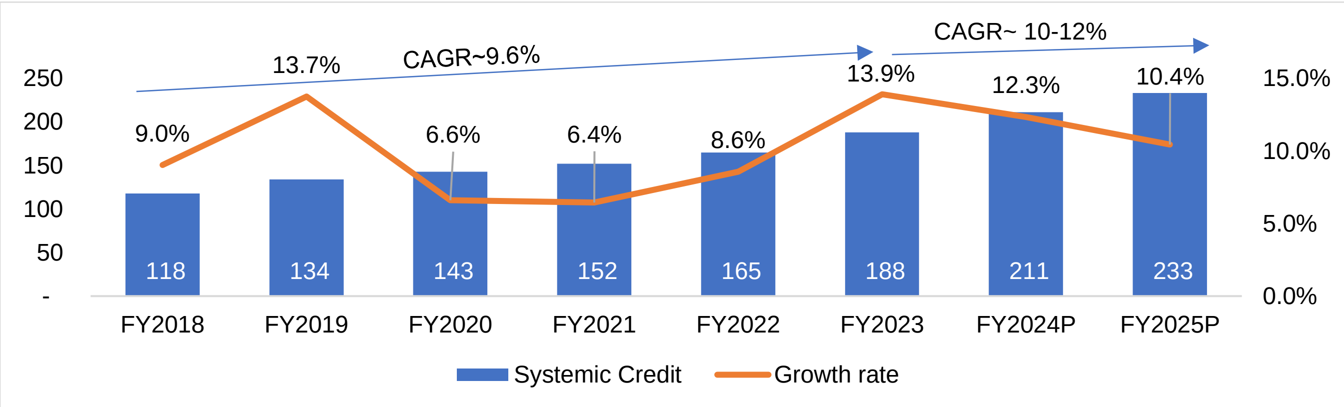
The ruling has two big takeaways- First, it has effectively reaffirmed regulatory sanctity for NBFCs registered with RBI as a separate category of lenders, distinct from the traditional moneylenders. Second, while the Supreme Court has not specifically commented on the appropriateness of interest rates being charged by NBFCs, it has implicitly stated that RBI has the jurisdiction and powers to look into the same and is already doing so through the various regulations, circulars and directions issued by it. CRISIL believes that the ruling is specifically beneficial to gold loan NBFCs and other regulated NBFCs, including NBFC-MFIs, where sensitivity over interest rates is higher.

Systemic credit to grow at 10-12% CAGR between fiscal 2023-2025

Overall systemic credit growth took a hit in first half of fiscal 2021 on account of a significant slowdown in retail credit and intensifying COVID-19 pandemic which triggered a national lockdown. The COVID-19 pandemic came as a jolt for an already slowing economy with a decadal low growth in GDP, low private consumption, cautious lending by financial institutions, poor capex, and in turn, weakening credit growth. However, with a slew of the Government of India and regulatory measures announced, Indian economy started to revive in the second half of the fiscal. In Fiscal 2021, credit grew by approximately 6.4% supported by disbursements to MSMEs under the ECLGS and an uptick in economic activity post the COVID-19 lockdown.

In Fiscal 2022, the systemic credit growth picked up steam despite the second wave of COVID-19 hurting economic growth in the first quarter of the fiscal. The systemic credit grew at 8.6% from the previous year to reach approximately ₹ 165 trillion. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activity also slowly humming back to pre-COVID levels. In Fiscal 2023, Systemic credit showed strong growth on back of pent-up retail demand from sectors like housing and auto. Credit demand also grew due to strong credit demand from NBFCs and trade segment. CRISIL MI&A projects systemic credit to grow at 10-12% CAGR between Fiscals 2023 and 2025.

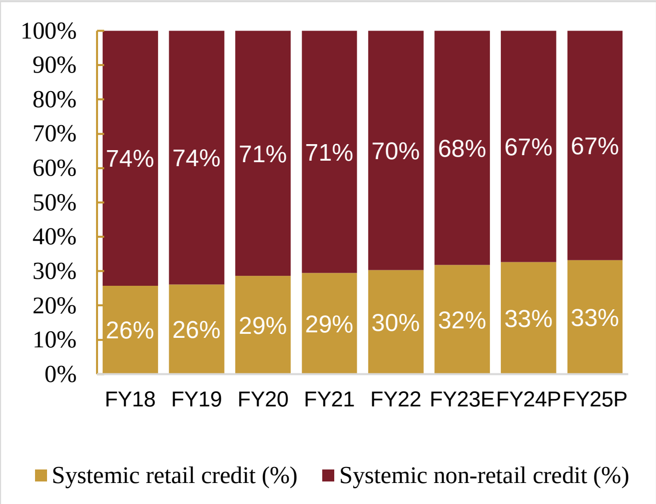
Systemic growth to grow by 10-12% over Fiscals 2023-2025



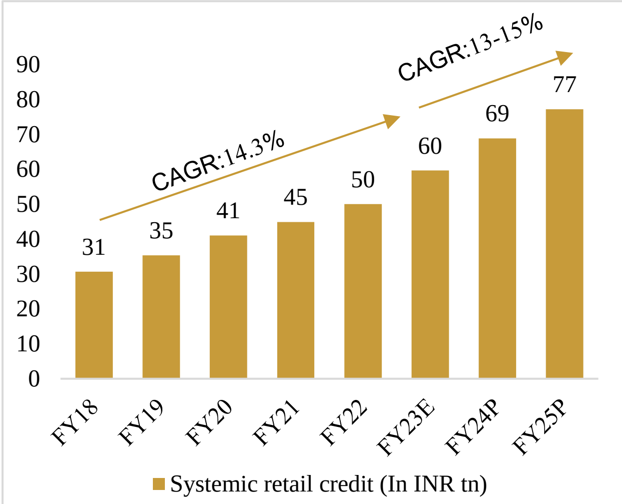
Note: P: Projected; E: Estimated, Systemic credit includes domestic banking credit, NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC
Source: RBI, Company Reports, CRISIL MI&A

While systemic credit in India grew at a tepid rate of 9.6% CAGR annually between Fiscal 2018 and Fiscal 2023, systemic retail credit grew at a much faster rate of 14.3% CAGR during the same period. Retail credit growth in Fiscal 2020 was around approximately 16.3% which came down to approximately 9.5% in Fiscal 2021. However, post- COVID-19 pandemic, retail credit growth revived back to reach approximately 11.3% in Fiscal 2022. CRISIL MI&A estimates retail credit to have grown at approximately 19-20% year on year in Fiscal 2023. CRISIL MI&A thus expects retail credit growth to continue in the long term with banks and NBFCs' continued focus on the segment.

Retail segment accounts for 32% of overall systemic credit as of Fiscal 2023



Retail credit growth to continue on a strong footing in Fiscal 2024

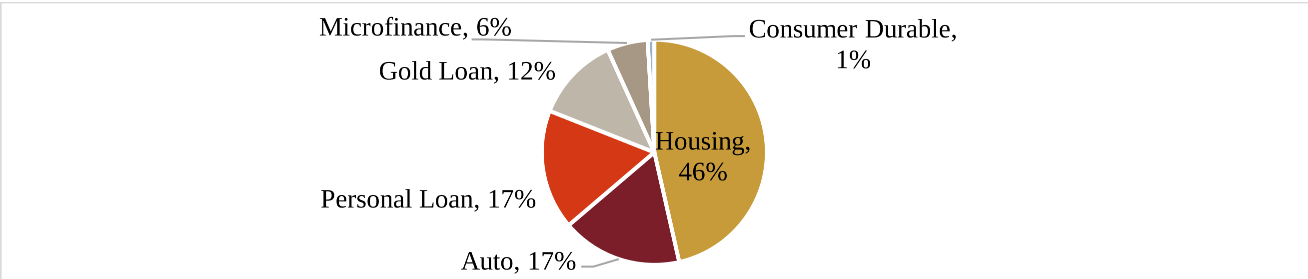


Note: P = Projected
Source: RBI, CRISIL MI&A

Home loans accounts for 46% of overall retail loans at end of Fiscal 2023

Housing finance and gold loans cover 46% and 12% of the retail loans industry, respectively, in India in Fiscal 2023

Retail credit mix as of Fiscal 2023



Source: RBI; CRISIL MI&A

NBFC credit to grow faster than systemic credit between Fiscals 2023 and 2025

Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. However, the NBFCs suffered a blow after IL&FS defaulted in September 2018. NBFCs that did not have the advantage of size, rating and/or parentage had to grapple with a liquidity crisis and raising funds became difficult. Initially, post the IL&FS crisis, banks were expected to fill the space left out by NBFCs.

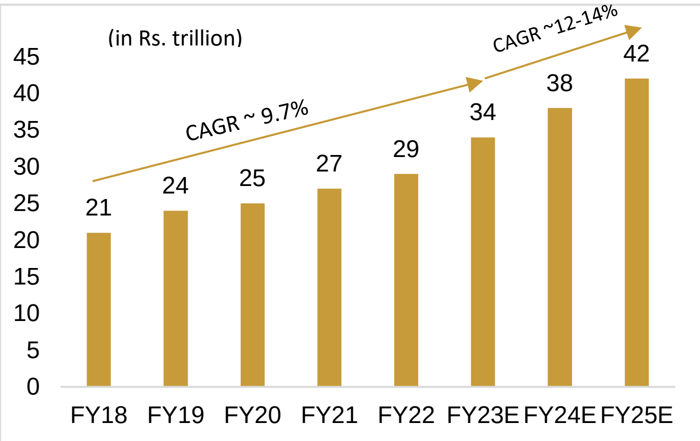
In the fourth quarter of Fiscal 2020 and the first quarter of Fiscal 2021, with the outbreak COVID-19 pandemic, challenges had intensified for both banks and NBFCs. NBFCs were hit harder in terms of demand, and they also turned cautious as they lend to borrowers with relatively weaker credit profile. Due to COVID-19 pandemic, demand for credit reduced drastically on account of economic activity coming down to standstill due to lockdown led sharp fall in disbursements. Few NBFCs also experienced credit rating downgrades and/or negative outlook changes during fiscal 2021. In the second half of Fiscal 2021, the Indian economy showed signs of improvement, the effect of which was seen in the credit growth.

In Fiscal 2022, the second wave of the COVID-19 pandemic led to weak demand for credit in the first quarter of the year. However, the pace of credit recovered, with overall credit growing by 9% and retail credit increasing by 11.3% year-on-year as of March 2022. With the effect of COVID-19 waning, vaccination coverage progressively improving, the situation and growth improved further.

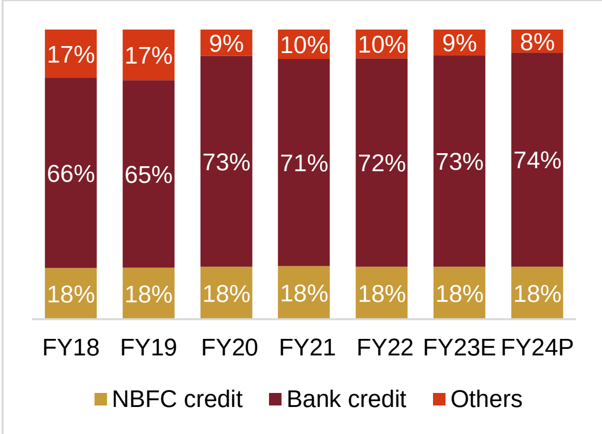
In Fiscal 2023, pace of credit further improved and is at par with pre-COVID level. Banking credit has grown at 15% in Fiscal 2023 as compared to 16% for NBFCs. NBFC credit is expected to grow at a higher rate of 13-14% in Fiscal 2024 as compared to 12-14% expected for banking credit. CRISIL MI&A projects NBFC credit to grow at 12%-14% between Fiscal 2023 and Fiscal 2025. The credit growth is expected to be driven by the retail vertical, including housing, auto, and microfinance segments. Rapid revival in the economy is expected to drive consumer demand in Fiscal 2024, leading to healthy growth NBFCs.

Moreover, organic consolidation is underway with larger NBFCs gaining share. In addition, growth of the non-banking industry is expected to be driven mainly by NBFCs with strong parentage who have funding advantage over other NBFCs.

NBFC credit to grow at CAGR 12-14% between Fiscals 2023 and 2025



Share of NBFCs credit in overall systemic credit remained 18% in Fiscal 2023



Note: P = Projected; Note: Others include Commercial papers, External borrowings, corporate bonds excluding those issued by Banks and NBFCs
Source: RBI, Company reports, CRISIL MI&A

NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than ₹ 2 trillion assets under management ("**AUM**") at the turn of the century to ₹ 34 trillion at the end of Fiscal 2023. CRISIL MI&A expects NBFC credit to grow at 12-14% CAGR between Fiscal 2023 and Fiscal 2025. Their share in the overall credit pie has increased from 12% in Fiscal 2008 to 18% in Fiscal 2023 and projected to be remained stable in fiscal 2024. CRISIL MI&A believes that NBFCs are expected to remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are not catered by Banks.

Retail segment to support NBFCs overall credit growth

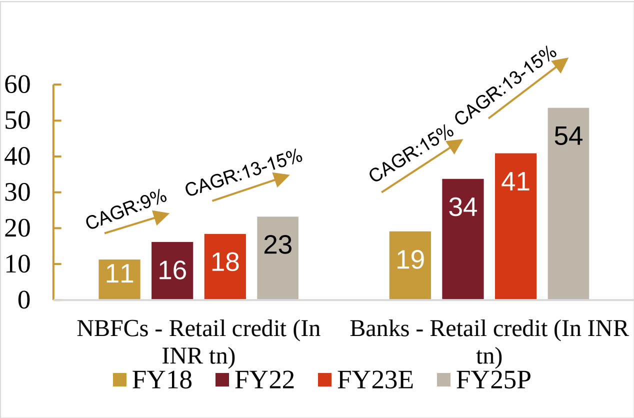
The NBFC sector has, over the years, evolved considerably in terms of size, operations, technological sophistication and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly, with a number of players with heterogeneous business models starting operations.
Over the last few years, CRISIL MI&A has seen a transformation in the Indian financial services landscape. The increasing penetration of neo-banking, digital authentication and mobile phone usage as well as mobile internet has resulted in the modularization of financial services, particularly credit.

The sector has also seen the emergence of a number of finTechs that leverage technology, data, and business insights to provide various financial products and services to identified customer segments. FinTech players in India started lending in Fiscal 2015 but they started gaining traction from Fiscal 2017 onwards. The business model of finTech firms differ widely but in almost all cases they use technology to change or support existing way of doing business, and hold the promise of enhancing customer convenience, facilitating access to credit for unserved or underserved customer segments and/or improving operating efficiency. Many times, finTechs enter into tie-ups with financing partners (banks and NBFCs) for taking the loans originated by them on the balance sheet of the partner.

Reflecting the growing importance of NBFCs in the financial services landscape and their ability to offer differentiated solutions to meet the requirement of target customers, the market share of NBFCs in overall systemic credit has increased from approximately 16% in Fiscal 2017 to approximately 18% in Fiscal 2023.

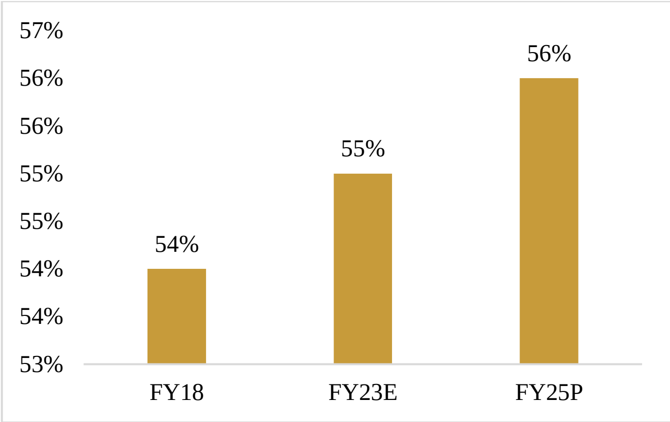
After a moderation in growth post COVID-19 pandemic, NBFCs are back on track with an expected credit growth of 13-14% during Fiscal 2024. The industry is expected to continue to witness the emergence of newer NBFCs catering to specific customer segments. The COVID-19 pandemic and consequent acceleration in both adoption of technology and change in consumer habits as well as increasing availability of data for credit decision-making has made it possible to build an NBFC lending business without investing large sums to have brick-and-mortar presence on the ground. Overall, between Fiscal 2023 to Fiscal 2025, CRISIL MI&A forecasts NBFC credit to grow at a CAGR of 12%-14%. In addition, retail credit given out by NBFCs is forecast to grow at a pace of 13%-15% CAGR over the same time.

NBFCs retail credit is expected to grow at 13-15% CAGR in next 3 years



Note: Above retail credit includes housing finance, Auto finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans
Source: Company reports, RBI, CRISIL MI&A

Share of retail credit in total NBFC credit to continue to grow

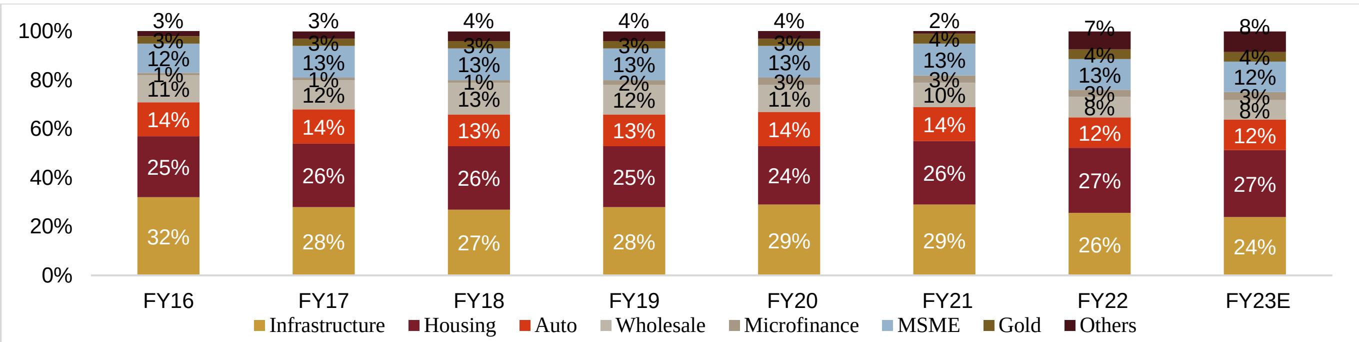


Note: P = Projected; Retail credit includes housing finance, auto finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans
Source: Company reports, CRISIL MI&A

Housing and infrastructure loans account for more than 50% share in overall NBFC portfolio as of Fiscal 2023

In terms of asset size wise mix, housing loans and infrastructure loans continue to account major chunk of overall NBFC portfolio. Microfinance loans have increased their share from approximately 2% to 3% between Fiscal 2019 and Fiscal 2023. CRISIL MI&A expects housing and infrastructure loans to maintain their share in overall NBFC credit. In addition, auto, personal loan and microfinance loans are expected to perform better as compared to other segments in Fiscal 2024.

Distribution of NBFC credit across asset classes

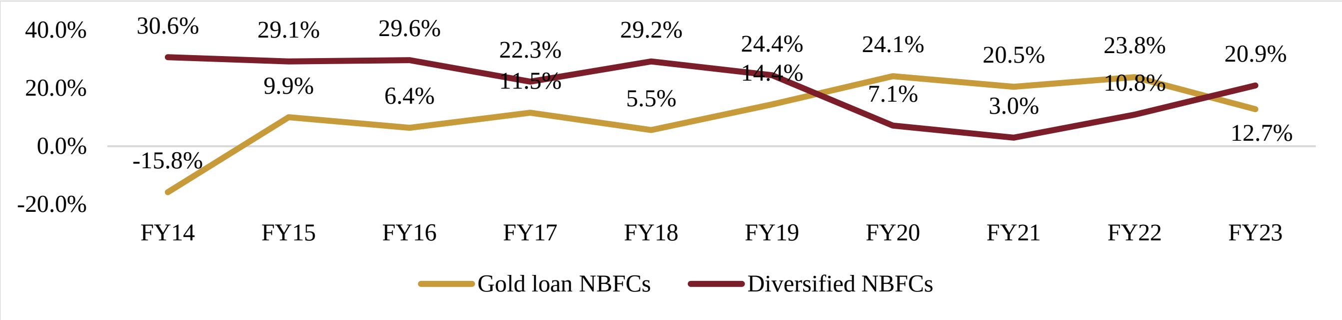


Note: Others include Personal loans, Construction equipment finance, Consumer durable finance and Education loans
Source: RBI, Company reports, CRISIL MI&A

Gold loan and non-gold loans being counter cyclical in nature

Most lenders tend to be pro-cyclical, lending aggressively during good times and pulling back during periods of distress and slowdown in economic growth. Small businesses and enterprises especially find it tough to get credit during periods of economic downturn as established lenders tend to tighten their underwriting standards. One asset class that tends to see healthy growth when the economy or other loan segments are not doing well is gold–backed lending. As lenders become more cautious and stringent due to slowdown in economy, gold loans serve as a quick, easy and convenient avenue to fund short term needs of customers. For example, during Fiscal 2020 and Fiscal 2021, when growth for diversified NBFCs witnessed sharp decline, gold loan NBFCs witnessed strong double-digit year on year (“**y-o-y**”) growth of over 20% during the same period. This counter cyclical nature of gold loans provides cushion and acts as an active hedge for overall growth of NBFCs which have a good portfolio mix of gold loans and other loans.

Y-o-Y growth trend of gold loans NBFCs vs diversified NBFCs



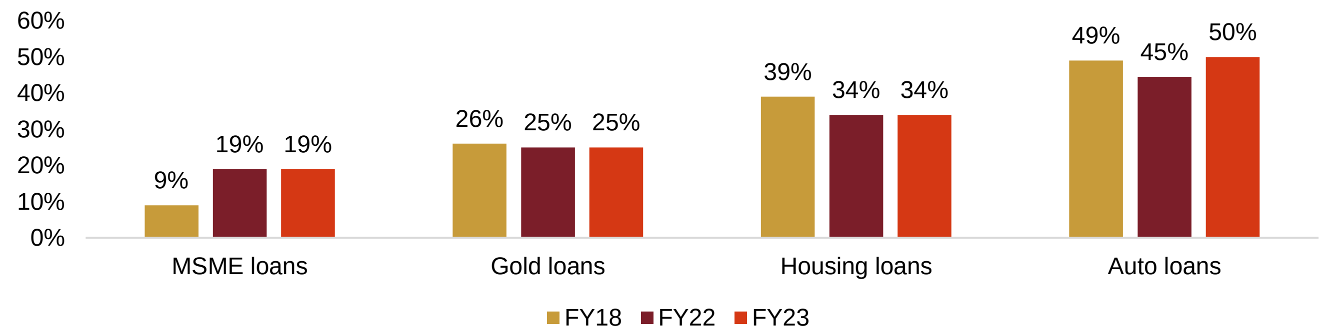
Note: Gold loan NBFCs includes – Muthoot Finance, Manappuram Finance, Kosamattam Finance and Muthoottu mini; Diversified NBFCs includes – Aditya Birla Finance, Bajaj Finance, Fullerton India Credit, HDB Financial Services, IIFL Finance, L&T Finance and Tata Capital; *Source: Company reports, CRISIL MI&A*

NBFCs have a reasonable market share across segments

NBFCs have consistently gained or maintained market share across most asset classes over the last few years. Though, in certain segments such as housing finance to prime customers, they have lost market share to banks due to the decline in market interest rates. In the gold loans market, NBFCs slightly lost market share in Fiscal 2022 due to increasing focus of banks (both public and private) towards gold loans as well as RBI permitting banks to offer gold loans at a higher loan-to-value amidst the COVID-19 pandemic. However, in Fiscal 2023 and first quarter of Fiscal 2024, LTV in gold loans have shrunk owing to rise in prices of gold and a conservative approach taken by banks. Nevertheless, NBFCs continue to have a healthy market share across other segments.

NBFCs have been able to compete with banks mainly on account of their strong origination skills, extensive reach, better customer service, faster processing, fewer documentation requirements, digitalisation of customer on-boarding process, customised product offerings, local knowledge, and differentiated credit appraisal methodology. Furthermore, by catering to under banked, lower income and mass market customers who are unserved or underserved by banks, NBFCs have enhanced financial inclusion and expanded the market for formal financial services. The rapid evolution of finTechs over the last few years has added another dimension to the market served by NBFCs and has fuelled rapid growth across the landscape.

Market share of NBFCs in overall credit across select asset classes



Source: Company reports. RBI, CRISIL MI&A estimates

Resources profile of NBFCs

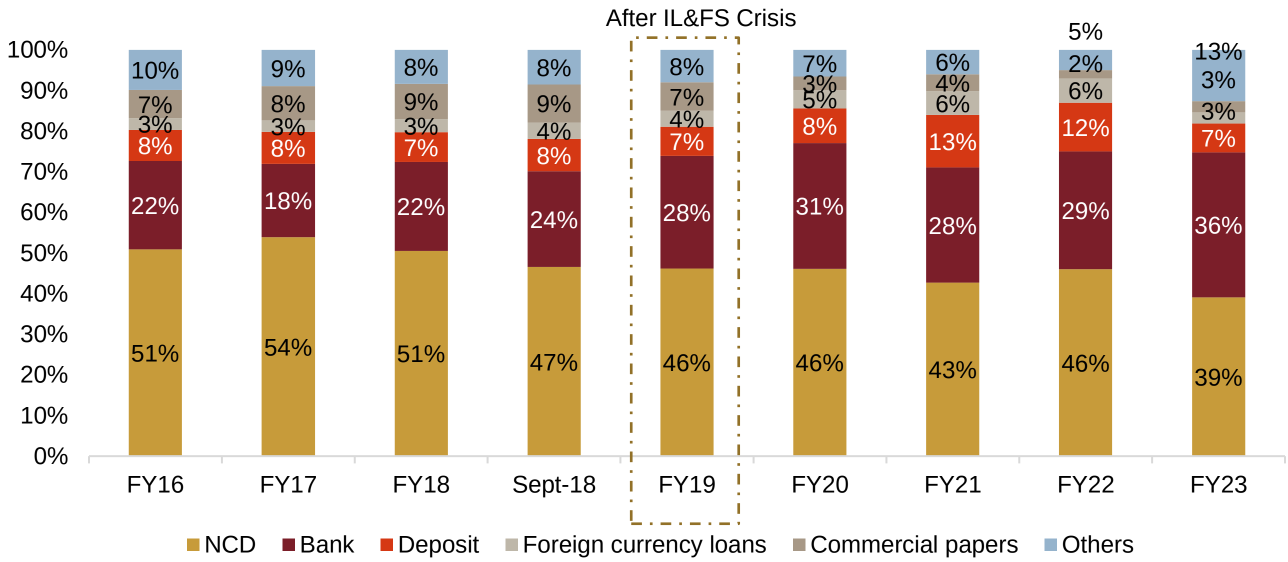
NBFC's borrowing mix has been changing over the past couple of years. Capital market investors have become cautious given the challenging environment and concerns over the asset quality. Investors' risk perception has increased significantly towards players with negative asset liability management mismatch. On the other hand, NBFCs with diversified sources of borrowings, and conservative approach to asset-liability management ("**ALM**") have been able to overcome the severe liquidity crunch and volatile interest rates following IL&FS crisis. Therefore, access to the capital markets has been restricted to limited players, with others relying more on bank borrowings and borrowings from larger NBFCs and overseas debt investors to meet their requirement. This has resulted in reduction in share of Commercial Papers ("**CPs**") and non-convertible debentures ("**NCDs**") and a corresponding increase in banks borrowings during Fiscal 2019 to Fiscal 2021.

In Fiscal 2023, NBFCs' borrowings from banks witnessed high growth resulting in an increase in share to 36% of total funding up from 29% at the end of Fiscal 2022. Share of bank's lending to NBFCs have almost doubled during last 10 years. During Fiscal 2023, with interest rate tightening and repo increasing by 250 bps to 6.50%, the cost of debt market borrowing increased leading to high-risk premium for lower rates NBFCs, leading to banks term loans becoming the preferred source of borrowing.

This was also supported by improved credit growth during Fiscal 2023 across all segments leading to higher demand of bank credit from NBFC.

Going forward, CRISIL MI&A believes that funding access would gradually improve for NBFCs who are able to demonstrate strong performance and strong parentage. However, reliance on bank funding and funding from other NBFCs and small finance banks is expected to remain high in Fiscal 2024.

NCDs and banks expected to remain primary lenders for the NBFCs

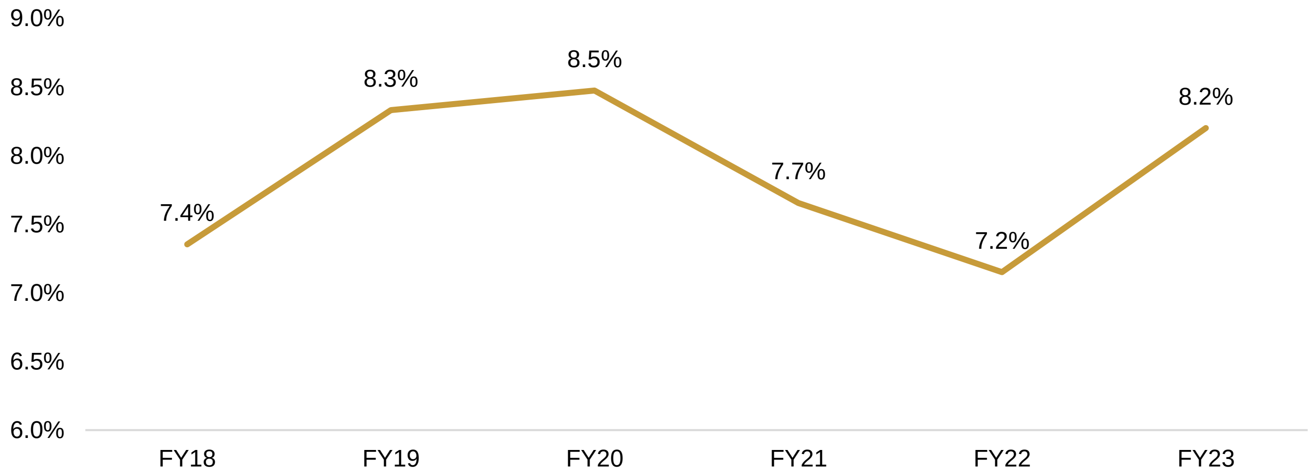


Note: Based on sample set of NBFCs accounting for more than 80% of overall borrowings of NBFCs as of March 2022; For Fiscal 2022, NCD includes Debt Securities and NCDs, Bank includes Banks and National Housing Bank, and Others include Related Parties, Foreign Institutions, External Commercial Borrowings and other sources.
Source: Company reports, CRISIL MI&A

NBFC borrowing cost is expected to increase in Fiscal 2024 with reversal in interest rate cycle

Soaring inflationary pressures have resulted in RBI reversing its accommodative monetary policy stance. As of February 2023, the benchmark repo rate has already been increased by 250 bps to 6.5% from the base level of 4% on October 2020. As per CRISIL MI&A estimates, the upward movement in interest rates is anticipated to lead to NBFC debt being repriced at a higher cost. However, the borrowing costs for NBFCs in Fiscal 2023 is still below the pre-COVID level.

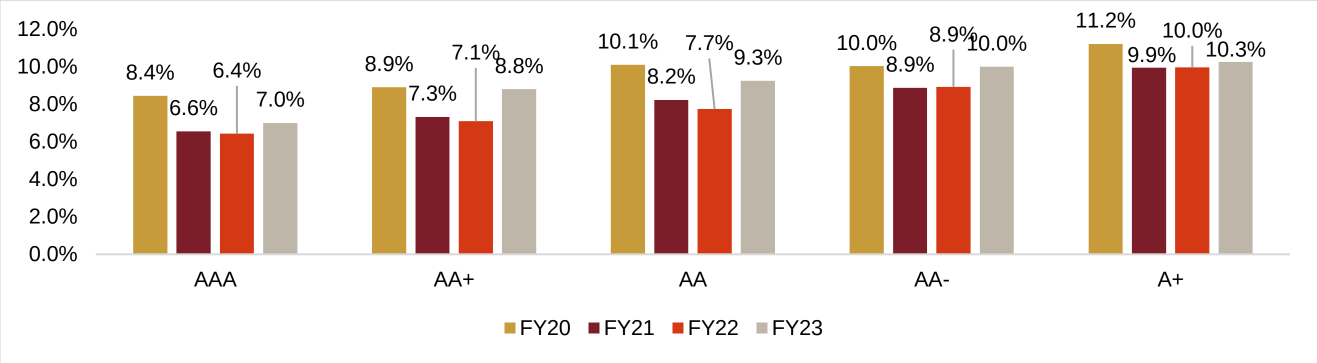
Increased borrowing cost for NBFC in Fiscal 2023



Note: P = Projected, Data represents cost of borrowing of players which cumulatively accounts for 85% of overall NBFC AUM; Source: Company reports, CRISIL MI&A

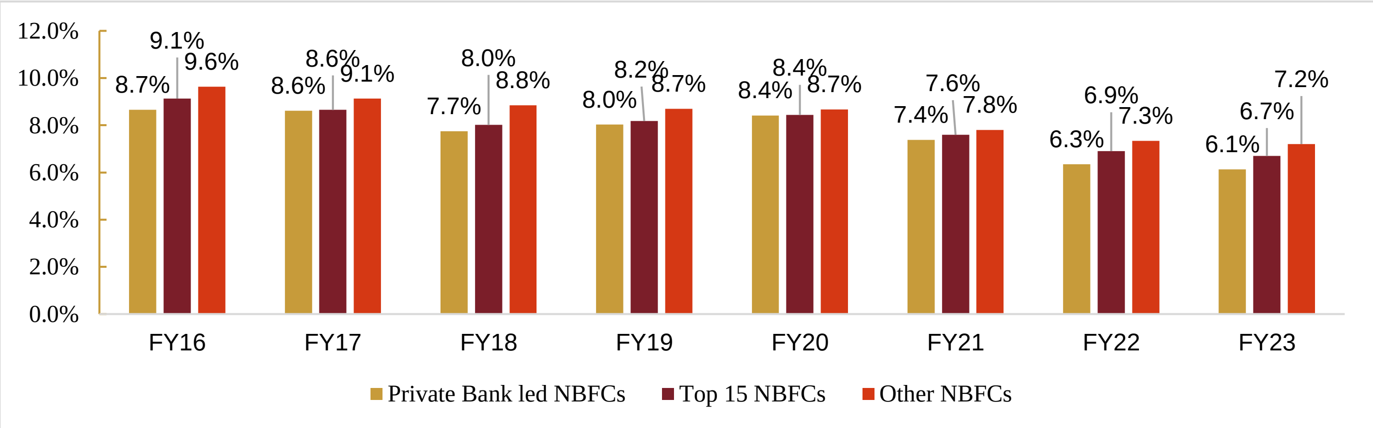
For AAA rated entities, cost of borrowings remained well below 7% as of Fiscal 2023 and has reduced from approximately 9%-10% in Fiscal 2016. For A+ and above rated companies as well, cost of borrowings has been below 10.3% in Fiscal 2023. Cost of borrowing has remained high for BBB category NBFCs.

Average Cost of borrowing trend by Ratings category



Source: CRISIL MI&A

Cost of borrowings trend by NBFC type

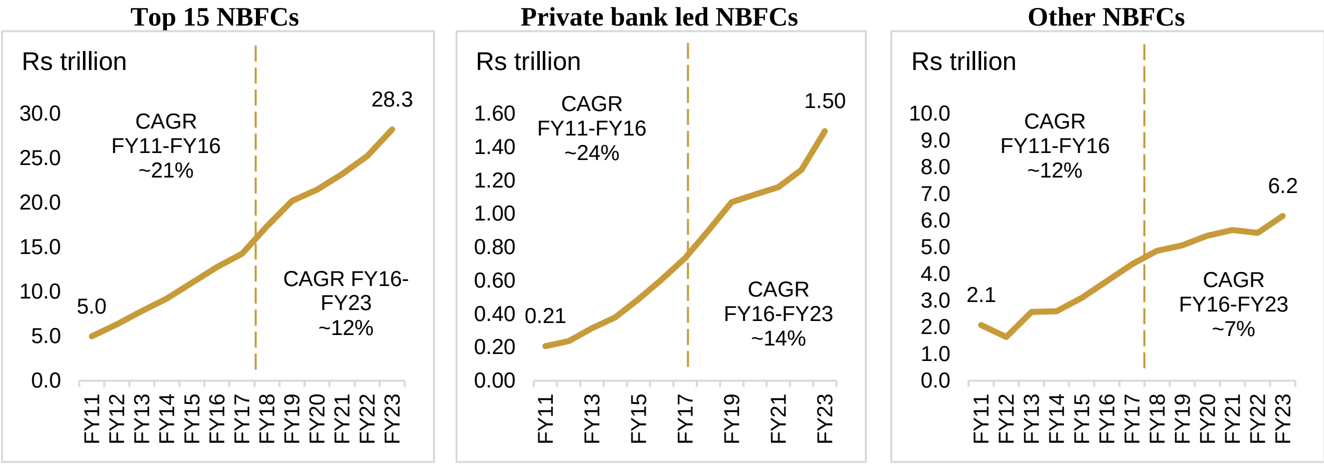


Note: The private bank led NBFCs are Axis Finance, Fedbank Financial Services, HDB Financial Services, ICICI Home Finance and Kotak Mahindra Prime; Top 15 NBFCs include are selected on the basis of consolidated AUM as of fiscal 2023; DHFL is excluded from top 15 NBFCs and other NBFCs;
Source: Company reports, CRISIL MI&A

Significant headroom for growth for NBFCs with access to funding at competitive costs

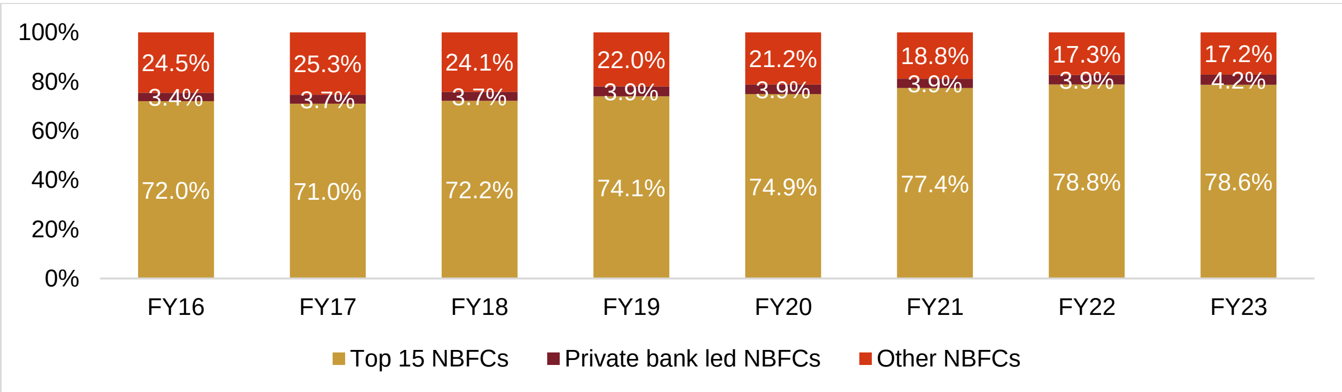
The developments over the last 4 years since the IL&FS crisis has clearly brought out the importance of continued access to funding at competitive costs for NBFCs. The key determinants of funding access in the current milieu are size, track record, credit rating and parentage as well as ability to raise equity funding to control leverage. CRISIL MI&A's analysis of trends over the past decade indicate that NBFCs promoted by private banks and large NBFCs (the top 15 NBFCs by book size as of March 2023) have been able to consistently grow across market cycles. Cumulatively, these NBFCs accounted for approximately 83% of the NBFC loan book as of March 2023.

AUM of Private bank led NBFCs have grown at the fastest pace in the last 12 years



Note: The private bank led NBFCs are Axis Finance, Fedbank Financial Services, HDB Financial Services, ICICI Home Finance and Kotak Mahindra Prime; Top 15 NBFCs[8] include are selected on the basis of consolidated AUM as of fiscal 2023; DHFL is excluded from the analysis
Source: Company reports, CRISIL MI&A

Share of top 15 NBFCs and private bank led NBFCs has increased over the years

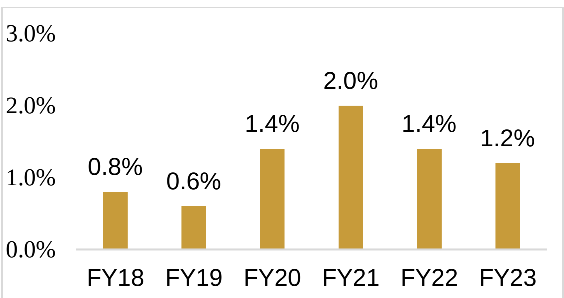


Note: Private Bank led NBFCs include – Axis Finance, Fedbank Financial Services, HDB Financial Services, ICICI Home Finance and Kotak Mahindra Prime; Top 15 NBFCs include are selected on the basis of consolidated AUM as of fiscal 2023; DHFL is excluded from the analysis; Source: Company reports, CRISIL MI&A

Credit cost further declines, and profitability improved in Fiscal 2023 despite increase in borrowing costs

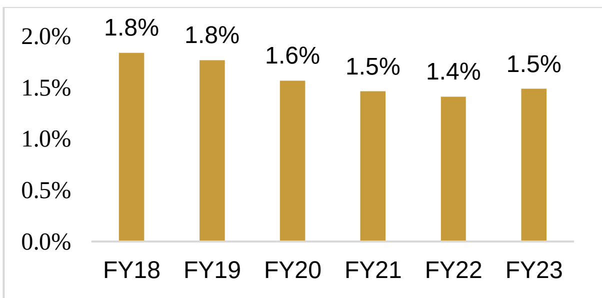
In Fiscal 2023, credit cost further declined on account of gradual recovery across sectors with the waning impact of COVID-19 pandemic and improving collection efficiency aiding it. Despite increase in borrowing costs, the overall profitability of NBFCs improved in Fiscal 2023, primarily on account of lower credit costs due to contingency provisioning buffers created over the course of the previous two Fiscals.

Reduction in credit costs for NBFCs in Fiscal 2023



Note: E: Estimated; P: Projected; Source: CRISIL MI&A

Profitability (RoA) improved on account of decline in credit costs in Fiscal 2023



Note: E = Estimated; P: Projected; Source: CRISIL MI&A

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[8] Top 15 NBFCs - HDFC Limited, REC Limited, PFC Limited, LIC Housing Finance, Bajaj Finance, Shriram Transport Finance, L&T Finance, Tata Capital, HUDCO Limited, Mahindra and Mahindra Finance, Cholamandalam Investment and Finance, Indiabulls Housing Finance, PNB Housing Finance, Muthoot Finance and Aditya Birla Finance

Asset quality improved on account of efficiency in collection process and improvement in economic activity in Fiscal 2023

Asset quality for NBFCs is influenced by various factors such as economic cycle, target customer segment, geographical exposure, and local events. Within the NBFC universe itself, it is observed that various asset classes tend to exhibit heterogeneous behaviour. For example, the asset quality in small business loans and personal loans tends to be highly correlated with the macroeconomic environment. On the other hand, microfinance loans have shown lower historic correlation with macroeconomic cycles. This is because asset quality is more influenced by local factors, events that have wide ranging repercussions such as demonetisation and COVID-19 and relative leverage levels amongst borrowers.

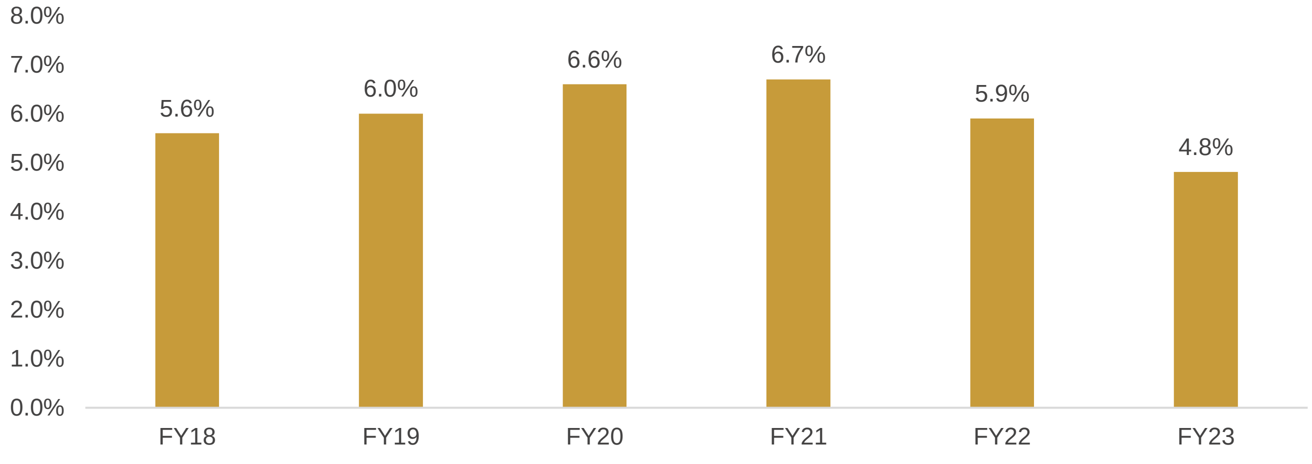
Prior to Fiscal 2018, smaller NBFCs were aggressively expanding in terms of both market penetration and lending across asset classes, which led to rising asset quality concerns. The proportion of standard assets declined, as slippages to sub-standard category increased. After the NBFC crisis in Fiscal 2019, smaller NBFCs slowed down their lending activity and focused on improving their asset quality and shifting to retail segments that are less risky. In Fiscal 2020, doubtful assets for NBFCs registered a marginal uptick due to funding challenges and slower credit growth. However, efforts were made by NBFCs to clean up their balance sheets, as reflected in their write off and recovery ratios, which caused the NNPA to remain stable, and the provision coverage ratio ("**PCR**") to improve.

In Fiscal 2021, proportion of doubtful and loss assets increased, largely driven by infrastructure and wholesale finance. In addition to funding challenges faced by the sector along-with slower credit growth, COVID-19 escalated asset quality deterioration further owing to restricted movement, which affected collections. Moratorium and restructuring schemes announced by the Government of India came as an interim relief for the sector and delayed the asset quality concerns for some time. However, with the NPA standstill provision lifted in August 2020, gross NPAs ("**GNPAs**") in segments such as auto, microfinance and MSME spiked as of March 2021.

In addition, the second wave of COVID-19 adversely affected the fragile recovery witnessed in the fourth quarter of Fiscal 2021 and affected collection efficiencies across asset classes in the first quarter of Fiscal 2022. However, the impact was not as severe as in the first wave, and players across segments reported improvement in GNPAs from the second quarter.

In November 2021, RBI gave a clarification to the "Prudential norms on Income Recognition, Asset classification and Provisioning pertaining to Advances", which requires the NBFCs to recognise NPAs on a daily due basis as part of their day-end process which is expected to lead to higher GNPA. Typically, the NBFCs ramp up their collection activity between due-date and month-end, leading to lower dues by end of month. This flexibility is expected to no longer be available to the NBFCs which could cause some proportion of loans in the 60–90-day period category to slip into over 90 days period category. In addition to the end of the day recognition, RBI has also clarified that upgradation of an account from NPA to standard category can only be done after all overdues are cleared (principal + interest), resulting in a borrower slipping into the NPA category to remain in the same category for longer time compared to the past. Hence, NBFC GNPAs increased in third quarter of Fiscal 2022 due to adherence to the said RBI clarifications. But with NBFCs bolstering their collection efforts and processes, and improvement in economic activity, CRISIL estimates GNPAs for NBFCs to have reduced significantly at the end of Fiscal 2022.

NBFCs' GNPA ratio improved significantly at the end of Fiscal 2023



Source: RBI, CRISIL MI&A

Asset quality metrics improved in Fiscal 2023 for two reasons. First is RBI's follow-up circular dated February 15, 2022, deferring the implementation of the NPA upgradation norm till September 30, 2022. This provides a reasonable transition time for NBFCs to recalibrate processes, revamp their collection infrastructure and teams, and persuade borrowers to align with the new dispensation. Second is the expected improvement in macro-economic activity, which is expected to act as a tailwind. The behaviour of loans restructured post COVID-19 is expected to, however, need to be closely watched, in light of cost push being felt by industries across the board.

Co-lending model to enhance business opportunities for NBFCs

RBI, in November 2020, issued co-lending norms that enable banks and NBFCs to collaborate with each other for priority sector lending ("**PSL**"). All scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) are allowed to co-lend with all registered NBFCs (including HFCs) for the creation of priority sector assets under CLM based on a prior agreement between both the parties. Earlier, in September 2018, RBI had allowed all SCBs to co-originate loans with only non-deposit taking systemically important NBFCs ("**NBFC-ND-SI**") for fulfilling their mandatory PSL requirements. As per RBI notification, the guidelines are aimed at providing greater operational flexibility to lending institutions and improving the credit flow to unserved and underserved sector of the economy and make funds available at affordable cost, considering lower cost of funds from banks and greater reach of NBFCs.

Some of the key highlights of co-lending norms are:

- The co-lending banks are expected to take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20% share of the individual loans on their books
- The banks and NBFCs shall formulate Board approved policies for entering into CLM and place the approved policies on their websites
- The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the NBFCs in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books
- The CLM shall not be applicable to foreign banks with less than 20 branches

While co-lending arrangements have been in place amongst various lenders for the last few years now, this is the first time RBI has put in place a framework for the same, clearly outlining the responsibilities and requirements from both the partners. The emphasis on the CLM by RBI indicates that the regulator is looking at leveraging the reach and capability that NBFCs have in servicing underserved segments. While RBI introduced the co-origination or co-lending system in response to the liquidity crisis faced by NBFCs in order to enhance the credit flow to unserved and underserved segments. Banks have already had various models available with them in order to meet their PSL targets like:

- ***Purchase of priority sector lending certificates ("PSLCs"):*** PSLCs are issued by banks that have surpassed their PSL targets. As per the RBI guidelines, banks can issue four types of PSLCs – agriculture, small and marginal farmer, micro enterprise and general.
- ***Investing in securitised pools:*** Securitisation involves investing in instruments that provide access to cash flows against a pool of assets such as mortgage or vehicle loans.
- ***Leveraging Business correspondents ("BCs"):*** BCs are agents engaged by banks for providing banking services on their behalf. BCs offer a variety of services such as sourcing, distribution, collection and recovery.

Various models available with banks to engage with NBFCs to meet the PSL targets

PSLCs	Securitisation	BCs
No operational and underwriting risks are involved, as the underlying asset, along with the risks and rewards, is held by the issuer	It requires an understanding of the market and the instrument, as there is a transfer of underlying receivables, including risks and rewards	It enables banks to take exposure across multiple regions and explore newer geographies
No mark-to-market ("**MTM**") and capital requirement	MTM and capital requirement	No MTM, but requires capital
No impact on the banks' book sizes	Helps banks increase their book sizes	Helps banks increase their book sizes
Has a life cycle only for a particular financial year	It involves large ticket size and have a longer life cycle of around 3-4 years	Involves tie ups with BCs like NBFCs to manage business for longer run
Involves no credit risk	Credit enhancement is available in case of Pass-through certificates ("**PTCs**")	Involves a hurdle rate or initial loss-sharing
Yields are not relevant	Yields are relatively lower, as originators bargain with various banks for better pricing	Yields are comparatively higher
A clear classification of assets for buyers	Risk of RBI questioning the classification of assets	Risk of RBI questioning the classification of assets

PSLCs	Securitisation	BCs
Availability of certificates can be an issue	Application of GST (18%) could be a dampener, as it increases the cost, thus impacting volume	Difficult for both parties to exit, as it can impact the overall portfolio

Source: CRISIL MI&A

Future co-lending market opportunity

Currently, the co-origination model is largely being used for small ticket size products like MSME loans, consumer finance, gold loans and vehicle loans in the industry. However, with RBI putting in place a framework for co-lending and several NBFCs facing challenges in accessing capital, players are now also focusing on longer tenure and relatively higher ticket size loans like housing finance and loan against property.

The largest public sector bank ("**PSB**"), for example, has already partnered with NBFCs and finTechs for doing co-lending in home loans segment. The bank is also in the process of digitising the entire value chain where the loan leads would flow directly from an NBFC or finTech platform to the bank with very little human intervention. Bank of Baroda, in January 2020, entered into a strategic co-lending agreement with JM Financial Home Loans Limited for offering retail loans to home buyers. In February 2020, online lending platform Lendingkart entered into partnership with Northern Arc Capital for MSME segment. PNB Housing Finance in March 2021 entered into co-lending model with Yes Bank to offer customised retail loans to home buyers.

Also, there are plethora of new-age finTech companies who are using innovative algo-based originations and aggressively using the internet for originations. These finTechs either build books on their own balance sheet or pass a substantial part of their book with their partner banks or NBFCs. Strong demand and rapid innovations in technology and business integration has enabled finTechs and smaller NBFCs to partner with credible partners and engage with them in co-lending model.

Some of the key growth drivers for co-lending market are:

- **Operational leverage –** Co-lending model is operationally convenient for both partners as it enables partners to offer multiple products to customers which are not otherwise present in their current portfolio, thus providing diversification to the portfolio without actually having a separate operational setup for each product. Co-lending thus enhances operating leverage for financiers as it enables them to increase lending with existing infrastructure and resources.

- **Capital optimisation** – Entering into co-lending model allows smaller NBFCs to cater to a larger customer base with lesser capital by leveraging the larger balance sheet of their partners. Such NBFCs can leverage their origination skills and expertise in assessing specific customer segments while at the same time conserving their capital.

Risk sharing and risk adjusted returns – Co-lending partnership enables banks and NBFCs/ HFCs to enter into an arrangement where the risks and rewards are shared by all parties throughout the lifecycle of the loan, as per a pre-decided ratio. The NBFCs use various innovative mechanisms for credit risk assessment like usage of non-traditional sources of data, understanding individual's motive to avail finance and evaluating cash flow patterns of borrowers. These strengths can be leveraged by their partners to optimise capital usage and improve their risk adjusted returns.

Digitisation trends

Over the last few years, NBFCs have been increasingly adopting business and operational models, powered by technologies, that seamlessly facilitate execution of tailored products and services. Investing in new technologies and strategic partnerships with incumbent financial institutions and finTechs has allowed NBFCs to lower their costs while enhancing their customer base and servicing existing customers. According to the Working Group Report on Digital Lending issued by RBI, the share of loans disbursed in terms of value by NBFCs through digital channels has increased from 6.3% in Fiscal 2017 to 30.3% in Fiscal 2020 which shows the increasing diffusion and adoption of digital technologies in the credit ecosystem. The major products disbursed digitally by NBFCs are personal loans followed by loans under 'Other' category which mostly comprises of consumer finance loans.

Traditionally, high cost of reaching out and delivering services to un-served and underserved regions and credit risk in catering to the lower-income segment within this spectrum has constrained the availability of credit from traditional lenders. Thus, players, with their technology-led solutions, have disrupted the process of lending to these segments, particularly the client acquisition and on-boarding and credit assessment process. For example, lenders are increasingly using artificial intelligence and machine learning models in credit underwriting as also prioritising collections.

Enabling measures by RBI and the Government of India such as putting in place of IndiaStack, allowing Aadhaar based eKYC and the launch of UPI that has transformed digital payments have helped players adopt technology in a seamless manner and provide services in a cost-efficient manner. By keeping the customer at the centre and also having appropriate rules and regulations, the Government of India has also supported growth of various retail products.

GOLD LOANS

Overview of gold loan market in India

Gold loans are typically small ticket, short duration, convenient and instant credit. While the industry has been around for several decades with local financiers and moneylenders extending finance against gold, especially in semi-urban and rural areas, the industry has witnessed a spurt in organized financiers offering gold loans since 2008 with the specialized gold loan NBFCs expanding their branch network and making available loans in a very easy and consumer friendly manner by putting in place strong systems and processes. Though moneylenders and pawn brokers understand the psyche of local borrowers and offer immediate liquidity without any documentation formalities, customers are left vulnerable to exploitation, due to the absence of regulatory oversight. Such players also give lower LTV compared with organized ones while charging exorbitant interest.

As banks and NBFCs aggressively moved in to seize this vast untapped market, they cornered a significant market share from unorganized lenders, growing at CAGR of 76% between Fiscals 2009 and 2012. Sustained increase in gold price till 2012 also supported the gold loan business boom in India. In such a scenario, customers would be offered higher and higher loan amounts on their gold, while lenders would benefit by price increases acting as a natural hedge, in the event of default.

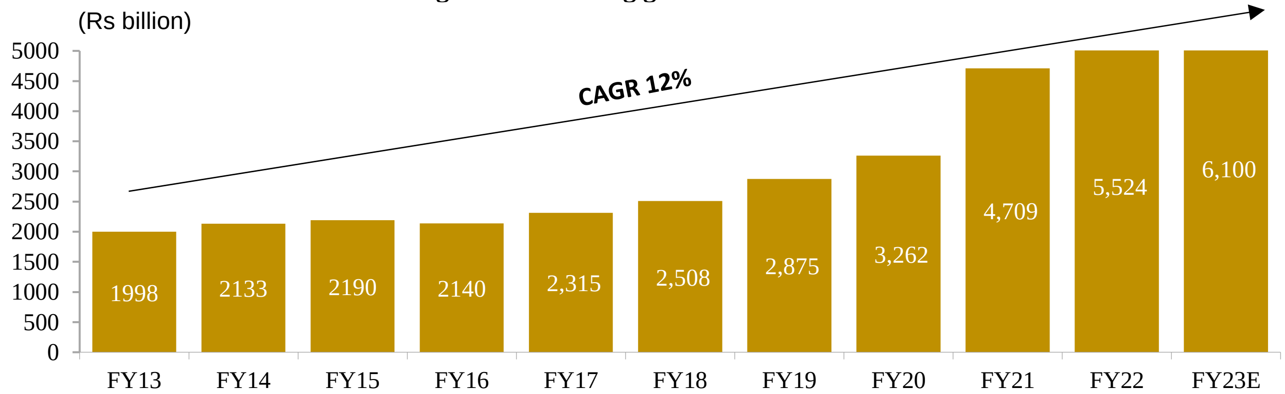
The high growth in the NBFCs' gold loan offtake because of high LTVs, the speed at which the NBFCs opened branches, the decline in the capital adequacy ratios of NBFCs offering gold loans and increase in gold prices alarmed RBI, leading to a slew of regulatory steps being taken. The measures initiated included capping the loam-to-value of gold loans at 60% (which was subsequently increased to 75% in January 2014), prohibiting grant of loans against bullion and gold coins, standardization of the value of gold while calculating the loan to value ratio and streamlining the process for auctioning gold. Furthermore, NBFCs were directed to disburse gold loans of greater than ₹ 1,00,000 ticket size through cheques only. RBI also directed that if the loans extended by a NBFC comprise 50% or more of its financial assets, it shall maintain a minimum Tier-l capital of 12% by April 01, 2014. These measures derailed the growth of NBFCs gold loan offtake for a brief period of time and they lost considerable ground to banks.

The industry has however bounced back subsequently. With regulations in respect of key aspects such as loan to value for NBFCs now being on par with banks, players compete on parameters such as interest rates, customer service, turnaround time, convenience, and trust developed.

Gold loans market has witnessed consistent growth over the last decade

As can be witnessed from the chart below, the industry has witnessed consistent growth over the last decade, even as gold prices have seen periodic fluctuations. As of March 2023, CRISIL MI&A estimates the outstanding value of loans given out by organised financiers' – banks and NBFCs – to be ₹ 6.1 trillion, with NBFCs accounting for one-quarter of the market.

Gold loans have grown at a strong growth rate over the last decade



Note: Includes agriculture lending by banks with gold as collateral
Source: CRISIL MI&A

Gold loans AUM is expected to grow at 10-12% CAGR between Fiscals 2023 and 2025

In Fiscal 2020, gold loan industry (including Banks and NBFCs) AUM grew approximately 13% y-o-y to reach ₹ 3.26 trillion on account of increased focus of players on diversifying their regional presence, strong growth in non-southern regions and rise in gold prices by approximately 19% in Fiscal 2020 along with the convenience provided by the short turnaround time in disbursing gold loans.
In Fiscal 2021, the demand for gold loan finance witnessed a massive spurt in AUM from ₹ 3.26 trillion to ₹ 4.7 trillion, as India's economy coped with the devastating effect of the global COVID-19 pandemic supported by players continued focus to

acquire unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels. Many consumers, who had gold stock and ornaments lying with them, considered gold loans as an option to meet their credit requirements during this period. The demand for gold loans was also supported by a consistent surge in gold price, liquidity crunch in the immediate aftermath of the COVID-19 pandemic and lenders' hesitancy to give unsecured loans due to risk aversion. RBI also revisited its guidelines for banks' lending gold loans by increasing the maximum LTV allowed to 90% from existing 75% for non-agricultural gold loans extended during August 2020 to March 2021 to help stressed borrowers to unlock more value. The growth was also supported by players continued focus to wean away consumers from the unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels.

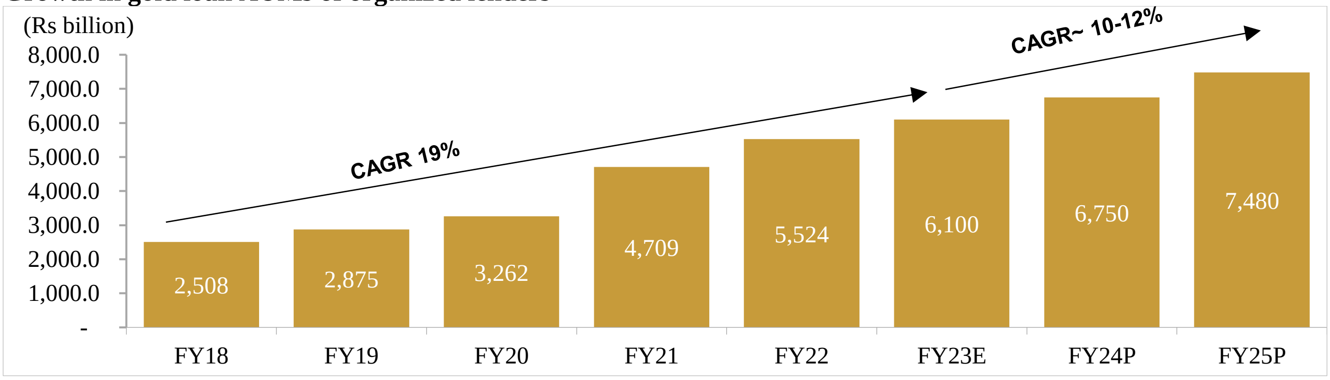
In Fiscal 2022 as well, the gold loan market continued to witness strong growth, with industry AUM increasing by 17% on-year to touch ₹ 5.52 trillion as of March 2022. Increase in AUM can be attributed to factors such as high gold prices, strong demand and increased promotion by financiers to acquire unorganised gold loan market by means of awareness and diversifying their regional presence with the help of branch as well as digital channels. During fiscals 2020-21, when growth for diversified NBFCs witnessed sharp decline, gold loan NBFCs witnessed 11% y-o-y growth. Financiers also were very aggressive in tapping new customers during the year with some of them running campaigns offering gold loans at a lower interest rate for short tenures. For instance, Manappuram Finance introduced low interest rate, for retail customers with a tenure of 3 months. In Fiscal 2023, the growth for gold loans NBFCs is estimated to have moderated owing to increased competition from banks and lower demand from the target audience.

Online gold loans and doorstep model to aid in market expansion

The industry, which has traditionally grown through expansion of branch network across the nook and corner of India, has witnessed the emergence of branchless finTechs and doorstep model gold loans over the last 3-4 years. These players offer doorstep pickup and disbursement of gold loans directly to the account of the customer. Under this model, when a user requests for a loan, the loan agent visits the customer with a gold appraisal kit and necessary tools to measure the purity of the gold. After proper due diligence and a credit check, the loan is processed digitally and the amount is transferred instantly to the customer. After the amount is transferred, the gold is packed in a tamper proof packets and transported to the nearest branch in a GPS enabled secured box, which is tracked on a real time basis until the collateral is deposited in the lender's vault. This new doorstep model gold financing has addressed some of the key inhibitors in wider acceptance of gold loans such as risk involved in carrying gold to the branch, the social stigma attached to mortgaging gold for availing loans and increasing branch catchment area.

Going forward, CRISIL MI&A believes that the scope to capture share from unorganised gold loan financiers', initiatives to increase awareness and increasing comfort of customers with gold loans due to the convenience are expected to help the industry grow moderately along with geographic diversification to markets beyond the Southern part of India. Demand for gold loans from micro enterprises and individuals to fund working capital and personal requirements is expected to increase owing to pickup in economic activity. In addition, with demand reviving and market expansion through doorstep gold loans model, CRISIL MI&A expects AUM to touch close to ₹ 7,480 billion by March 2025, translating into a 10-12% CAGR between Fiscals 2023 and 2025.

Growth in gold loan AUMs of organized lenders



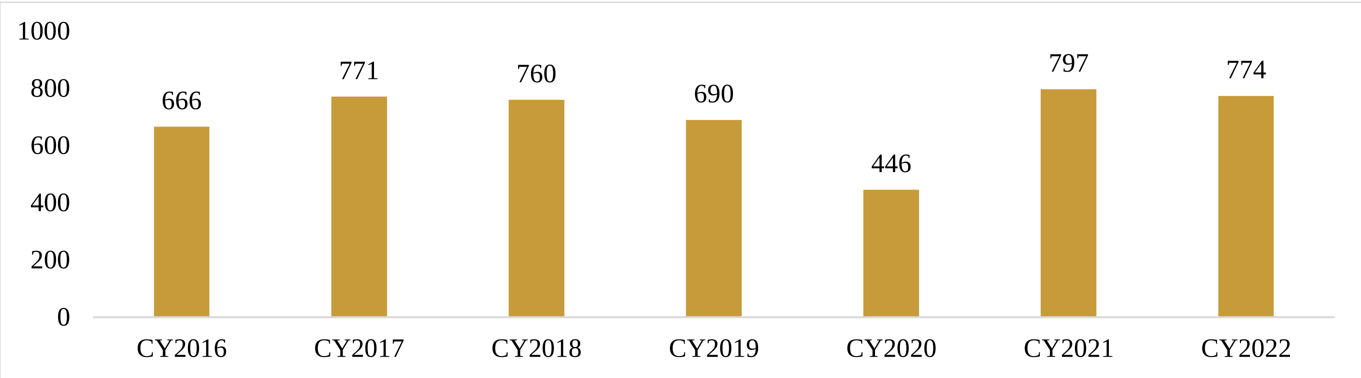
Note: P: Projected, includes agriculture lending by banks with gold as collateral
Source: CRISIL MI&A

Gold demand to increase in calendar year 2023

In calendar year 2020 and first half of calendar year 2021, consumer demand for gold plunged by 35% on year because of curtailed discretionary spending following the onset of COVID-19 and rising prices of gold. However, gold demand bounced back strongly in second half of calendar year 2021, causing it to reach 797 tonnes at end of calendar year 2021. The higher growth was on account of a low base, higher discretionary spending, festive season and waning impact of COVID-19 pandemic. Lower import duty on gold and reduced gold prices is further expected to aid demand for gold in India. Gold imports to India also moves in line with consumer demand, as over 95% of the demand in India is met through imports.

In the first quarter calendar year 2022, the gold demand witnessed a slump owing to lack of auspicious and wedding days coupled with a sharp rise in gold prices in late February or early March which dented consumer appetite for jewellery. In addition, as of calendar year 2022, gold demand stood at 774.1 tonnes, decreasing by 3% year on year. The demand bounced back in the fourth quarter of calendar year 2022 on account of festival purchases and wedding season buying. In addition, retail investors increased focus on gold's haven attributes amid global volatility is also expected to aid demand for gold in calendar year 2023. Going forward, consumer demand for gold in India is expected to remain resilient throughout calendar year 2023. However, demand could face some headwinds arising out of global heighted volatility and broad-based inflation, which could squeeze disposable income.

Trend in yearly demand for gold in India (in tonnes)

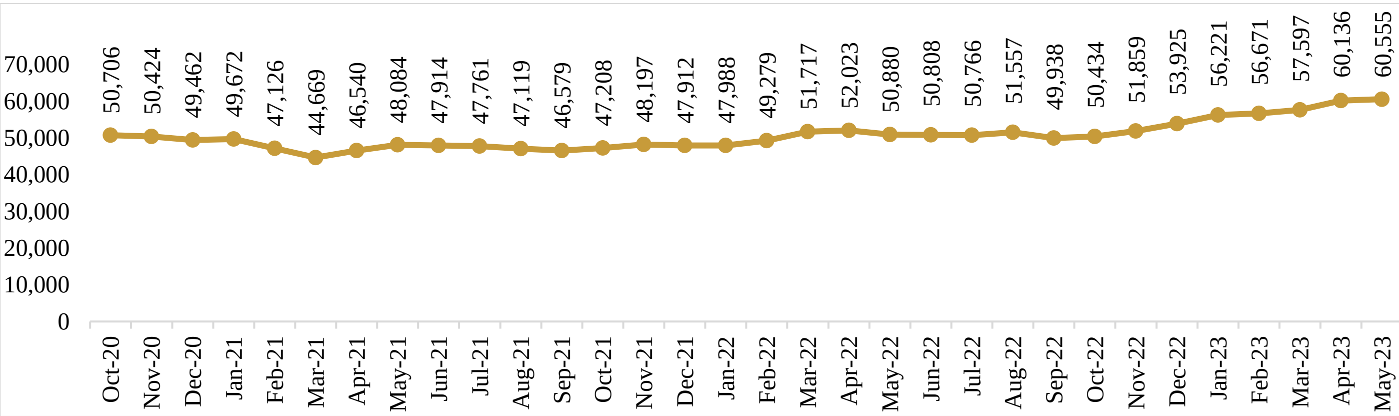


Note: Mentioned years are Calendar Years
Source: World Gold Council, CRISIL MI&A

Higher geopolitical risks and inflationary environment to support gold prices in Fiscal 2023

Domestic gold prices increased by 19% on year to reach ₹ 60,555 per 10 grams in May 2023 from ₹ 50,880 per 10 grams in May 2022. CRISIL MI&A expects domestic gold prices to rise further in Fiscal 2024 on account of higher international prices as well as rupee depreciation during the year. Considering all these factors, CRISIL MI&A domestic gold prices is expected to rise 3-5% in Fiscal 2024.

Trend in gold prices (in ₹ per 10 grams)



Source: MCX, CRISIL MI&A

Growth Drivers

Due to the inherent benefits of gold loans and prevailing economic scenario, the sector is witnessing a strong demand and disbursal growth. Small businesses and individuals who are facing cash flow problems are leveraging gold to meet their liquidity demands. Going forward, CRISIL MI&A believes that the organized gold loan market is expected to be driven by increasing gold loan penetration, rising share of organized financiers and market expansion through geographical diversification.

- Organised gold loan penetration in India (computed as gold stock with organized financiers divided by total gold stock in India) is estimated to be approximately 7% as of March 2023, which indicates that organised gold loan market has significant headroom for growth. Going forward, gold loan penetration is expected to increase further on geographical diversification, rising branch network, and households increasingly looking to monetise their gold holdings for personal and business needs. In addition, increase in gold prices and expectations of micro-enterprises using gold loans to fund working capital requirements is expected to also aid growth of gold financing.

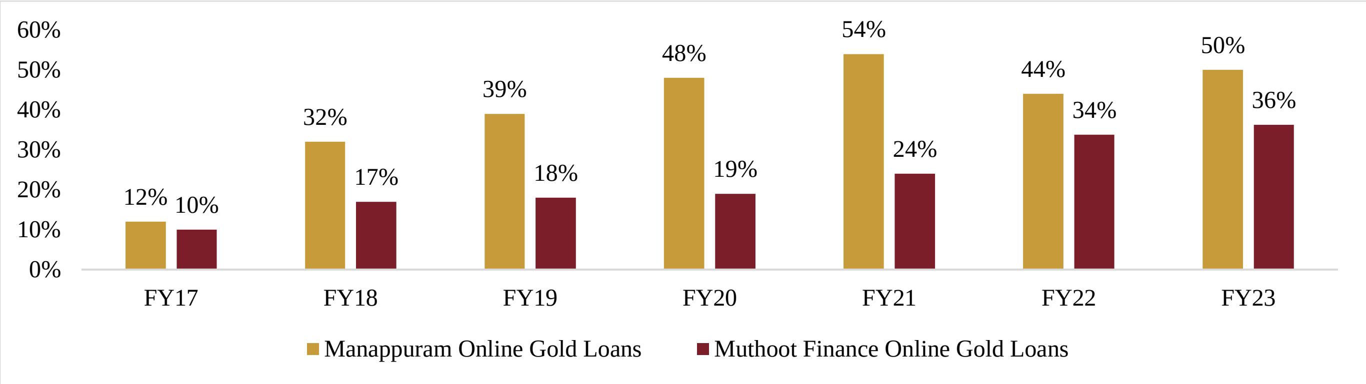
- According to CRISIL MI&A, due to increasing awareness about benefits of availing gold loans from organised segment, the share of organised gold loan financiers has increased from 56-58% in Fiscal 2017 to approximately 61-63% (in terms of value) in Fiscal 2023. Going forward, CRISIL MI&A expects the trend to continue, and the share of organised loan market is expected to further improve from approximately 61% to approximately 63%.

- India has world's largest private gold holdings which is estimated to almost 3 times US official gold reserves and around twice the total gold held in China. According to World Gold Council Report (A Central Banker's Guide to Gold as a Reserve Asset), gold reserves with Indian households account for approximately 75% of the total gold reserves of 35,568 tonnes held by Central Banks across the world as of March 2022. The massive gold reserve can be potentially unlocked by the owners to avail funds at a short notice at the time of need.

Online gold loans and doorstep model to help in market expansion

Digital gold loans products offer the feature of loan sanction within few hours through the online process. These loans can be accessed through mobile applications, online platform, prepaid card etc. Know your customer ("**KYC**"), registration and disbursements are all possible through online platform. For example, entities such as IIFL Finance, Manappuram Finance and Muthoot Finance are constantly making investments in digital and technological capabilities to adapt to constantly changing world. For example, IIFL Finance launched digital gold loans for top up and online renewal of gold loans. Similar shift towards digital modes is witnessed for Muthoot Finance, which saw its share of online gold loans increase from 24% in Fiscal 21 to 36% in Fiscal 2023. At end of Fiscal 2023, the share of online gold loans further increased to 50% for Manappuram Finance.

Share of online gold loans continue to see traction in Fiscal 23



Source: Company Reports, CRISIL MI&A

New age finTech players such as Rupeek along with players like Fedbank Financial, Muthoot Finance, IIFL and Manappuram Finance also offer gold loans at customer's doorstep wherein the customer can get a gold loan sitting at home. The complete the loan underwriting-to-disbursal process takes place within 30 minutes, just as it happens in case of a loan availed through a NBFC branch. In case of doorstep model offering, verification of the gold ornaments as well as gold collection is done at the customer's residence. These are managed through a central application that is simultaneously accessed by all branches for each and every transaction.

Due to these advantages as well as increasing focus by players in both doorstep delivery and online gold loans, the addressable market for gold loans is expected to expand.

Doorstep gold loans operating model

	Traditional Models	**Door step model**
Loan Application	Branch walk in	Phone call, Mobile or app based request
Gold Valuation	Valuation by employee/loan officer at branch	Doorstep valuation by loan officer
Loan Processing	Manual entry of customer data and Paper based KYC	TAB based data entry and KYC
Gold Storage	Vaults in Branch	Vaults in branch, Barcodes and RFID for tracking and retrieval
Loan Disbursement	Disbursal in 10-20 minutes	Disbursal in 10-20 minutes after completion of entire process at doorstep

	Traditional Models	Door step model
Collection	Cash or Cheque at branch, Electronic Clearing System ("**ECS**") / National Automatic Clearing House ("**NACH**"), Direct transfer from customer account	Cash collection at doorstep, ECS/NACH, Direct Transfer

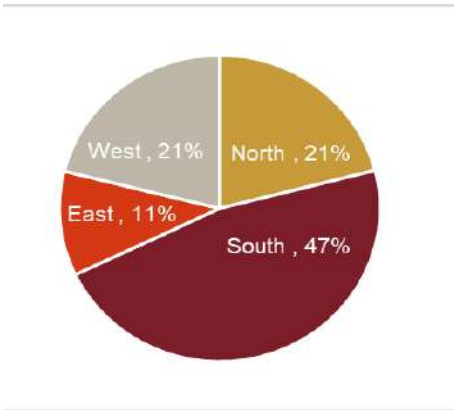
Source: CRISIL MI&A

Geographic diversification and improvement in operational efficiency of business to drive growth in the coming years

In India, the southern zone commands major share of demand of gold loans at 47% as of Fiscal 2023. This can be explained by the culture found in Southern India compared to the rest of India. It is followed by the North region at 21%. The western zone and the eastern zone lag behind in gold loan demand with their share standing at 21% and 11% respectively. People in Southern India have lower taboo associated with borrowing against gold and are more ready to pledge gold. In addition, majority of the NBFCs and banks (that have strong presence in gold loans) have deep rooted distribution network in the Southern India.

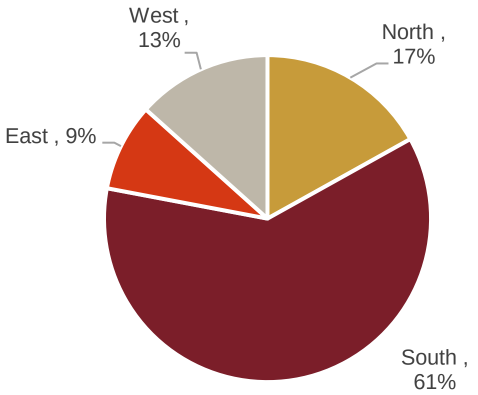
In Fiscal 2017, Southern India accounted for 61% of the total NBFC gold loans portfolio in India. However, changing consumer perceptions about gold loans, driven by increasing awareness, as well as rising funding requirements and increase in penetration of gold loans in the non-southern regions has led to a change in the regional mix of the portfolio. Going forward, incremental additions of branches by gold loan NBFCs in North and West region where the existing number of branches are relatively lower, presents a good geographical expansion opportunity in these regions. Hence, CRISIL MI&A expects other regions to witness stronger growth momentum in gold loans as compared to the Southern region.

South account for major share of gold loans NBFCs (Fiscal 2023)



Note: Aggregate includes region-wise AUM split of Muthoot Finance, Manappuram Finance & IIFL Finance which constitute ~72% of the overall NBFC Gold Loan market as of FY23;
Source: CRISIL MI&A

Branch distribution of gold loans NBFCs (Fiscal 2023)



Note: Aggregate includes region-wise branch split of Muthoot Finance and Manappuram Finance which constitute 58% of overall NBFC gold loans market as of FY23;
Source: CRISIL MI&A

South account for major share of gold loans NBFCs (Fiscal 2023)

Since there is major demand from Southern region, Southern India has a higher share in branches in India. Inspite of introducing online gold loans, these branches serve as an important touchpoint for the customers of these NBFCs.

Gold has been known to act as a hedge against inflation and is also attractive for financiers

Over the years, gold prices have shown a consistent increase, and have, in most part, increased at a pace higher than the annual rate of inflation. For instance, during Fiscal 2011 to Fiscal 2016, gold prices increased at a CAGR of approximately 7%, as against an approximately 8% inflation observed in this period. During the subsequent five-year period between Fiscals 2016 and 2022, the gold price and inflation increased at a CAGR of approximately 12% and 5%, respectively.

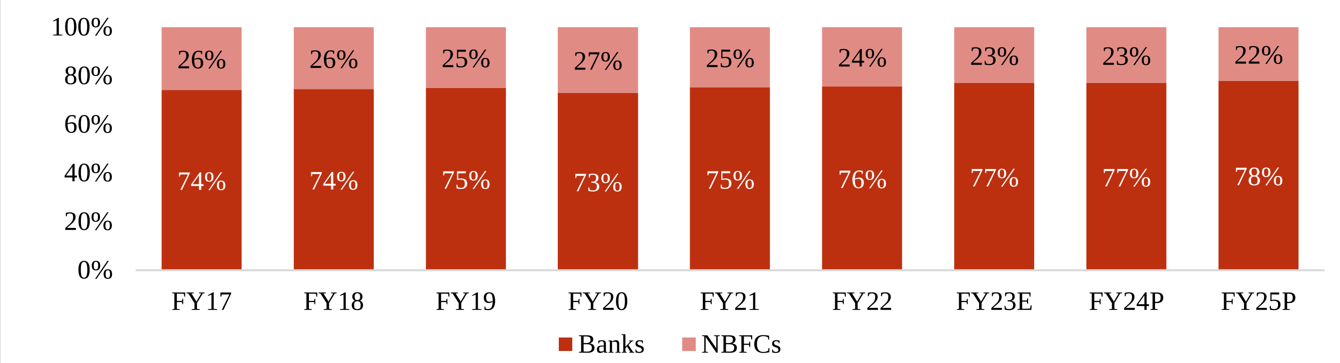
The hedge against inflation provided by gold has attracted consumers to gold over the years. From a financier perspective, the yield on gold loans and minimal risk of credit losses due to security provided in the form of the gold being pledged and the additional cushion due to the loan-to-value (average of 65% for NBFCs) makes gold loans a profitable product.

Competitive landscape

In Fiscal 2021, banks have witnessed a faster growth in gold loans as compared to NBFCs on account of increasing LTV offered by banks (till March 2021), rising gold prices, demand from small businesses for cash and increasing focus of banks towards this asset class. A similar trend was evident in Fiscal 2022 as well. Banks' gold Loan AUM increased by around 20% and NBFCs AUM increased by 11% in Fiscal 2022. For instance, State Bank of India's ("**SBI**") personal gold loan book jumped by 465% on year from ₹ 37 billion in Fiscal 2020 to reach ₹ 210 billion at end of Fiscal 2021. It further increased by 9.9% in Fiscal 2022 to reach ₹ 230 billion. The overall gold loan portfolio of CSB Bank also increased by a 2-year CAGR of 31% from

₹ 38 billion in Fiscal 2020 to reach ₹ 65 billion at end of Fiscal 2022, leading to an increase in banks share in overall gold loans industry. In Fiscal 2023, the gold loan portfolio for banks continued to grow with SBI's personal gold loan book increasing to ₹ 287 billion as of March 31, 2023. For CSB, the gold loan portfolio increased to ₹ 97 billion at end of March 2023. However, it must be noted that banks' mix of gold loans is higher owing to agriculture gold loans, where gold loans are granted to farmers for purpose of crop production.

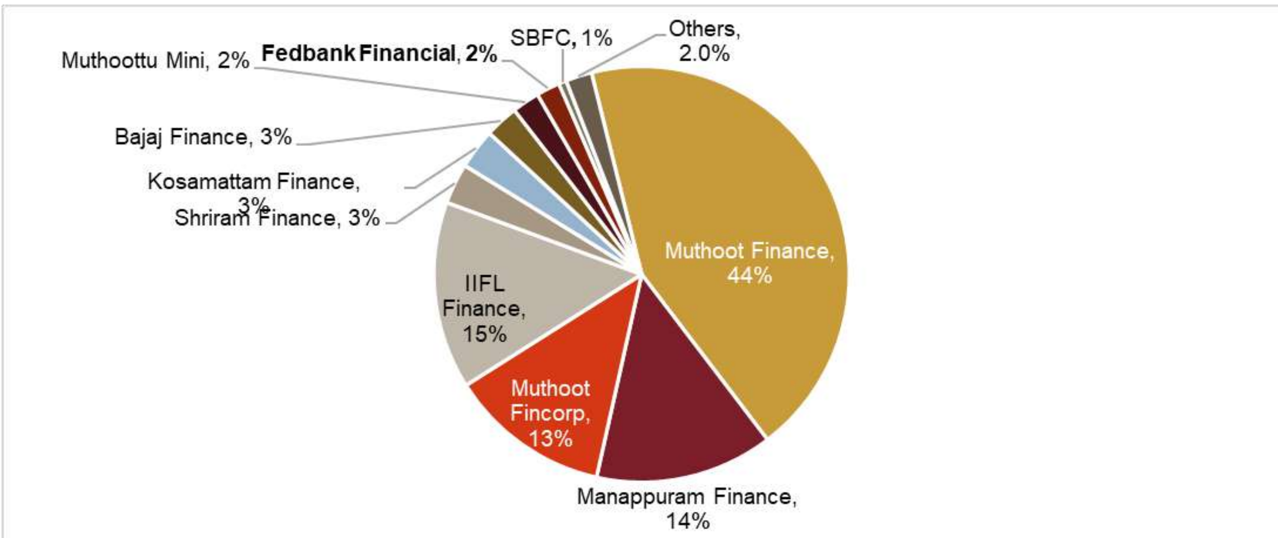
Banks to hold majority share in overall gold loans market



Note: E: Estimated, P: Projected, includes agriculture lending by banks with gold as collateral
Source: CRISIL MI&A

Within NBFCs, Muthoot Finance, Manappuram Finance and Muthoot Fincorp are the largest players, who together account for 70% of the gold loan portfolio of NBFCs as of Fiscal 2023. Other players in top 10 includes key players such as IIFL Finance, Shriram Finance, Kosamattam Finance, Bajaj Finance, Muthoottu Mini, Fedbank Financial, HDB Financial Services and SBFC Finance.

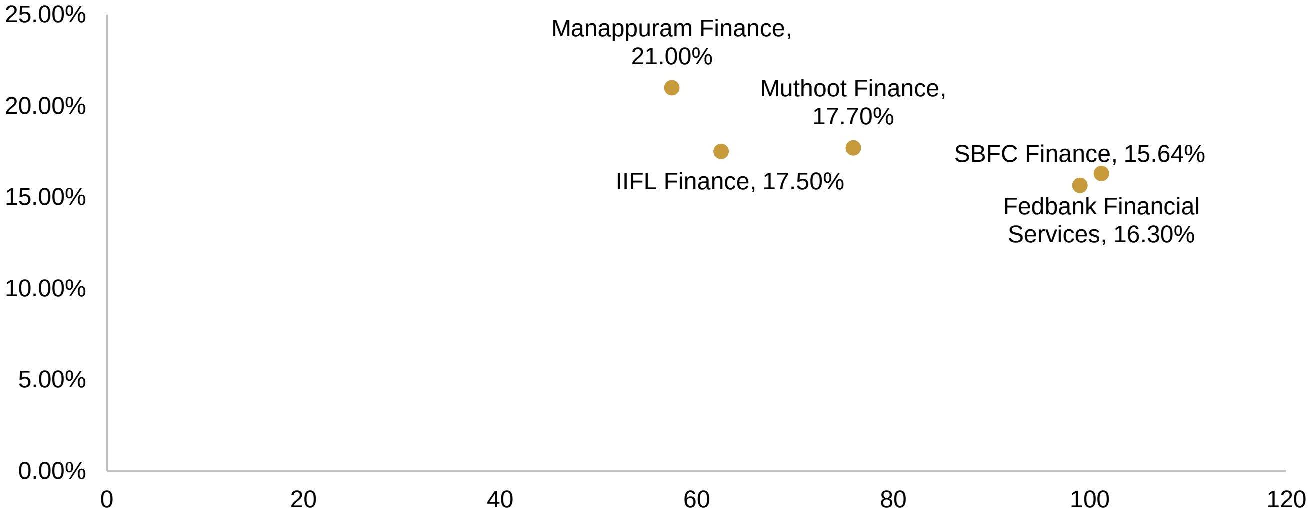
Top three gold financing NBFC account for approximately 70% share in overall NBFC gold loans book in Fiscal 2023



Source: Company Reports, CRISIL MI&A

The average ticket size for NBFCs in the gold loans business stands at ₹ 55,000-₹ 70,000 as of Fiscal 2023. There is considerable variation in the competitive positioning and target segment of various players, as reflected in the average ticket size of loans and yields offered. Among the gold loan NBFCs, players like Muthoot Finance and Manappuram Finance targets customer at the lower end of the economic strata with an average ticket size in the range of ₹ 55,000- ₹ 75,000 and yield in the range of 17-21%. IIFL Finance lends at an average ticket size of ₹ 63,000 with an average yield of close to 18%.

Comparison of various players based on yield on advances and average ticket size (Fiscal 2023)



Source: Company Reports, CRISIL MI&A

NBFCs compete on the basis of operating efficiency, turnaround time, local connect while managing risks

Despite banks having a competitive advantage of offering gold loans at lower cost, gold loan NBFCs have been trying to compete with banks through aggressive expansion of branch and increased focus on customer experience. NBFCs focus more single-mindedly on the gold loans business and have, accordingly, built their service offerings by investing significantly in manpower, systems, and processes as per the needs of the customer, some of which are listed below:

1. **Lower turnaround time and lesser documentation**: The gold loan borrower generally wants to procure the loan as quickly as possible and availability of well-trained and experienced employees in assessment and valuing gold helps NBFCs to disburse loans faster as compared to a bank.
2. **Wider reach and better local connect**: NBFCs have a geographically wider and deeper reach, especially in rural and semi-urban regions, where demand for gold loans is higher
3. **Risk management process**: Most NBFCs have put in place a comprehensive and robust risk management process taking into account their experiences over the years and the key risks in the process including steps taken to prevent fraud, store the gold safely, and recoup losses in case of a loan turning non-performing.

Comparison of Gold loan institutions on select business parameters

	Banks	Gold loan NBFCs	Unorganised moneylenders
Interest rate	9-18%	21-26%	25-45%
LTV	Up to 75% (Up to 90% in Fiscal 2021)	Up to 75%	More than 75%
Processing fee	Higher than NBFCs	No/minimal processing fees	None
Regulator	RBI	RBI	None
Documentation required	KYC Compliance	Minimal	Minimal
Product focus and customer service	Non-core product	Gold loan is core focus, excellent customer service	Gold loan is core focus
Mode of disbursements	Mainly cheque and direct transfer to account	Cash/ cheque and direct transfer to account	Mostly cash
Average turnaround time	30 minutes - 2 hours	10 - 20 minutes	10 - 20 minutes
Opening hours	Banking hours	Beyond banking hours	More flexible than banks in terms of working hours

Source: CRISIL MI&A

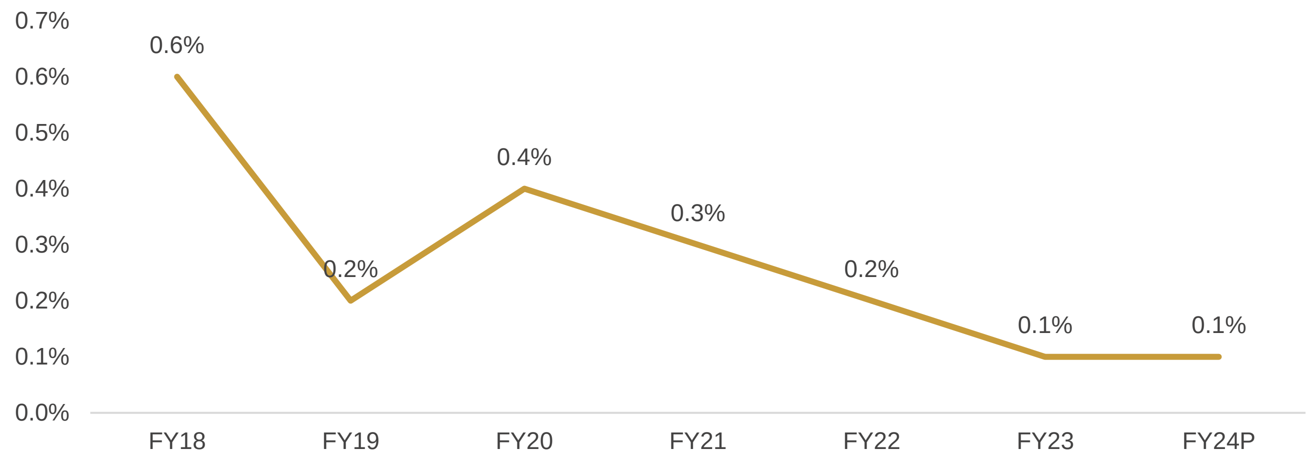
Asset Quality

Credit costs of gold loans low across market cycles; Gold Loan NBFCs NPA to remain restricted

Gold loans are a highly secured and liquid asset class that tends to generate superior returns with minimal credit losses over market cycles. NBFCs offering gold loans are better placed, on a relative basis compared to other retail asset classes, to withstand any asset quality pressures spawned by economic slowdowns or events such as the COVID-19 pandemic.

In addition, shorter tenure of loans shields the companies from any sharp volatility in gold prices. Loss given default for a gold finance company is also generally miniscule, as the loan is fully secured, and the collateral is highly liquid. In case of default, the gold gets auctioned, and the lender recovers its dues and returns the balance amount to the borrower. Maintaining LTV at reasonable levels provides a further cushion to financiers. Credit cost decreased in Fiscal 2023 on account of improvement in asset quality. In addition to improvement in asset quality, credit cost is estimated to have subdued in Fiscal 2023 due to excess provisions carried into Fiscal 2023 post the asset quality deterioration witnessed in Fiscal 2022. Additionally, higher gold prices have led to lower LGD for ECL calculations thereby leading to lower provision coverage and consequently lower credit costs.

Credit cost for gold loan NBFCs



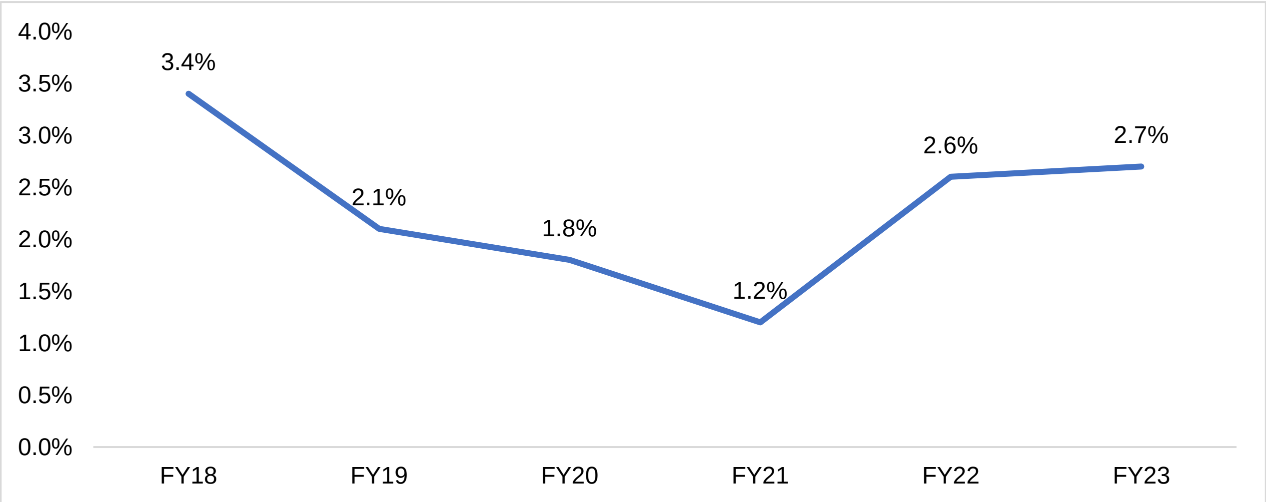
Source: CRISIL MI&A Estimates

In Fiscal 2018, gross NPA for gold financiers stood at 3.4% after RBI changed the NPA recognition norms for NBFCs. Since then, players have been continuously focusing on de-risking their business models from volatility in gold prices, by tightening their interest collections (regular interest collections versus bullet system in the past) leading to improvement in their asset quality in Fiscals 2019 and 2020.

Gross non-performing assets witnessed a decline in Fiscal 2021 due to improved collections. However higher disbursements in second half of the fiscal led by second and third waves of the COVID-19 pandemic resulted into higher GNPAs in Fiscal 2022. The asset quality for Manappuram Finance rose to 3.0% as of March 2022 from 1.9% as of March 2021. During the same period, GNPA for Muthoot Finance rose from 0.9% to 3.0%.

GNPA of gold loan NBFCs remained elevated in Fiscal 2023 and is expected to improve in Fiscal 2024 owing to better collection efficiency and recovery via auctions to some extent. However, going forward, volatility in gold prices could pose some challenges to the asset quality in an otherwise relatively safe segment.

Asset quality for gold loan financiers



Note: Aggregate includes data for Muthoot Finance, Manappuram Finance and IIFL which constitute approximately 72% of the overall NBFC Gold Loan market in fiscal 2023; Source: Company Reports, CRISIL MI&A Estimates

Comparative Assessment of NBFCs in Gold loans financing

In this section, CRISIL MI&A has undertaken a relative comparison of Fedbank Financial with the two largest NBFCs offering gold loans in India (Muthoot Finance and Manappuram Finance) based on the latest available data for Q1 Fiscal 2024.

Operational parameters for key gold loan NBFCs (Q1 Fiscal 2024)

Players (Fiscal 2023)	Gold Loan AUM (In Rs Billion)	Y-o-Y growth	Branch	Employees	AUM per Branch (in ₹ Million)	AUM per Employee (in ₹ Million)	Share of Gold Loan in total AUM
Muthoot Finance	660	18%	5,897	27,701	112.0	23.8	98%
Manappuram Finance	206	1%	4,039*	45,000	51.0^	4.6	56%
Fedbank Financial Services	31	30%	437*	2,105*	71.5^	14.8^	33%

Note: Players are arranged in decreasing order of gold loans AUM; (*) Gold loan branches/employees; (^) AUM per gold loan branch/ employee,
Source: Company Reports, CRISIL MI&A

Operational parameters for key gold loan NBFCs (Fiscal 2023)

Players (Fiscal 2023)	Gold Loan AUM (In Rs Billion)	3 year CAGR	Branch	Employees	AUM per Branch (in ₹ Million)	AUM per Employee (in ₹ Million)	Share of Gold Loan in total AUM
Muthoot Finance	619	15%	5,858	27,273	105.6	22.7	98%
Manappuram Finance	197	5%	3,985*	45,000	49.6^	4.4	56%
Fedbank Financial Services	30	42%	437*	2,085*	68.3^	14.3^	33%

Note: Players are arranged in decreasing order of gold loans AUM; (*) Gold loan branches/employees; (^) AUM per gold loan branch/ employee,

Source: Company Reports, CRISIL MI&A

Gold stock (in tonnes)	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY 24	CAGR (FY18-FY23)
Muthoot Finance	155	150	176	171	187	180	182	3%
Manappuram Finance	64	67.5	72.4	65.3	68	60	59	-1%
Fedbank Financial Services	1.86	2.13	4.13	5.90	7	8.13	8.10	34%

Source: Company Reports, CRISIL MI&A

Gold stock per branch (in kg)	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24
Muthoot Finance	35.84	33.48	38.54	36.92	40.50	30.73	30.86
Manappuram Finance*	19.22	20.02	20.52	18.53	17.76	15.06	14.61
Fedbank Financial Services*	16.79	15.55	16.51	19.59	17.25	18.60	18.54

Note: (*) Gold stock is per gold loan branch
Source: Company Reports, CRISIL MI&A

Operational parameters for key gold loan NBFCs (Q1 Fiscal 2024)

Players (Fiscal 2023)	Average Ticket Size (in ₹ 000)	Loan to Value (%)	Yield on Gold Loans (%)	Cost of Borrowings (%)**
Muthoot Finance	75.9*	68%	18.1%	8.4%
Manappuram Finance	58.8	64%	21.4%	8.5%
Fedbank Financial Services	104.3	72%	16.9%	9.2%

Note: Players are arranged in decreasing order of Gold loans AUM, (*) As of Fiscal 2023, (**) Annualized numbers
Source: Company Reports, CRISIL MI&A

Operational parameters for key gold loan NBFCs (Fiscal 2023)

Players (Fiscal 2023)	Average Ticket Size (in ₹ 000)	Loan to Value (%)	Yield on Gold Loans (%)	Cost of Borrowings (%)
Muthoot Finance	75.9	NA	17.7%	7.4%
Manappuram Finance	57.5	60%	21.0%	8.1%
Fedbank Financial Services	101.2	72%	16.3%	7.8%

Note: Players are arranged in decreasing order of Gold loans AUM,
Source: Company Reports, CRISIL MI&A

Asset quality of gold loan NBFCs (Fiscal 2023 & Q1 Fiscal 2024)

	Fiscal 2023		Q1 Fiscal 2024	
	GNPA (%)	NNPA (%)	GNPA (%)	NNPA (%)
Muthoot Finance	3.79%	3.40%	4.26%	3.82%
Manappuram Finance	1.33%	1.15%	1.45%	1.24%
Fedbank Financial Services*	0.85%	0.80%	0.88%	0.78%

Note: Players are arranged in decreasing order of Gold loans AUM, (*) For Gold Loan Portfolio.
Source: Company Reports, CRISIL MI&A

MSME LENDING IN INDIA

Brief overview of MSMEs in India

The National Sample Survey ("**NSS**") 73rd round dated June 2016 estimated that there are around 63.5 million MSMEs in India. Since then, the number of MSMEs is estimated to have increased further to around 70 million as of Fiscal 2022. MSMEs complement large corporates as suppliers or directly cater to end users. The MSME sector contributes to India's socio-economic development by providing huge employment opportunities in rural and backward areas, reducing regional imbalances, and assuring equitable distribution of national wealth and income. The segment currently contributes to 30% of the GDP, over 40% of exports and creates employment for about 110 million people in India, thus supporting economic development and growth.

MSME segment account for 30% of India's GDP

Rs trillion	Total MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	All India GDP	Share of MSME in All India GDP (in %)	Number of MSMEs (in millions)*
FY16	41	11.0%	126	32.3%	138	29.5%	63.5
FY17	45	10.9%	140	32.2%	154	29.3%	65.5
FY18	51	13.0%	155	32.8%	171	29.7%	66.5
FY19	57	12.9%	171	33.5%	190	30.3%	68.5

Note: (*) - Estimated
Source: MSME Ministry Annual report for FY21[9], CRISIL MI&A

9 https://msme.gov.in/sites/default/files/MSME-ANNUAL-REPORT-ENGLISH%202020-21.pdf

Snapshot of MSMEs in India

*Note: *Data as of FY19, ** Data as of FY22, ^The numbers are estimated*
Source: MSME Ministry Annual report for FY21, CRISIL MI&A

RBI has adopted the definition of MSMEs in line with the Micro, Small and Medium Enterprises Development ("**MSMED**") Act, 2006. This definition is based on investments in plant and machinery in the manufacturing and services sectors.

To bring in more enterprises under the ambit of MSMEs and widen the definition of MSMEs taking into account inflation over the past few years, in June 2020, the Government of India revised the MSME investment limit across each category and introduced an alternate and additional criteria of turnover buckets to the definition. It further removed the difference between the definition of manufacturing based and services based MSMEs.

In June 2021, the Government of India has included retailers and wholesalers under the MSMEs definition to extend the benefits of priority sector lending to traders as well. The move is structurally positive from long-term perspective, as it is expected to enable entities operating in the segment to register on the Government of India's Udyam portal, participate in government tenders and also avail financing options/benefits available to the category.

Given below is the composite new, revised definition of MSMEs in comparison to the old existing one:

New MSME definition removed distinction between manufacturing and services

Old MSME classification			
Criteria : Investment in plant and machinery or equipment			
Classification	**Micro**	**Small**	**Medium**
Manufacturing enterprises	Investment < ₹ 2.5 million	Investment < ₹ 50 million	Investment < ₹ 100 million
Services enterprises	Investment < ₹ 1 million	Investment < ₹ 20 million	Investment < ₹ 50 million
Revised MSME classification			
Composite Criteria : Investment and annual turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing and Services enterprises	Investment < ₹ 10 million and Turnover < ₹ 50 million	Investment < ₹ 100 million and Turnover < ₹ 500 million	Investment < ₹ 500 million and Turnover < ₹ 2.5 billion

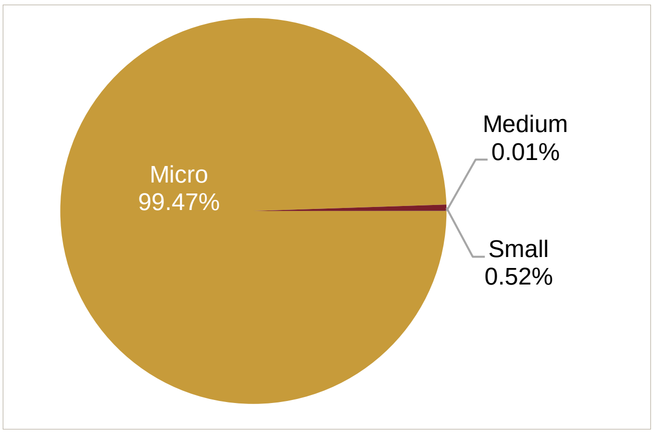
Source: MSME Ministry, CRISIL MI&A

Financial institutions also use internal business classifications to define MSMEs, based on their turnover. Most banks and non-banks follow this practice.

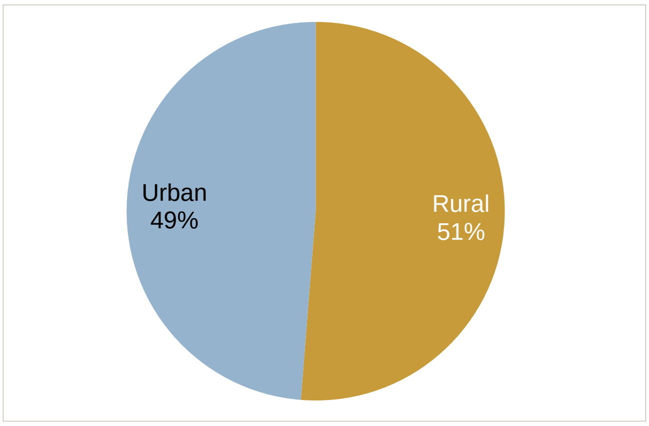
According to the NSS 73rd round dated June 2016, micro segment accounted for as much as approximately 99.47% of total estimated number of MSMEs in India. Small and medium sector accounted for 0.52% and 0.01%, respectively of the total estimated MSMEs. At a region level, rural regions accounted for marginally higher share of 51% as compared to urban region. MSMEs units are largely dominated by bigger states including Uttar Pradesh, West Bengal, Tamil Nadu, Maharashtra and Karnataka. The top 5 states together accounted for approximately 50% of the total number of MSMES in India. Service sector accounts for dominant 79% share in MSMEs, of which retail forms major share.

In terms of constitution, close to 94% of the entities in the MSME universe in India are estimated to be sole proprietorship firms, wherein a small business undertaking is run and managed by the business owner and the business and the owner can virtually not be separated.

Micro segment accounts for dominant share



Rural region accounts for marginally higher share



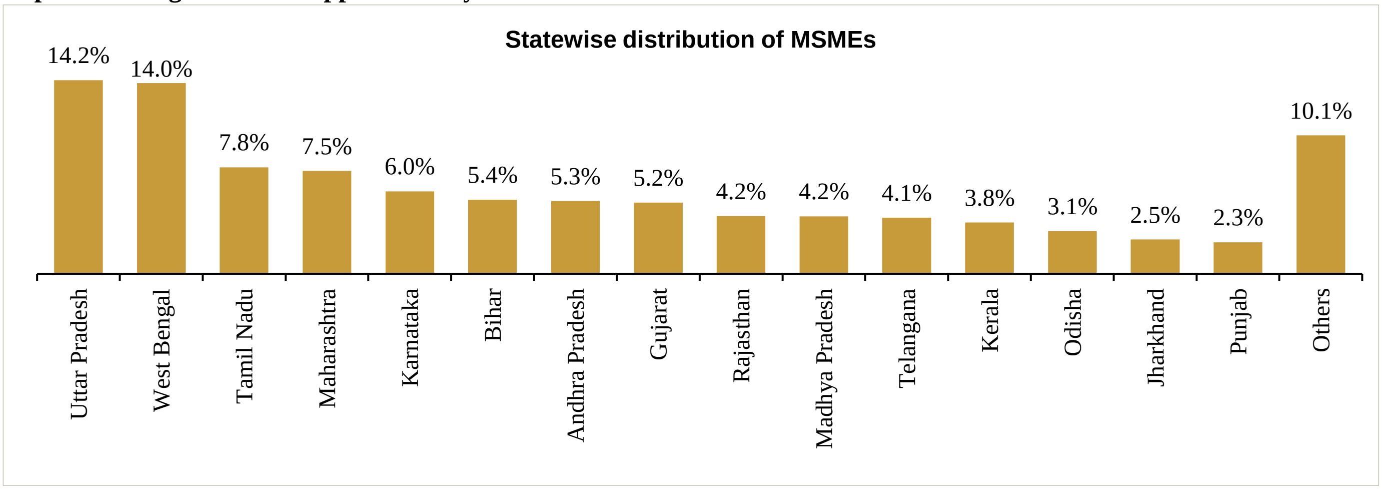
Source: National Sample Survey (NSS) 73rd round dated June 2016, CRISIL MI&A

MSMEs are largely dominated by individuals

Entities	Share in number of MSMEs
Proprietorship	93.83%
Partnership	1.53%
Private Company	0.23%
Cooperative	0.13%
Public Company	0.04%
Others	4.24%

Source: IFC[10], CRISIL MI&A

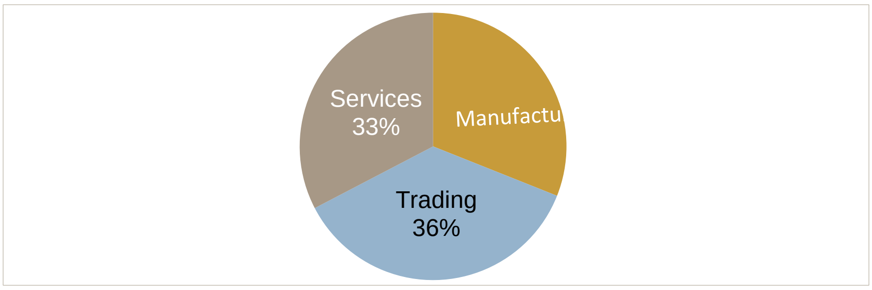
Top 5 states together form approximately 50% of total MSME units



Source: National Sample Survey (NSS) 73rd round dated June 2016, CRISIL MI&A

10 https://www.ifc.org/wps/wcm/connect/dcf9d09d-68ad-4e54-b9b7-614c143735fb/Financing+India%E2%80%99s+MSMEs+Estimation+of+Debt+Requirement+of+MSMEs+in+India.pdf?MOD=AJPERES&CVID=my3Cmzl

Trading sector accounts for higher share in number of MSMEs



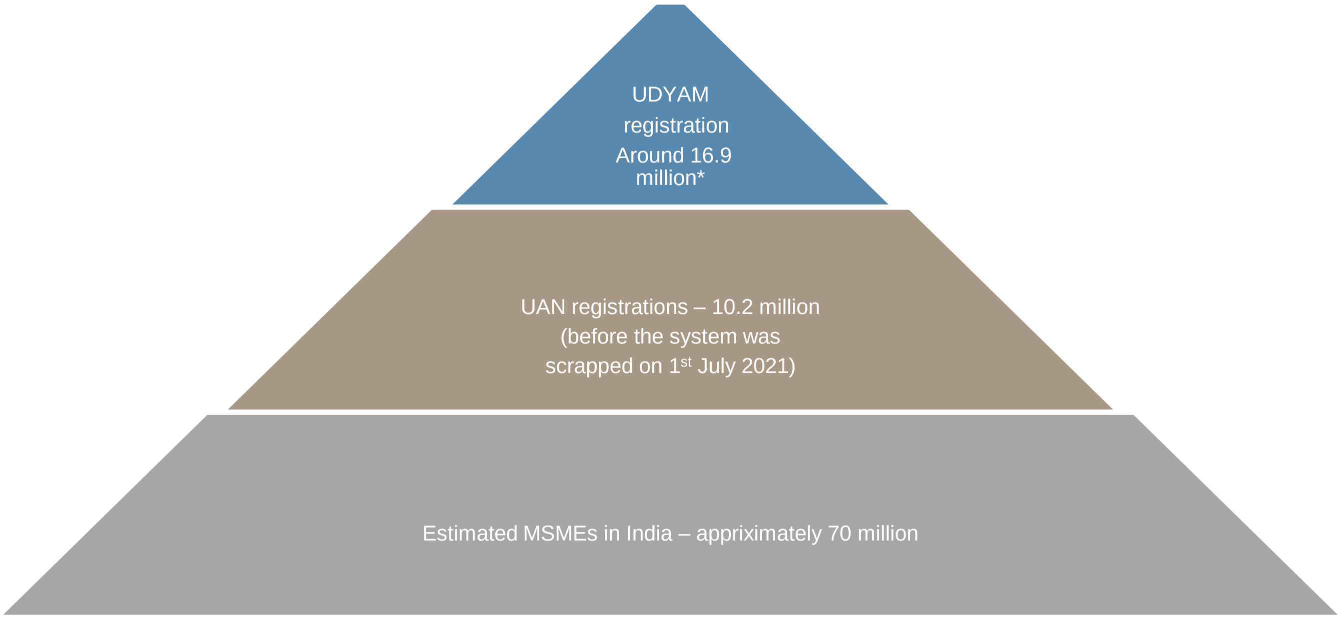
Source: MSME Ministry, CRISIL MI&A

Small fraction of MSMEs in India registered under UDYAM system

After the Government of India revised the definition of MSMEs (in June 2020), MSMEs that had an existing MSME registration (Udyog Aadhaar Number or UAN) or Enterprise Memorandum ("**EM**") were required to re-register themselves under UDYAM. Thereafter, in August 2020, RBI issued a notification allowing financiers to obtain the UDYAM certificate from entrepreneurs for lending purposes.

As of June 20, 2023, close to 16.9 million MSMEs have registered on UDYAM. Around 10.2 million – were registered on the erstwhile UAN system. This number pales in comparison to the total number of MSMEs in India, estimated at around 70 million.

Like UAN, UDYAM also offers free, paperless online and instant registration through a web portal. Small businesses aren't required to upload any documents or proof except the Aadhaar number for registration. Earlier GST registration was mandatory for UDYAM Registration but from March 2021 onwards, it is exempted for those units who are not eligible for GST registration. UDYAM certificate is expected to be required by MSMEs for taking benefit of any scheme of the Central government. The UDYAM portal is also integrated with the Government e-Marketplace ("**GeM**") and the Trade Receivables and Discounting System ("**TReDS**") so that enterprises can participate in government procurement and have a mechanism for discounting their bills.



**As of June 2023*

Source: MSME Ministry, CRISIL MI&A

Probable reasons for low registration rates

Earlier, the requirement was that companies that wanted to register under UDYAM had to provide their GSTIN. Since many entities have a turnover of less than ₹ 40 lakh and hence do not need to be GST compliant, they were ineligible to register on the UDYAM system. This requirement was removed by the MSME Ministry in early March 2021.

Low levels of awareness regarding the roll-out of schemes, their eligibility conditions, paperwork requirements and grievance redressal mechanisms could have also impacted the registration of MSMEs. As per the NCAER Business Expectations Survey ("**BES**") in December 2020, 75% of MSMEs were not even aware of ECLGS launched by the Government of India post COVID-19.

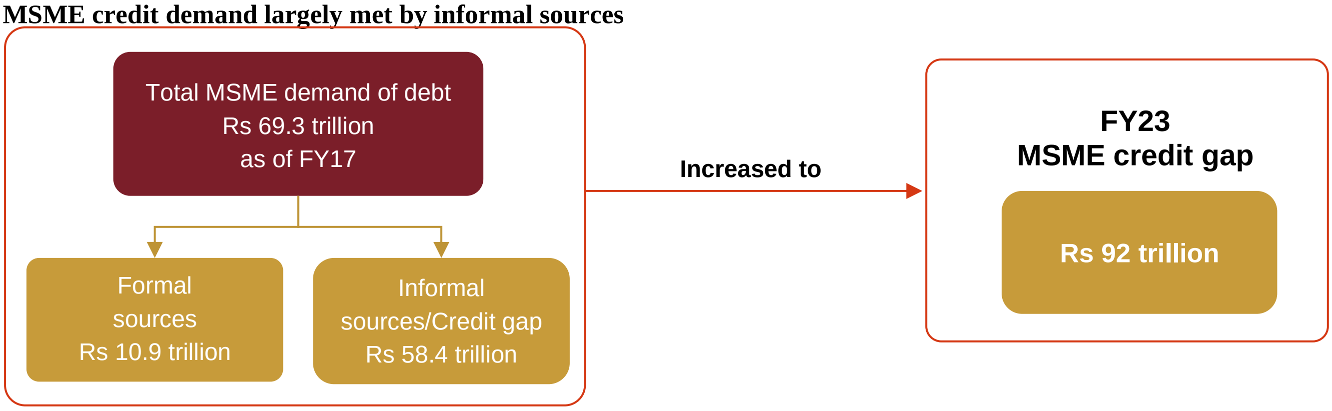
MSME Credit gap estimated at ₹ 92 trillion as of Fiscal 2023

High-risk perception and prohibitive cost of delivering services physically have constrained formal lending to MSMEs. The emerging self-employed individual and micros, small and medium enterprise segment is largely unaddressed by lending institutions in India. An IFC report titled Financing India's MSMEs (November 2018) estimated the MSME credit demand at ₹ 69.3 trillion in fiscal 2017, of which only approximately 16% of demand was met through formal financing[11] and consequently, the MSME credit gap *(defined as the gap between the demand for funds amongst MSMEs and the supply from formal financiers)* was estimated at ₹ 58.4 trillion. This gap was met through informal sources including moneylenders, chit funds and personal sources from friends and relatives. The interest rate for these sources generally ranges between 30-60% per annum.

The credit gap is estimated to have further widened over the last 4 years due to slower economic growth in fiscal 2020, followed by the COVID-19 pandemic in Fiscal 2021. In Fiscal 2021, the nationwide lockdown to contain the spread of the COVID-19 pandemic disrupted economic activity, hurt demand, impacted working capital needs and supply chain along with future investments and expansions. Domestic supplies and supplies from imports also suffered, affecting both, their availability and cost. Contractual and wage labor were also hit due to lower demand and layoffs. MSMEs and businesses in the sectors such as hotels, tourism, logistics, construction, textiles, gems and jewellery suffered the most during the first half of the fiscal. Businesses in the retail sector, especially those catering to daily usage goods and everyday cash and carry businesses such as grocery shops, fruits and vegetables sellers, etc., however, fared relatively better as their availability close to the residences of customers' increased the demand for their services.

Furthermore, government schemes post the COVID-19 pandemic such as the ECLGS scheme provided relief only to MSME units with existing loans from a formal financial institution. With economic recovery in Fiscal 2022, MSME credit growth also recovered. As of Fiscal 2023, the MSME credit demand is estimated to be around ₹ 117 trillion, of which 21% of demand met through formal financing. Assuming an increase of around 9% annually[12] in the demand for credit and the availability of credit from formal sources, CRISIL MI&A estimates the credit gap to have increased to ₹ 92 trillion as of Fiscal 2023.

MSME credit demand largely met by informal sources



Source: IFC report on Financing India's MSMEs dated November 2018[13], CRISIL MI&A

Even while the credit gap has increased, new MSME units continue to be set up across India. Between Fiscals 2016 and 2022, 18.3 million units were set up, according to the Government of India registration data of MSMEs. Thus, though a myriad of small businesses is set up every day in India, access to credit remains a challenge. However, the industry has witnessed an increase in access to formal credit to MSME, which could be attributed to the increase in the number of registered MSMEs to

[11] Formal sources include Public sector banks, Private sector banks, Foreign banks, Regional rural banks (RRBs), Urban Cooperative Banks (UCBs), NBFCs, and government institutions including SIDBI and State Finance Corporations (SFCs).

[12] Based on MSME credit growth over fiscal 2017-23

[13] https://www.ifc.org/wps/wcm/connect/dcf9d09d-68ad-4e54-b9b7-614c143735fb/Financing+India%E2%80%99s+MSMEs+Estimation+of+Debt+Requirement+of+MSMEs+in+India.pdf?MOD=AJPERES&CVID=my3Cmzl

13,093,698 in Fiscal 2023 from 495,013 in Fiscal 2016. According to Udhyam Registration Publication, Maharashtra, Tamil Nadu and Gujarat cumulatively accounts for 36% of overall MSME registration as of June 2023. In addition, under the micro category, the maximum number of registrations were from Maharashtra followed by Tamil Nadu, Uttar Pradesh, Rajasthan and Gujarat. Under small and medium category, maximum registrations were from Maharashtra followed by Gujarat and Tamil Nadu.

Year-wise and MSME category-wise registration of MSMEs

Year/ Category	FY16	FY17	FY18	FY19	FY20	FY21*	FY22^	FY23$
Micro	4,21,516	21,47,908	13,44,612	18,70,932	22,48,730	35,95,577	49,75,082	126,17,959
Small	70,866	2,16,558	1,66,259	2,41,187	3,02,299	4,00,525	1,72,432	4,35,885
Medium	2,631	8,592	6,584	9,426	11,229	35,541	11,294	39,854
Total	**4,95,013**	**23,73,058**	**15,17,455**	**21,21,545**	**25,62,258**	**40,31,643**	**51,58,808**	**130,93,698**

*Note: * Based on UAN and UDYAM registrations, ^Based on UDYAM registrations, $ Based on Udyam registrations as on December 2022 as stated in the MSME Annual Report 2022-23; Source: Development Commissioner Ministry of Micro, Small and Medium Enterprises (DCMSME), CRISIL MI&A*

State-wise category-wise registration of MSMEs

State	Cumulative MSME Registration *	Share in overall MSME registration	Growth in MSME Registration (March 2022-June 2023)
Maharashtra	3,057,608.00	18%	88%
Tamil Nadu	1,737,814.00	10%	103%
Gujarat	1,272,221.00	8%	96%
Uttar Pradesh	1,511,846.00	9%	139%
Rajasthan	1,262,078.00	7%	100%
Karnataka	968,158.00	6%	107%
Madhya Pradesh	789,572.00	5%	120%
Bihar	693,733.00	4%	123%
Punjab	630,391.00	4%	123%
Haryana	578,670.00	3%	105%

Note: (*) Based on Cumulative MSME registration as of June 2023 (https://dashboard.msme.gov.in/Udyam_Statewise.aspx), MSME Registration for Fiscal 22 based on Udyam Registration Publication: Registration of Micro, Small and Medium Enterprises (MSMEs) in India 2020-22;
Source: Development Commissioner Ministry of Micro, Small and Medium Enterprises (DCMSME), CRISIL MI&A

Potential market for residential property backed secured MSME lending is estimated at ₹ 22 trillion

The sheer size of the gap between the supply and demand of credit and the number of enterprises impacted indicates a veritable opportunity in MSME financing. There therefore exists a plethora of players – universal banks, small finance banks, traditional NBFCs, new age finTechs, MFIs, as well as local moneylenders – who try to meet the financing requirements of MSMEs by offering secured or unsecured loans straddling various tenures.

CRISIL MI&A has attempted to decipher the size of the potential opportunity in secured residential property-backed secured MSME lending (hereafter referred to as the Addressable market for secured MSME loans), using data, information and insights at a state-level pertaining to:

- Number of households from NSS 76th round (July 2018-December 2018)
- Self-employed non-agricultural households in both urban and rural areas from Periodic Labor Force Survey ("**PLFS**") dated July 2019-June 2020
- Proportion of self-employed households, which are staying in their own pucca or semi-pucca home (which can be taken as a collateral by financiers) from NSS 76th round (July 2018-December 2018)

Based on our analysis and assumptions detailed in the chart below, small ticket size secured (SORP – Self occupied residential property) MSME lending market potential is estimated at ₹ 22 trillion. Players such as SBFC Finance, Five Star Business Finance, Vistaar Finance, Veritas Finance and AU SFB currently operate in this market; our analysis indicates the Addressable Market available for these players. The top 5 states including Uttar Pradesh, West Bengal, Bihar, Maharashtra and Tamil Nadu together account for almost half the addressable market.

While the latent market opportunity is indeed significant, we observe that there are not many formal financiers who cater to this segment and have built scale. This can be attributed to the high cost of serving the market and the time it takes to build expertise, the requirement of having a strong knowledge of the local market and regional dynamics, and the challenges associated with building a credit underwriting model for non-income proof customers and collections infrastructure.

Most small businesses in India do not maintain documents such as income proof, business registration, GST registration, income tax filings, and bank statements, making credit assessment challenging. To illustrate, as per GST council data, only 13.7 million enterprises across various size dimensions were registered under GST as of May 2022. Hence, these businesses have limited or no access to formal credit from banks and financial institutions due to the requisite documentation and stringent underwriting norms.

Examples of such businesses include provision stores, building materials stores, tea shops, vegetable vendors and others. The small business in manufacturing and services include small fabrication units, machine tools manufacturers (using lathe machines), tailors, saloons, Gym owners, vehicle service centres, etc.

Addressable market estimation methodology for secured MSME loans given to non-agriculture self-employed households with residential self-occupied property as collateral

Source: National Sample Survey (NSS) 73rd round (July 2015 – June 2016) and NSS 76th round (July 2018 – December 2018), CRISIL MI&A

State wise split of addressable market

Top 15 states	Total Households ('000)	Total Non-agri Self Employed Households ('000)	Total Non-agri Self Employed Households - SORP ('000)	Total Non-agri Self Employed Households - SORP - Pucca + Semi Pucca ('000)	Overall MSME Addressable Market Size (₹ billion)
Uttar Pradesh	38,224	7,776	7,023	6,674	3,337
West Bengal	23,781	5,923	5,143	4,849	2,424
Bihar	19,960	4,498	4,270	3,953	1,976
Maharashtra	24,120	4,353	3,316	3,270	1,635
Rajasthan	13,384	3,075	2,743	2,685	1,342
Tamil Nadu	20,200	3,715	2,584	2,523	1,262
Gujarat	13,064	3,188	2,471	2,428	1,214
Madhya Pradesh	15,251	2,360	1,988	1,922	961
Andhra Pradesh	14,279	2,677	1,956	1,895	947
Kerala	8,577	1,988	1,795	1,789	895
Karnataka	14,928	2,740	1,822	1,786	893
Assam	6,740	1,965	1,702	1,660	830
Odisha	10,401	1,909	1,647	1,415	707

Top 15 states	Total Households ('000)	Total Non-agri Self Employed Households ('000)	Total Non-agri Self Employed Households - SORP ('000)	Total Non-agri Self Employed Households - SORP - Pucca + Semi Pucca ('000)	Overall MSME Addressable Market Size (₹ billion)
Punjab	5,922	1,636	1,415	1,409	705
Telangana	9,793	1,788	1,205	1,188	594
Others	32,483	6,585	5,317	5,180	2,590
All India	**2,71,105**	**56,115**	**46,397**	**44,624**	**22,312**

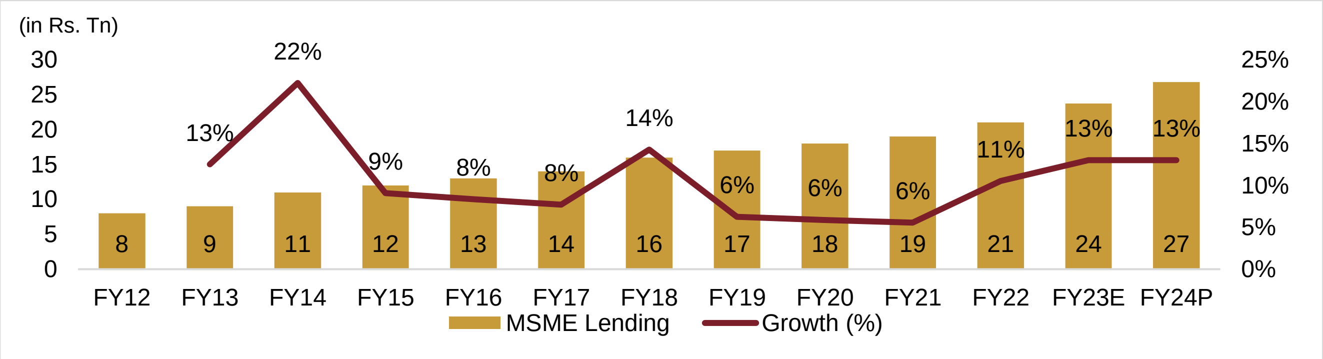
Note: States are arranged in order of Addressable market size, Source: National Sample Survey (NSS) 73rd round (July 2015 – June 2016) and NSS 76th round (July 2018 – December 2018), Periodic Labor Force Survey (PLFS) dated July 2019-June 2020, CRISIL MI&A

Overall MSME lending has grown at a CAGR of 10% in the past decade

CRISIL MI&A estimates the total size of MSME lending market across ticket sizes and various player groups (banks, NBFCs, small finance banks, and other formal lenders) to be around ₹ 24 trillion as of March 2023. This market size includes loans taken by MSMEs across various constitution types (sole proprietorships, partnership firms, private and public limited companies, and co-operatives) and the ticket size spectrum, and includes loans extended in the name of the firm/entity/company as well as the individuals in case of micro enterprises or entrepreneurs.

CRISIL MI&A estimates loans to MSMEs to have grown at a CAGR of 10% during Fiscal 2012 to Fiscal 2023, which is similar to the nominal GDP growth in this period. This can be attributed to various events during this time span that has impacted MSMEs – demonetisation of high-value currency loans in November 2016, the implementation of GST subsequently, the economic slowdown in Fiscal 2020 followed by the COVID-19 pandemic. In Fiscal 2023, with recovery in economic activity, MSME lending is estimated to have grown at a 13% growth rate year-on-year. In addition, in Fiscal 2024, CRISIL MI&A projects the MSME overall industry growth to be at 13% - 15% owing to budgetary push and rise in entrepreneurship in India.

MSME credit outstanding estimated at ₹ 24 trillion as of March 2023



Source: CRISIL MI&A estimates

COVID-19 pandemic led a heavy impact in the MSME industry in Fiscal 2021 which was also seen in the first quarter of Fiscal 2022. ECLGS schemes aimed to reduce the impact of the COVID-19 pandemic on the MSME sector. The first half of Fiscal 2022 was also impacted by the second wave leading to lower disbursements to these MSMEs. This led to extension of the ECLGS scheme which cushioned the impact of COVID-19 pandemic. ECLGS scheme led by revival of economic activities, strong exports and domestic growth prompted MSME lending to grow at 13% in Fiscal 2022.
NBFCs have managed to carve out a strong presence in MSME loans due to their focus on serving the needs of the customer segment, faster turnaround time, customer service provided and expansion in geographic reach. Over the years, the MSME portfolio of NBFCs have grown at a faster rate than the overall MSME portfolio at a systemic level. Going forward CRISIL MI&A expects the competitive positioning of NBFCs to remain strong, given their strong target customer and product focus.

ECLGS scheme has provided some relief to MSMEs hurt by the COVID-19 pandemic

Given the pain suffered by MSMEs due to the COVID-19 pandemic and the importance of MSMEs in India, the Government of India undertook several initiatives to support MSMEs and keep them afloat. This scheme provided much-needed liquidity to MSMEs that are known to have faced severe working capital crunch during downturns.

ECLGS 1.0

May 2020 to Aug 2020

- ECLGS was introduced by providing the MSMEs additional funding of up to ₹ 3 trillion in the form of a fully guaranteed emergency credit line.
- **Eligible entities**: All MSME borrower accounts with outstanding credit of up to ₹ 250 million as on February 29, 2020, which were less than or equal to 60 days past due as on that date and with an annual turnover of up to ₹ 1 billion
- In August 2020, the upper ceiling of outstanding credit was revised to ₹ 0.5 billion and annual turnover to ₹ 2.5 billion.

ECLGS 2.0

Mar 2021

- The Government extended ECLGS through ECLGS 2.0 for 26 sectors identified as stressed due to the COVID-19 pandemic by the Kamath Committee and the healthcare sector.
- **Eligible entities:** Entities with outstanding credit above ₹ 0.5 billion and not exceeding Rs. 5 billion as on February 29, 2020, which were less than or equal to 30 days past due as on February 29, 2020
- Annual turnover ceiling was removed from the eligibility criteria for ECLGS 1.0

ECLGS 3.0

Nov 202 0

- Government extended the scope of ECLGS to cover business enterprises in Hospitality, Travel & Tourism, Leisure & Sporting sectors which had, as on February 29, 2020, total credit outstanding not exceeding ₹ 5 billion and were less than or equal to 60 days past due as on that date.
- The validity of ECLGS was extended up to June 30, 2021 or till guarantees for an amount of ₹ 3 trillion are issued.

ECLGS 4.0

May 2021

- ECLGS scope expanded to cover loans up to ₹ 20 million to hospitals/nursing homes/clinics/medical colleges for setting up on-site oxygen generation plants with interest rate capped at 7.5%
- Civil Aviation sector included under ECLGS 3.0
- Ceiling of ₹ 5 billion of loan outstanding for eligibility under ECLGS 3.0 to be removed, subject to maximum additional ECLGS assistance to each borrower being limited to 40% or ₹ 2 billion, whichever is lower.
- Borrowers who had availed loans under ECLGS 1.0 of overall tenure of 4 years comprising of repayment of interest only during the first 12 months with repayment of principal and interest in 36 months can increase the tenure to 5 years (repayment of interest only for the first 24 months with repayment of principal and interest in 36 months thereafter)
- Additional ECLGS assistance of up to 10% of the outstanding as on February 29, 2020 to borrowers covered under ECLGS 1.0

ECLGS 5.0

June 2021

- Additional allocation of ₹ 1.5 trillion towards ECLGS scheme; limit of admissible guarantee and loan amount increased above existing level of 20% of outstanding on each loan
- Sector wise details to be finalized as per evolving needs
- Loan guarantee of ₹ 1.1 trillion for COVID-affected sectors:₹ 0.5 trillion towards health sector and ₹ 0.6 trillion towards other COVID-affected sectors, including travel and tourism stakeholders
- Working capital/personal loans will be provided to people in tourism sector to discharge liabilities and restart businesses impacted due to COVID-19.
- Loan guarantee of ₹ 75,000 million for loans extended by SCBs to MFIs for on lending up to ₹0.125 million to ~2.5 million customers; guarantee cover provided till March 31, 2022 or till guarantees for an amount of ₹ 75,000 million are issued, whichever is earlier

Source: CRISIL MI&A

In September 2021, with a view to support various businesses impacted by the second wave of COVID-19 pandemic, the timeline for ECLGS has been extended till March 2022 or till guarantees for an amount of ₹ 4.5 lakh crore are issued under the scheme, whichever is earlier. In addition, in March 2022, the scheme was extended till March 2023 as was announced in Union Budget 2022-23. Out of the targeted amount of ₹ 4.5 trillion, ₹ 3.32 trillion has been sanctioned as of April 30, 2022 of which ₹ 2.54 trillion has been disbursed. As on January 31, 2023, guarantees amounting to ₹ 3.61 trillion has been issued under ECLGS, benefitting 1.19 crore borrowers.

However, considering the entire universe of around 70 million MSMEs, the proportion of MSMEs that have benefitted remains limited at approximately 17% (11.6 million) of entire universe as on November 12, 2021. This is because the scheme covered only MSMEs having loan exposure to formal financiers as of February 2020. Among the eligible MSMEs, small and micro MSMEs have benefitted the most from ECLGS with 76% share in amount of guarantees issued to MSMEs and 93% share in number of guarantees issued as of November 12, 2021.

The cap of 14% on final interest rate charged to MSME customers for NBFCs meant that customers of many NBFCs, which typically charge more than 14% due to high operating costs and the relatively riskier profile of their borrowers, could not avail the benefits under the ECLGS scheme.

Overall MSME market consists of various players; asset quality relatively better for private banks

In absolute terms, the aggregate size of extending MSME loans is estimated to be around ₹ 24 trillion as of March 2023. With growth in number of MSMEs and increasing requirement of credit for scaling their businesses, CRISIL MI&A believes that MSME loans would provide a huge opportunity for lenders to grow their loan book. There are various kind of players serving this segment including Banks, NBFCs and Small Finance Banks that offer loans to MSMEs, self-employed individuals and businesses.

Key Industry Parameters for overall MSME loans

	NBFCs	Public sector banks	Private Banks
Average ticket size	₹ 8 lakhs	₹ 13 lakhs	₹ 23 lakhs
Market size for overall MSME (Rs billion)	₹ 4,382	₹ 6,643	₹ 12,397
Average GNPA (as of March 2023)	4.9%	3.8%	1.4%

Source: CRISIL MI&A Estimates

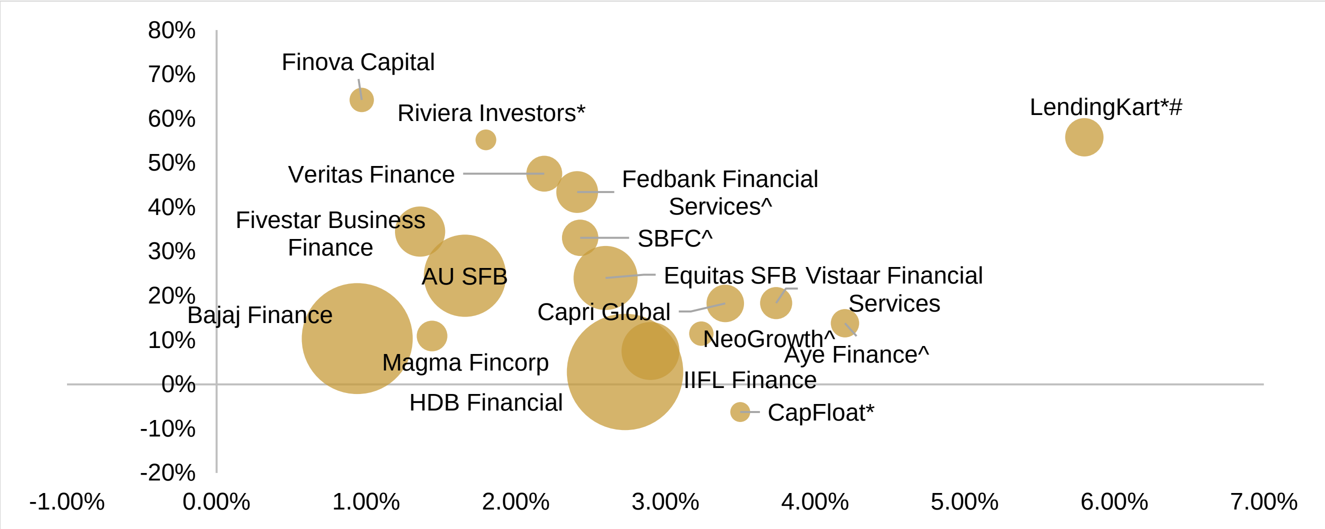
Within NBFCs, there are players that operate at relatively higher ticket sizes and offer both secured and unsecured business loans. These NBFCs offer loans at the most competitive rates among other NBFCs, target customers that are relatively better in terms of credit profile and have lower cost of borrowings compared to other NBFCs. Compared to these, NBFCs that have singular focus on business loans or have significant proportion of business loans in their portfolio and operating at ticket sizes of less than ₹ 10 lakhs offer loans at a higher rate due to much riskier customer profile. FinTech firms with NBFC license and SFBs are other players that operate in the MSME loans landscape. FinTechs leverage data and technology in their business models and are more focused on unsecured business loans. Hence, they also have higher yields in the range of 24-30% because of the higher risk associated with the customer profile catered and the product segment they operate in.

Comparison of various NBFCs based on yield on advances and average ticket size (Fiscal 2023)

	Yield less than 16%	**Yield between 16% and 22%**	**Yield more than 22%**
Average ticket size more than or equal to ₹ 10 lakhs	Fedbank Financial Services Ugro Capital Capri Global Poonawalla Fincorp	Bajaj Finance	IIFL Finance Neogrowth
Average ticket size less than ₹ 10 lakhs	AU Small Finance Bank	SBFC Finance Equitas Small Finance Bank CapFloat Financial Services^	Veritas Finance Five-Star Business Finance Aye Finance Lendingkart^ Finova Capital Riviera Investors*

*Note: ^Based on Fiscal 2021 data, * Based on Fiscal 2022 data, Source: Company Reports, CRISIL MI&A*

Comparison of various players based on portfolio size, portfolio growth and GNPA ratio (Fiscal 2023)



*Note: Size of the bubble denotes relative size of the MSME loan portfolio as of March 2023, ^AUM, GNPA as of December 2022, *AUM, GNPA as of September 2022, # CAGR growth from Fiscal 2018-2023*
Source: Company Reports, CRISIL MI&A

Moreover, compared to different loan products like affordable housing loans, microfinance loans, auto loans and personal loans, small to medium ticket size MSME loans is one of the most attractive asset classes offering competitive yields over a medium tenure with good collateral quality, lower default risk as the loans are secured predominantly with self occupied residential property ("**SORP**") and high collateral enforceability due Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act ("**SARFAESI**").

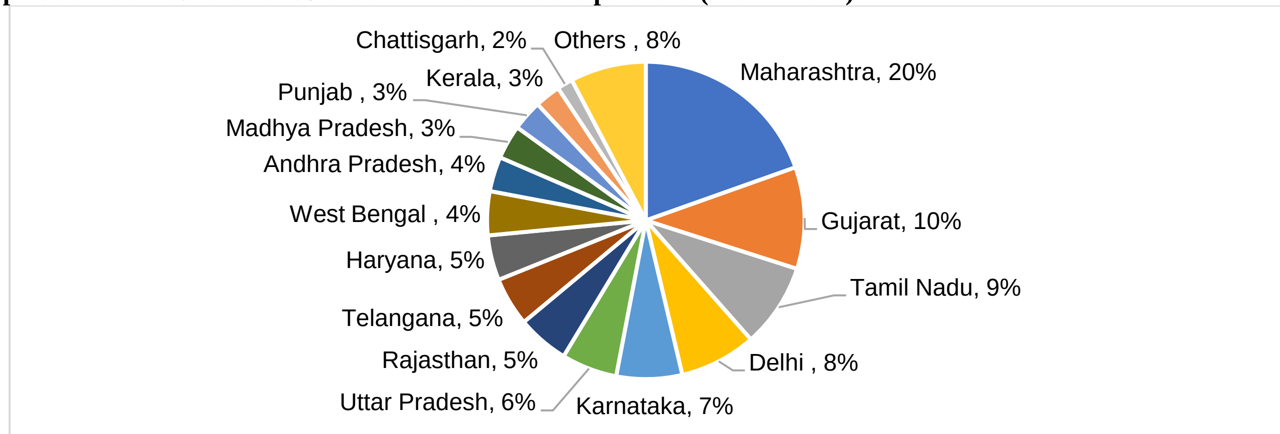
	Estimated Market Size – Portfolio outstanding March 2023 (₹ trillion)	**Ticket size**	**Yields**	**Typical tenure**	**Collateral Quality**	**Tendency to default**	**Collateral enforceability**
Secured property-backed micro-mortgage Loans (< ₹ 15 lakhs)	1.8	Small	High	Medium	Good	Medium	Low
Secured Property-backed small - business loans (₹ 15 lakhs to ₹ 50 lakhs)	2.1	Small to Medium	Medium	Medium	Good	Low	High
Secured non-LAP loans	15.4	Small to Medium	High	Low	Good	Low	Low
Microfinance loans	4.8	Small	Medium	Low	No collateral	Relatively High	NA
Housing loan	30.0	Large	Medium	High	Very good	Low	High
Auto Loans	11.5	Small to Medium	Low to Medium	Low to medium	Moderate	Medium	Low
Personal Loans	10.0	Small	High	Low	No collateral	Medium to High	NA

Source: CRISIL MI&A

State-wise analysis of overall MSME loans

The MSME loans segment has been growing strongly with a four-year CAGR of 18% between Fiscals 2019 and 2023. Overall MSME portfolio is expected to grow at 12-14% CAGR between Fiscal 2023 and Fiscal 2025. Based on the value of overall MSME loans outstanding, the top 15 states accounted for 92% of the market size in this segment as of March 2023. Maharashtra tops the list with the highest share of 20%, followed by Gujarat (10%), Tamil Nadu (9%), Delhi (8%).

Top 15 states account for 92% of overall MSME loans portfolio (March 2023)



Note: Based on CRISIL MI&A estimates
Source: CRISIL MI&A

MSME loans are expected to continue to grow at a strong pace

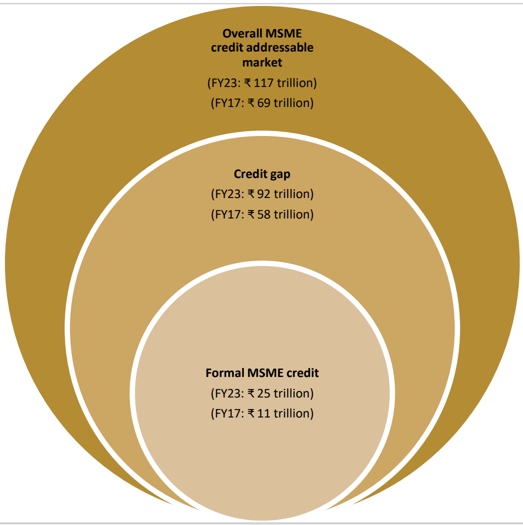
There is a huge demand supply gap in the MSME loan segment, especially in lower ticket size segments. With increasing presence of MSME lenders in smaller cities and rising focus of lenders on underserved target customer segment, loan portfolio is expected to see a strong growth in future. Going forward, CRISIL MI&A expects MSME loans with ticket size between ₹ 1 million to ₹ 10 million is expected to grow at 14-16% CAGR over Fiscals 2023 and 2025, aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and continued government support.

Growth drivers

High credit gap in the MSME segment

Less than 15% of approximately 70 million odd MSMEs have access to formal credit in any manner as of March 2022. High-risk perception and the prohibitive cost of delivering services physically have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs and self-employed individuals historically. As a result, they resort to credit from informal sources. This untapped market offers huge growth potential for financial institutions. As stated earlier, the credit gap was estimated at around ₹ 58.4 trillion as of 2017 *(Source: IFC report named Financing India's MSMEs released in November 2018, CRISIL MI&A)* and is estimated to have widened further to around ₹ 92 trillion as of Fiscal 2023.

Credit Gap estimated at ₹ 92 trillion as of Fiscal 2023

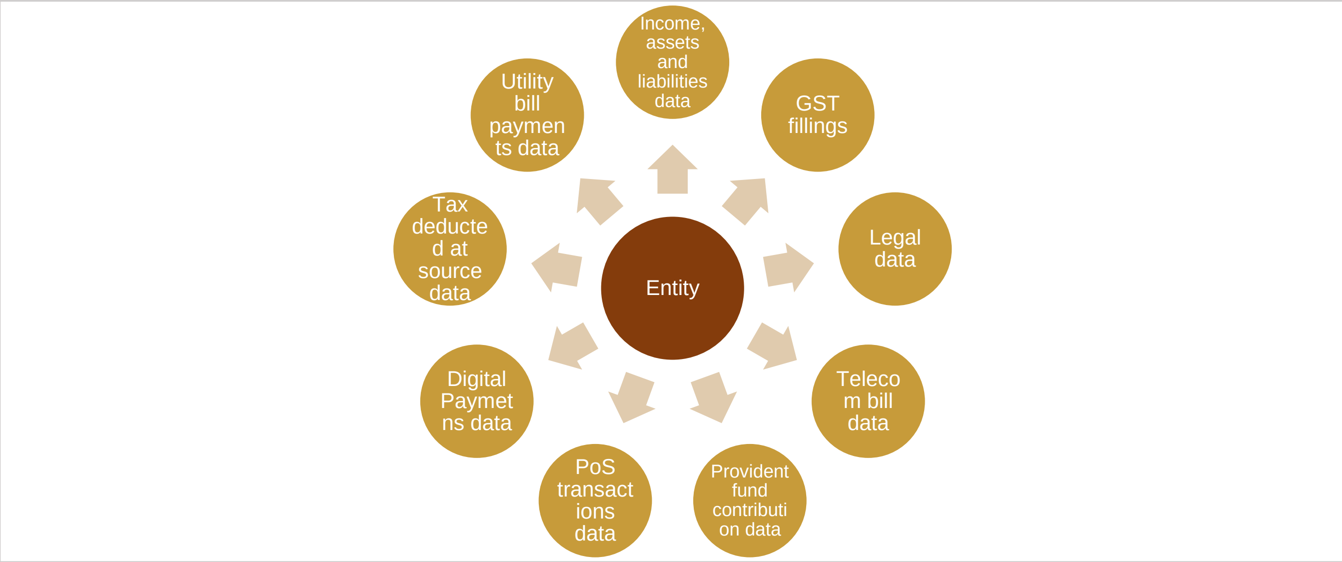


Note: Overall formal MSME credit given above includes all kinds of secured and unsecured loans given to MSMEs across ticket sizes by organised lenders.
Source: MSME Ministry Annual report for FY21, IFC report on Financing India's MSMEs dated November 2018, CRISIL MI&A

Increased data availability and transparency

With increased digital initiatives by the MSMEs, the shift towards their formalisation and digitisation has created a plethora of data points for lenders that would help improve the efficacy of credit assessment and gradually enable provision of credit to hitherto underserved customer segments. For example, the quantum of retail digital payments has catapulted from ₹ 140 trillion in fiscal 2017 to ₹ 606 trillion in fiscal 2023. Within UPI, the quantum of person-to-merchant payments has zoomed from ₹ 6.2 trillion in Fiscal 2021 to ₹ 30.7 trillion in Fiscal 2023. This increase has created a digital footprint of customers, which can be potentially used for credit decision making, along with other relevant parameters such as customer demographics, business details, credit score, and personal situation of the borrower.

Multiple data points can be used for credit assessment

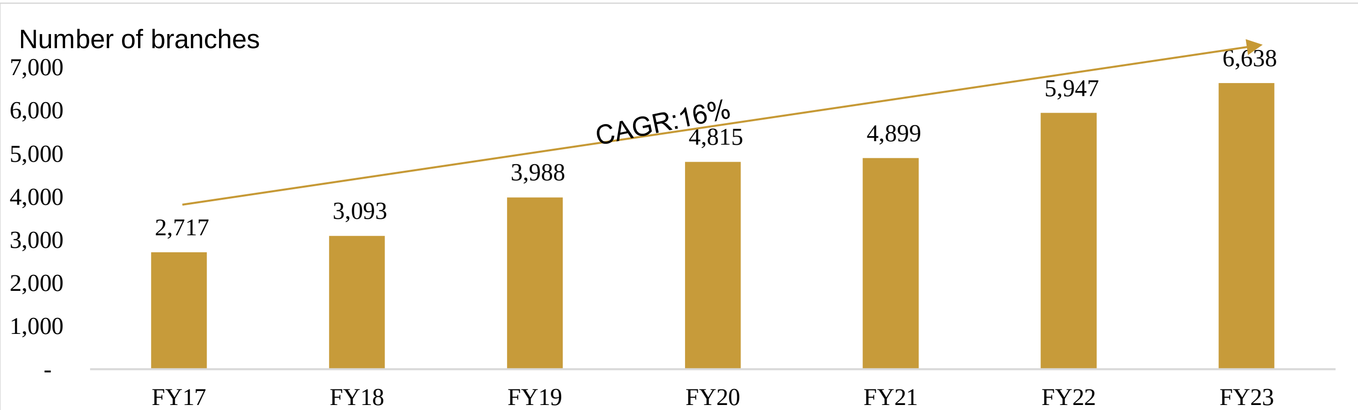


Source: CRISIL MI&A

Growth in branch network of players in MSME segment

Over past few years, players offering MSME loans have expanded their branch network with the intent to serve a larger customer base. In the future also, CRISIL MI&A expects lenders with a strong focus on MSME lending and healthy competitive positioning to continue to invest in branch expansion. With increasing branch network, customer acquisition and credit penetration of MSME loans is also expected to increase. To illustrate, the cumulative branch network of six MSME lenders (Fedbank Financial, Five Star Business Finance, Vistaar Finance, Veritas Finance, HDB Financial and IIFL Finance) has expanded at a 16% CAGR between Fiscals 2017 and 2023, even though the NBFC industry and the economy were impacted by the IL&FS crisis, a slowdown in growth in Fiscal 2020 and the COVID-19 pandemic.

Number of branches have grown at 16% CAGR over Fiscals 2017 and 2023



Note: The above data includes branches for Fedbank Financial Services, Five Star Business Finance, Vistaar Finance, Veritas Finance, HDB Finance and IIFL Finance

Source: Company Reports, CRISIL MI&A

Reduction in risk premiums due to information asymmetry

In the absence of reliable information about small businesses, it becomes difficult for lenders to assess the creditworthiness of the borrower. Hence, lenders often charge a credit risk premium from these customers, leading to higher interest rates. By leveraging technology and using a combination of traditional data (bureau data, financial statements, credit score), non-traditional data (payments, telecom, provident fund contribution and psychometric data), and government data (Aadhaar, GST), lenders would be able to gain greater insight into their customers' data, thereby increasing the accuracy of customer assessments. This would reduce the level of asymmetry in information and could lower the credit risk premium over a period of time.

Increasing competition with entry of new players and partnerships between them

More players in consumer-facing businesses with a repository of data (such as e-commerce companies and payment service providers) are expected to enter the lending business, intensifying competition. For example, In June 2018, Amazon India launched a platform for lenders and sellers, wherein sellers can choose loan offers from various lenders at competitive rates. In August 2021, Meta (earlier known as Facebook) partnered with Indifi Technologies to provide loans to small businesses that advertise on its platform. Incumbent traditional lenders are expected to increasingly leverage the network of their partners and/or digital ecosystem to cross-sell products to existing customers, tap customers of other lenders, and also cater to new-to-credit customers. This is expected to expand the market for MSME loans.

Reduction in turn-around-time ("TAT") and increased use of technology

With the availability of multiple data points and technological advancement, TAT for lending to MSMEs has been continuously declining. This too is expected to drive the demand for MSME loans.

Government initiatives

Relaxation in the threshold under SARFAESI Act from ₹ 5 million to ₹ 2 million for NBFCs

In the Union Budget 2021-2022, presented by the Finance Minister, for NBFCs with a minimum asset size of ₹100 crore, the minimum loan size eligible for debt recovery under the SARFAESI, 2002 was proposed to be reduced from the existing level of ₹ 5 million to ₹ 2 million. The objective of this move is to improve credit discipline while continuing to protect the interest of small borrowers. This relaxation is expected to facilitate recovery from stressed books, help the NBFCs to improve their ability to recover smaller loans and strengthen their overall financial health. More importantly, it acts as a deterrent to default and enhances the enforceability of collateral for players focused on the medium ticket size LAP segment with loans of ₹ 20-50 lakhs.

Inclusion of retail and wholesale trade under MSME category

In July 2021, the Ministry of Micro, Small and Medium enterprises decided to include Retail and Wholesale trade as MSMEs for the purpose of Priority Sector Lending and they would be allowed to be registered on UDYAM Registration Portal. The move is structurally positive from long-term perspective, as it is expected to enable entities operating in the segment to register on the Government of India's UDYAM portal, participate in government tenders and also avail financing options/ benefits available to the category. This move is expected to also aid in the formalisation of India's retail trade and enable financial support to small and mid-sized retail businesses. By widening the scope of MSME to cover wholesale as well as retail trade, this move also creates an additional opportunity for MSME lenders to increase their penetration and business.

Credit Guarantee Fund Scheme extended to cover NBFCs

One of the major reasons why MSMEs are credit-starved is the insistence by banks or financial institutions for the provision of collateral against loans. Collaterals are not easily available with such enterprises, leading to a high-risk perception and higher interest rates for these MSMEs. In order to address this issue, the Government of India launched the Credit Guarantee Fund Scheme under the aegis of the Credit Guarantee Fund Trust for Micro and Small Enterprises ("**CGTMSE**") in order to make collateral-free credit available to micro and small enterprises.

In January 2017, the scheme was extended to cover systemically important NBFCs as well. Key eligibility criteria for this scheme are:

1) NBFCs should be registered with RBI and meet specified prudential norms;
2) the NBFC should have made a profit for the three preceding fiscals at the time of enrolment;
3) the NBFC should be lending to micro and small enterprises with minimum 5 years of lending experience, minimum Rs 100 crore of MSE loan portfolio, NPA level below 5% for MSE portfolio and average recovery ratio of 90% for preceding three fiscals at the time of enrolment and
4) it should have long-term credit rating of at least BBB. The overall limit under the scheme was also been enhanced to ₹ 20 million.

Guarantees approved under CGTMSE

Year	Number of guarantees approved	Amount of guarantees approved (₹ billion)
FY19	435,520	302
FY20	846,650	459
FY21	835592	369
FY22	717020	561
FY23	1165786	1,048

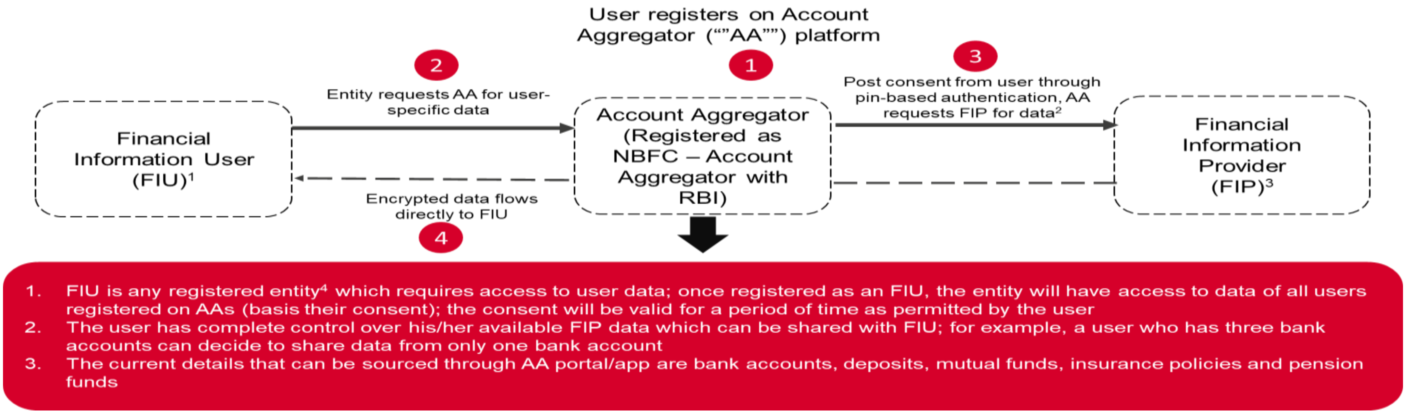
Source: CGTMSE, CRISIL MI&A

Government initiatives addressing structural issues in the MSME market

The Government of India has unveiled a number of initiatives aimed at addressing some of the structural issues plaguing small business lending segment. These include granting licenses to account aggregators, the Pradhan Mantri Mudra Yojana ("**PMMY**"), unveiling TReDS platforms and the implementation of GST.

Licensing account aggregators

RBI launched the account aggregator system on September 2, 2021, which has the potential to transform the MSME finance space once there is widespread adoption amongst the lending community. Four account aggregators also announced the launch of their apps on the same day which include OneMoney, FinVu, CAMSFinServ and NESL Asset Data Limited ("**NADL**"). Account aggregators are essentially NBFCs, licensed by RBI, that act as an intermediary to collect and consolidate data from all Financial Information Providers ("**FIP**") that hold users' personal financial data like banks and share that with Financial Information Users ("**FIU**") like lending agencies or wealth management companies that provide financial services. These account aggregators would provide granular insights to lenders into customers' financial assets and their borrowing history centrally, based on customer consent. Inclusion of additional data such as electricity bill payments and mobile recharges/bill payment data under the purview of account aggregators would further enhance its utility.



Note: Registered with any one of the regulator – SEBI, RBI, IRDAI, PFRDA
Source: CRISIL MI&A

Some of the other government and regulatory initiatives are detailed below:

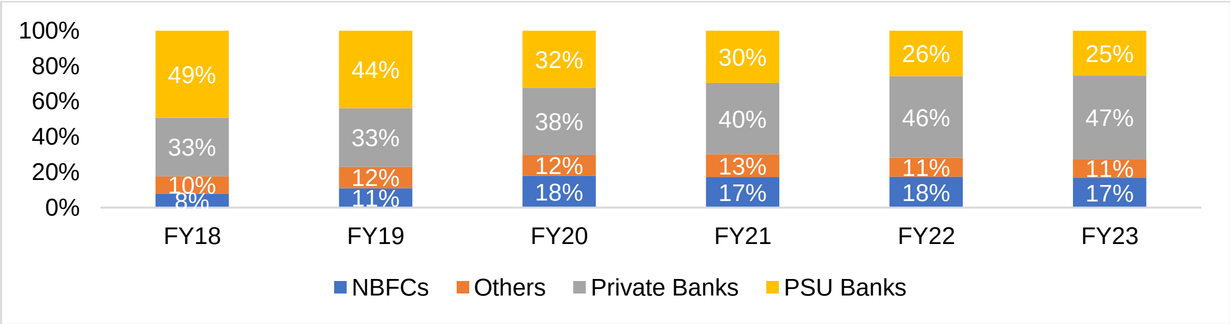
- UDYAM registration: Paperless and online registration process for MSMEs with an aim to promote ease of doing business.
- Stand-up India: It facilitates bank loans between ₹ 1 million and ₹ 10 million to at least one scheduled caste or scheduled tribe borrower and at least one-woman borrower per bank branch for setting up a greenfield enterprise.
- Make in India: Launched with an intention to make India a global manufacturing hub, which in turn is expected to provide employment to numerous youths in India
- Mudra loans: To fulfil funding requirement of MSMEs who were earlier left out by financial institutions; credit guarantee support also offered to financiers.
- 59-minute loan: Online marketplace that provides in-principle approval to MSME loans up to ₹ 10 million in 59 minutes.
- Unified Payments Interface 2.0 ("**UPI 2.0**"): Real-time system for seamless money transfer from account
- TReDS: Institutional mechanism to facilitate financing of trade receivables of MSMEs from corporates and other buyers through multiple financiers.
- Factoring to support more participation from NBFCs: In an amendment to Factoring Regulation Act, 2011, the Lok Sabha passed the Factoring Regulation (Amendment) Bill in July 2021.

NBFCs increasing their presence in the overall MSME loans segment

NBFCs have managed to carve out a strong presence in MSME loans segment due to their focus on serving the needs of the customer segment, faster turnaround time, customer service provided and expansion in geographic reach. As of Fiscal 2023, the cumulative market share of NBFCs in MSME loans outstanding is estimated to be around 17%.

Over the years, the MSME book of NBFCs has grown at a similar rate compared with the portfolio at a systemic level, clocking a CAGR of 34% over Fiscals 2018 and 2023. Market share of NBFCs remained stable between Fiscal 2018 and 2019 due to demonetisation and the NBFC liquidity crisis but has increased subsequently. Going forward, CRISIL MI&A expects the market share of NBFCs in this segment is expected to continue to remain in the same range.

NBFCs share in overall MSME loans at 17% in Fiscal 2023

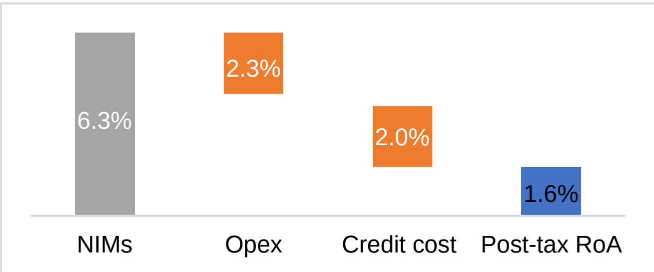


Source: CRISIL MI&A Estimates

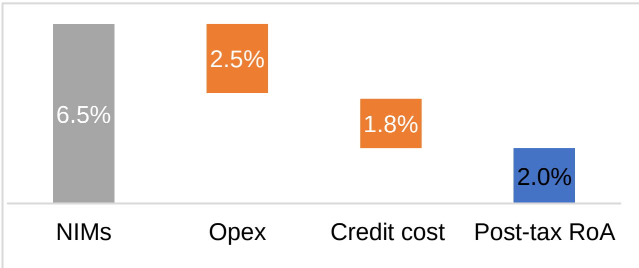
NBFC profitability to improve going forward

NBFCs in MSME segment operate with yield in the range of 17-18%, on an average. With cost of funds being in the range of 10-11%, net interest margins ("**NIMs**") for this segment are in the range of 6-7%. CRISIL MI&A estimates the profitability in this segment to have increased in Fiscal 2023 owing to better credit costs and increase in interest yields. Going forward, in Fiscal 2024, borrowing costs are expected to stabilise or marginally move upwards, and overall profitability of MSMEs loans is still expected to be sustained, on account of higher interest income. In addition, improvement in collections is expected to lead to aid profitability for the segment.

FY22



FY23



Source: CRISIL MI&A estimates

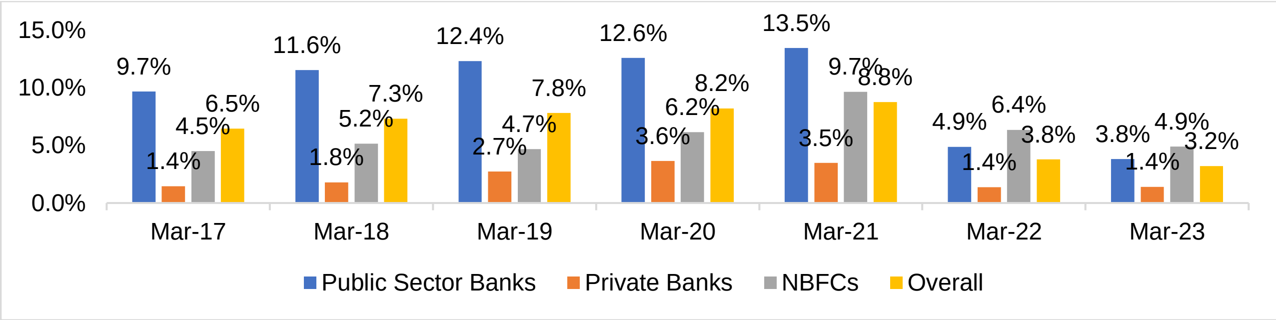
Asset quality for overall MSME at 3.2%; asset quality relatively better for private banks

Asset quality deteriorated as of March 2021 due to COVID-19 where income of the borrowers was impacted which led to rise in GNPA numbers. With continued improvement in economic activity, better collection efficiency and strong credit growth, GNPA level decreased as of March 2022. As of March 2023, the GNPA ratio for overall MSME loans stands at 3.2%.

Asset quality across various players

Among various player groups, the asset quality is the best for private banks as of March 2023. Public Sector banks have the second best asset quality after private sector banks. Private sector banks have better asset quality because they serve relatively low risk customers compared to NBFCs, which also serve customers with no documented income.

Asset quality for overall MSME loans across various players



Source: CRISIL MI&A estimates

Key success factors for NBFCs offering MSME Loans

- **Strong branch network and deep understanding of the target customer segment and markets**: Players need to have a clear and deeper understanding of their target customer segment, the markets they operate in and develop a strong local network.
- **Strong underwriting capabilities**: MSMEs tend to generally be more impacted by vagaries of the business cycle given their limited financial wherewithal and/or reliance on larger buyers
- **On-the-ground presence to manage collections and maintain portfolio quality**: Additionally, given that players in the segment also cater to a relatively riskier profile, a strong focus on collections and monitoring risk of default at customer level is vital to manage asset quality.

- **Collateral risk management**: Properties that are used as collateral for MSME loans sometimes lack proper property titles, especially in the outskirts of large cities, semi-urban and rural areas.

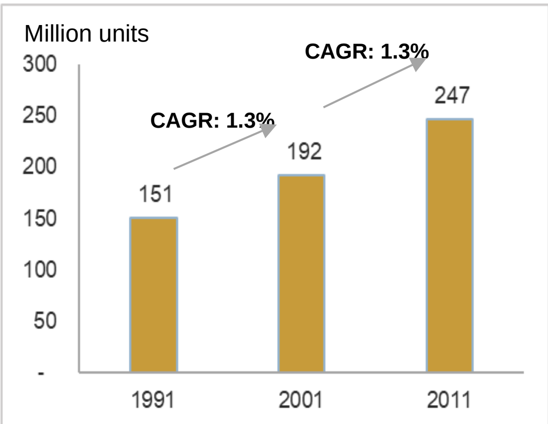
<u>HOUSING LOANS (BELOW ₹ 5 MILLION TICKET SIZE)</u>

Housing scenario in India

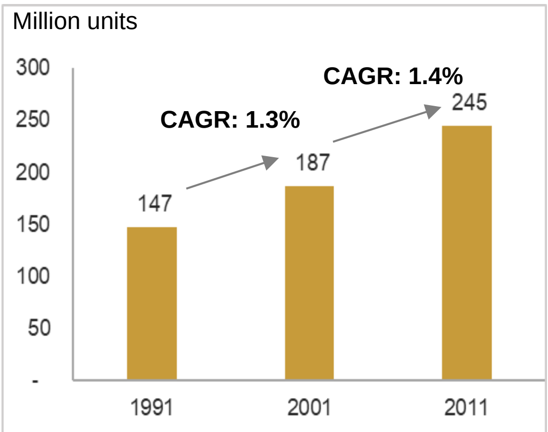
Housing stock

As per Census 2011, the number of households increased to 247 million as of 2011 from 192 million in 2001, at 1.3% CAGR. During the period, housing stock increased from to 245 million units from 187 million units. Of the 245 million units, about 61 million units are obsolete, congested or non-serviceable.

Increment in households



Increment in housing stock



Source: Census 2011, CRISIL MI&A

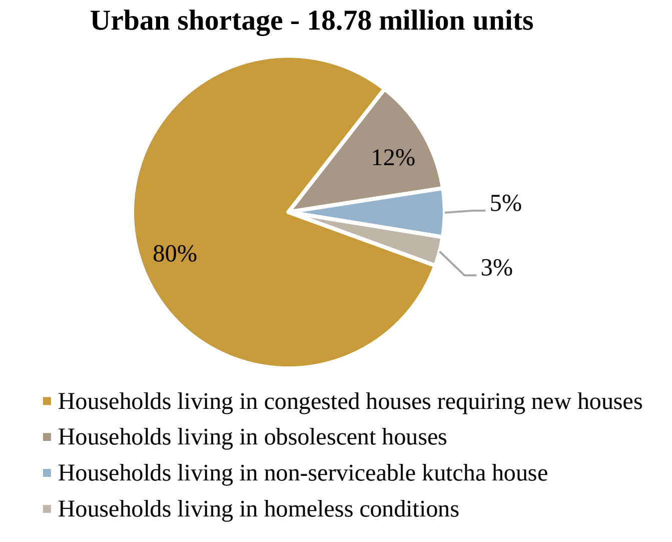
Housing shortage in India

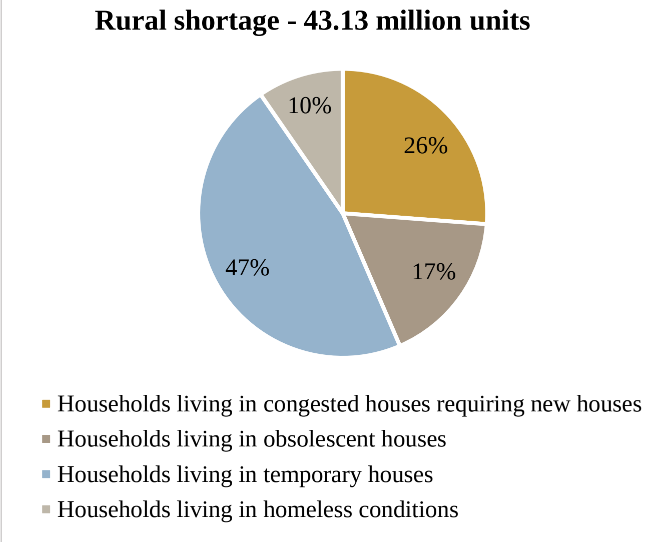
Despite the constant focus on the segment, housing in India is far from adequate. Shortage of housing is a perpetual problem, deterring the economic growth in India.

In the Twelfth Five Year Plan (2012-2017), the Government of India accorded this issue utmost importance and focused on increasing the amount of housing units available in both urban as well as rural areas. As per the estimates of the Twelfth Five Year Plan, housing shortage in the urban segment of the society stood at 18.78 million units. The EWS (Economically Weaker Section) accounts for three-fourths of the shortage and the low Income group ("**LIG**") nearly accounts for a quarter. In 2017, the housing shortage estimate was revised downwards to approximately 10 million units based on assessments carried out since 2011.

The erstwhile Planning Commission and the Ministry of Rural Development, Government of India, have official initiatives to assess the quantum of housing shortage in rural India. As per the estimates of the Twelfth Five Year Plan, housing shortage in the rural segment of society stood at 43.13 million.

Urban and rural housing shortage





Note: The above data is as per the estimates of the Twelfth Five Year Plan (2012-2017)
Source: NHB, CRISIL MI&A

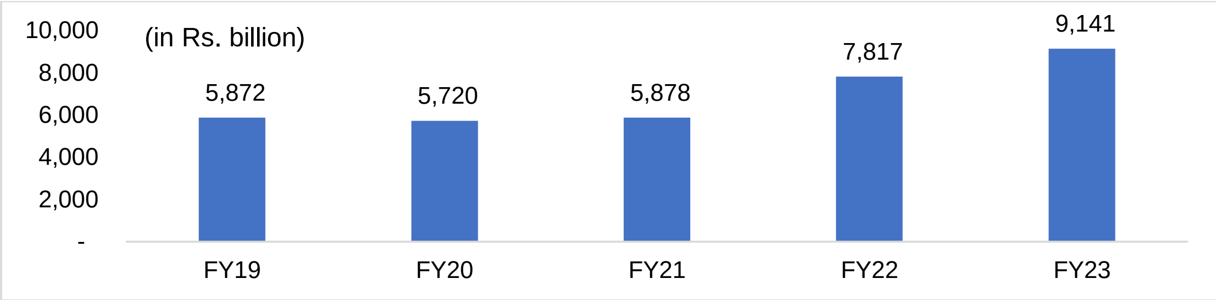
Indian housing finance market to log a CAGR of 13-15% between Fiscal 2023 and Fiscal 2026

The Indian housing finance market clocked a healthy growth in loan outstanding on account of a rise in disposable income, healthy demand emanating from smaller cities markets, attractive interest rates and government impetus on housing. In Fiscal 2021, credit growth for housing loans slowed down following the outbreak of COVID-19. While economy was significantly impacted in the first half of Fiscal 2021, there was a faster than envisaged revival in the second half of Fiscal 2021, with RBI, along with Centre and State governments, providing support. The first quarter of Fiscal 2022 witnessed the second wave of COVID-19 affecting credit growth. However, on account of improved affordability, pent-up demand and historically low interest rates, growth surged in the second half of the fiscal, leading to strong credit growth in Fiscal 2022.

In Fiscal 2020, disbursements remained more or less flat due to a slowdown in economic growth and challenges faced by some HFCs in availing funding post the IL&FS meltdown in September 2018. In March 2020, the industry was affected on account of COVID-19 pandemic induced lockdown, as a significant quantum of disbursements take place in the last month of the fiscal and in the last two weeks of March. In Fiscal 2021, the first quarter was a complete washout due to disruption caused by COVID-19 crisis and the resultant nation-wide lockdown. However, the latent demand for housing in India remained strong, given the vast housing shortage in India and the psychological comfort provided by owning a house post the uncertainty created by the COVID-19 pandemic.

In Fiscal 2023, RBI started increasing repo rates owing to concerns over increasing inflation and its impact on the macro economy amid geopolitical issues. Despite the aggressive rate hikes during the fiscal, credit growth remained intact, with healthy growth by both banks and HFCs/NBFCs. In Fiscal 2024, the credit growth momentum is expected to continue for HFCs/NBFCs, supported by pent-up demand, with affordable HFCs getting back on track, posting robust growth. Within NBFCs/HFCs, larger entities with strong funding profile, parentage and group support are expected to grow strongly and penetrated deeper as well as expand wider to diversify their portfolio, derive synergies and capitalize on operating leverage.

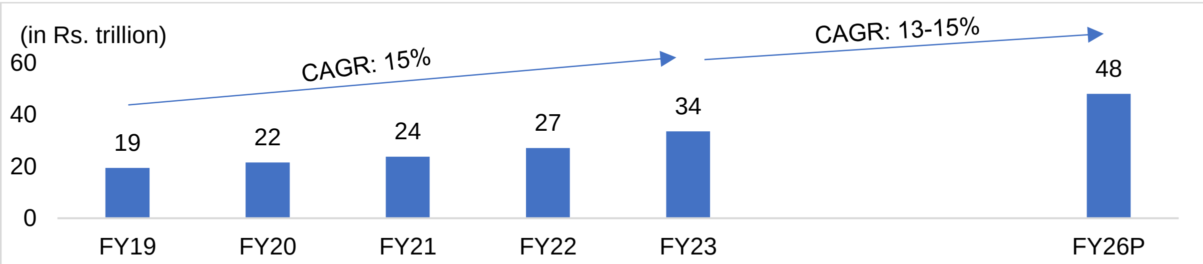
Disbursements of overall housing loans (in ₹ Billion)



Source: CRISIL MI&A Estimates

Between Fiscals 2023 and 2026, housing loan growth is projected to remain healthy at 13-15% CAGR. CRISIL MI&A believes that HFCs are expected to post high double-digit growth after a slowdown in Fiscals 2020 and 2021. In the past, demand for home loans rose due to higher demand from tier II and III cities, rising disposable incomes and government steps, such as interest rate subvention schemes and fiscal incentives. Similarly, the growth trend of housing loans with ticket size less than ₹ 5 million is expected to mimic that of overall housing loans as they constitute almost three-fourths of the overall market.

Growth in housing loans outstanding (₹ trillion)



Source: CRISIL MI&A Estimates

Gold loan lenders have performed well in scenarios of credit squeeze in the economy, while MSME lenders typically witness faster growth in the converse situation. For instance, gold loan market grew faster than the MSME loan market between Fiscal 2019 and 2022 when the economy was impacted by the NBFC liquidity crisis and COVID-19 pandemic. The following table sets forth details of gold and MSME lending for the respective periods:

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E
Gold Loan Market (₹ billion)	2,315	2,508	2,875	3,262	4,709	5,524	6,100
Year-on-year growth (%)	-	8	15	13	44	17	10
MSME Loan Market (₹ trillion)	14	16	17	18	19	21	24
Year-on-year growth (%)	-	14	6	6	6	11	13

Source: E – Estimated; CRISIL MI&A

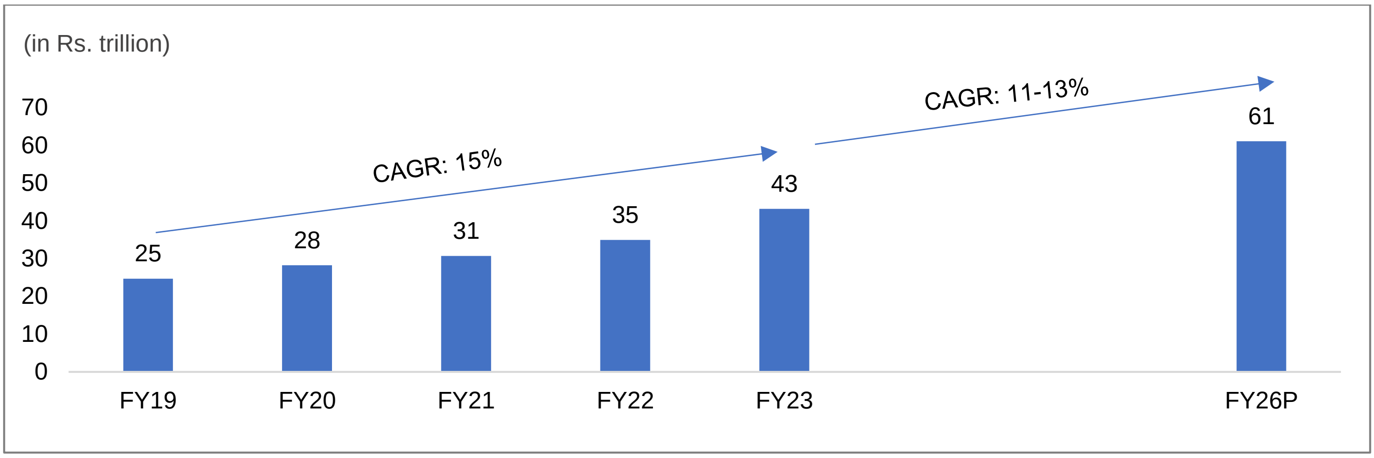
INDIAN MORTGAGE MARKET

Indian mortgage market to witness a CAGR of 11-13% between Fiscal 2023 and Fiscal 2026

The Indian mortgage market (comprising of housing loans and loans against property) logged a steady growth of approximately 15% over Fiscal 2019 to Fiscal 2023 on account of higher affordability led by rising disposable income, growing urbanisation & nuclearization of families, government measures to push housing sector (including "Housing for all", impetus packages to tackle the pandemic, NHB Refinance scheme etc.), emergence of tier-2 and tier-3 cities, ease of financing, and widening reach of financiers.

Going forward, CRISIL MI&A expects the mortgage market to witness a healthy 11-13% CAGR between Fiscal 2023 and 2026, propelled by rapid urbanisation, increasing demand from tier-2 and tier-3 cities, tax and interest rate incentives and government initiatives.

Growth in mortgage market (housing loans and loans against property) (₹ trillion)



Note: Overall mortgage market include Housing and LAP Loans; P – Projected
Source: CRISIL MI&A Estimates

PEER COMPARISON

In this section, CRISIL MI&A has compared the financial and operating performance of NBFCs operating in segments such as gold loans, secured property backed MSME loans and Housing loans in India based on the latest available data for Q1 Fiscal 2024. The players considered for the peer comparison are Aptus Value Housing Finance, Fedbank Financial, HDB Financial Services, IIFL Finance, Manappuram Finance, Muthoot Finance, Repco Home Finance, Five Star Business Finance, SBFC Finance, Veritas Finance, and Vistaar Finance. For analysis, we have classified these peers into segments with Aptus Value Housing Finance and Repco Home Finance in Housing Finance segment, Five Star Business Finance, Veritas Finance, and Vistaar Finance in MSME segment, Fedbank Financial and SBFC Finance in MSME and Gold segment, Manappuram Finance and Muthoot Finance in Gold loans segment and HDB Financial Services and IIFL Finance in Diversified segment.

Trend in AUM and disbursements for players (Q1FY24)

Segment	Player	AUM (in Rs billion)			Disbursement (in Rs billion)		
		Q1FY23	Q1FY24	Y-o-Y growth (%)	Q1FY23	Q1FY24	Y-o-Y growth (%)
Housing Finance	Aptus Value Housing	55	71	29%	5	6	23%
	Repco Home Finance	119	127	7%	6	7	7%
MSME	Five-Star Business Finance	53	76	43%	6	11	99%
	Veritas Finance	24	39	61%	NA	NA	-
	Vistaar Finance	NA	NA	NA	NA	NA	-
MSME and Gold	Fedbank Financial Services	67	94	42%	25	30	16%
	SBFC Finance	36	53	47%	5	7	32%
Gold loan	Manappuram Finance	308	371	21%	NA	NA	-
	Muthoot Finance	567	676	19%	NA	NA	-
Diversified	HDB Financial Services	NA	736	-	NA	NA	-
	IIFL Finance	528	682	29%	NA	NA	-

Note: NA: Not Available, Source: Company Reports, CRISIL MI&A

Trend in AUM for players

Segment	AUM (Rs billion)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR (FY20-23)
Housing Finance	Aptus Value Housing	5	8	14	22	32	41	52	67	28%
	Repco Home Finance	77	89	99	110	118	121	118	124	2%
MSME	Five-Star Business Finance	2	5	10	21	39	44	51	69	21%
	Veritas Finance	0.1	1	3	7	13	16	22	35	40%
	Vistaar Finance	8	11	13	14	19	21	24	31	19%
MSME and Gold	Fedbank Financial Services	6	10	14	20	38	49	62	91	33%
	SBFC Finance	NA	NA	8	12	16	22	32	49	44%
Gold loan	Manappuram Finance	101	137	158	194	252	272	303	355	12%

Segment	AUM (Rs billion)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR (FY20-23)
	Muthoot Finance	244	273	291	342	416	526	580	632	15%
Diversified	HDB Financial Services	259	343	445	554	588	616	614	701	6%
	IIFL Finance	195	223	311	349	380	447	512	646	19%

Note: NA: Not Available, Source: Company Reports, CRISIL MI&A

Fedbank Financial held a share of 0.26% in the total NBFC credit outstanding as of Fiscal 2023. According to CRISIL MI&A estimates, total NBFC credit as of Fiscal 2023 stood at Rs 35,164 billion. Loans provided by NBFCs typically include mortgage loans, vehicle loans, business loans, gold loans etc.

Segment	Player	Market Share as of FY23
Housing Finance	Aptus Value Housing	0.19%
	Repco Home Finance	0.35%
MSME	Five-Star Business Finance	0.20%
	Veritas Finance	0.10%
	Vistaar Finance	0.09%
MSME and Gold	Fedbank Financial Services	0.26%
	SBFC Finance	0.14%
Gold loan	Manappuram Finance	1.01%
	Muthoot Finance	1.80%
Diversified	HDB Financial Services	1.99%
	IIFL Finance	1.84%

Note: Market Share calculated on total NBFC credit as of Fiscal 2023; Source: CRISIL MI&A

Trend in disbursements for players

Segment	Disbursement (₹ billion)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR (FY20-23)
Housing Finance	Aptus Value Housing	3	4	8	11	13	13	16	24	23%
	Repco Home Finance	29	26	28	31	26	18	18	29	4%
MSME	Five-Star Business Finance	1	4	15	15	24	12	18	34	12%
	Veritas Finance	0.1	1	3	6	8	6	12	22	39%
	Vistaar Finance	6	7	7	8	9	6	9	14	15%
MSME and Gold	Fedbank Financial Services	NA	NA	16	20	44	59	75	107	35%
	SBFC Finance	NA	NA	3	10	13	15	26	36	42%
Gold loan	Manappuram Finance	NA	NA	NA	NA	NA	NA	NA	NA	NA
	Muthoot Finance	516	576	660	732	966	1,239	1,059	NA	5%*
Diversified	HDB Financial Services	148	192	253	317	299	250	290	NA	-1%*
	IIFL Finance	NA	NA	NA	NA	240	275	383	560	33%

Note: NA = Not available, (*) CAGR is calculated for 2 years from FY20 to FY22.
Source: Company Reports, CRISIL MI&A

Trend in disbursement to AUM ratio for players

Segment	Player	Disbursement to AUM ratio						
		FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY20-23)
Housing Finance	Aptus Value Housing	50.0%	40.6%	31.7%	30.9%	35.5%	9.1%	34.7%
	Repco Home Finance	28.2%	22.0%	14.9%	15.3%	23.4%	5.4%	18.9%
MSME	Five-Star Business Finance	71.4%	61.5%	27.3%	34.7%	49.0%	14.9%	43.1%
	Veritas Finance	85.7%	61.5%	37.5%	54.5%	63.5%	NA	54.3%
	Vistaar Finance	57.1%	47.4%	28.6%	37.2%	44.2%	NA	39.4%
MSME and Gold	Fedbank Financial Services	100.0%	115.8%	121.2%	120.7%	118.5%	31.4%	119.5%
	SBFC Finance	82.0%	76.9%	67.6%	80.5%	73.5%	12.3%	74.6%

Segment	Player	Disbursement to AUM ratio						
		FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY20-23)
Gold loan	Manappuram Finance	NA	NA	NA	NA	NA	NA	NA
	Muthoot Finance	214.0%	232.2%	235.6%	182.6%	NA	NA	216.8%*
Diversified	HDB Financial Services	57.2%	50.9%	40.6%	47.2%	NA	NA	46.2%*
	IIFL Finance	NA	63.2%	61.5%	74.8%	86.6%	NA	71.5%

Note: NA = Not available, (*) Average calculated from FY20-FY22.
Source: Company Reports, CRISIL MI&A

Operational analysis

Trend in number of branches for players

Segment	Branches	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24	CAGR (FY20-23)
Housing Finance	Aptus Value Housing	70	80	115	143	175	190	208	231	231	10%
	Repco Home Finance	150	156	160	170	177	177	179	192	193	3%
MSME	Five-Star Business Finance	73	103	130	173	252	262	300	373	386	14%
	Veritas Finance	17	43	72	147	202	204	229	287	NA	12%
	Vistaar Finance	198	201	225	220	216	191	193	211	205	-1%
MSME and Gold	Fedbank Financial Services	112	107	123	152	300	359	516	575	584	24%
	SBFC Finance	NA	NA	65	91	96	124	135	152	162	17%
Gold loan	Manappuram Finance	3,293	4,152	4,197	4,351	4,622	4,637	5,057	5,232	5,281	4%
	Muthoot Finance	4,275	4,307	4,325	4,480	4,567	4,632	4,617	4,739	4,742	1%
Diversified	HDB Financial Services	929	1,151	1,165	1,349	1,468	1,319	1,374	1,492	1,581	1%
	IIFL Finance	1,000	1,112	1,378	1,947	2,377	2,563	3,296	4,200	NA	21%

Note: NA: Not Available; Source: Company Reports, CRISIL MI&A

Trend in number of employees for players

Segment	Employees	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24	CAGR (FY20-23)
Housing Finance	Aptus Value Housing	401	650	1,000	1,300	1,702	1,913	2,271	2,405	NA	12%
	Repco Home Finance	619	670	785	929	994	977	925	951	954	-1%
MSME	Five-Star Business Finance	293	691	1,290	1,971	3,734	3,938	5,675	7,347	7,538	25%
	Veritas Finance	NA	NA	719	1,422	1,850	2,333	2,727	4,432	NA	34%
	Vistaar Finance	2,125	2,337	2,107	2,188	1,847	1,660	2,024	2,446	NA	5%
MSME and Gold	Fedbank Financial Services	NA	484	590	964	1,890	2,130	2,852	3,570	3,732	24%
	SBFC Finance	NA	NA	585	802	1,153	1,471	2,048	2,822	3,136	35%
Gold loan	Manappuram Finance	16,693	18,933	24,886	25,610	27,726	30,522	26,970	30,612	NA	3%
	Muthoot Finance	22,781	24,205	23,455	24,224	25,554	25,911	26,716	27,273	27,701	2%
Diversified	HDB Financial Services	16,508	65,906	74,049	93,373	109,167	104,960	121,595	117,162	NA	2%
	IIFL Finance	12,000	11,432	15,000	16,799	18,569	19,825	28,325	33,910	NA	24%

Note: NA = Not available
Source: Company Reports, CRISIL MI&A

Operational Efficiency of the peer set

Operational efficiency for players (Q1 Fiscal 2024)

Segment	Player	AUM per branch (₹ million)(1)							Disbursement per branch (₹ million)(2)						
		FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY 20-23)	FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY 20-23)
Housing Finance	Aptus Value Housing	157	182	214	249	292	308	234	83	73	68	79	104	28	81
	Repco Home Finance	649	668	685	657	648	656	665	182	148	104	99	152	35	126
MSME	Five-Star Business Finance	122	154	170	169	185	196	170	87	95	48	59	91	29	73
	Veritas Finance	51	64	77	96	123	NA	90	41	40	30	52	78	NA	50
	Vistaar Finance	66	87	108	125	148	NA	117	36	42	30	47	66	NA	46
MSME and Gold	Fedbank Financial Services	132	128	135	120	158	162	135	132	146	164	145	187	51	160
	SBFC Finance	127	172	179	236	325	329	237	104	132	121	190	239	40	171
Gold loan	Manappuram Finance	45	55	59	60	68	70	80	NA	NA	NA	NA	NA	NA	NA
	Muthoot Finance	76	91	114	126	133	143	116	163	212	267	229	NA	NA	236*
Diversified	HDB Financial Services	411	401	467	447	470	465	446	235	203	189	211	NA	NA	201*
	IIFL Finance	179	160	174	155	154	NA	161	NA	101	107	116	133	NA	114

Note: NA = Not available, * Average is calculated for 3 years from FY19 to FY22, (1) AUM per branch: AUM at the end of the financial year divided by number of branches at the end of the financial year, (2) Disbursement per branch: Disbursement at the end of the financial year divided by number of branches at the end of the financial year.
Source: Company Reports, CRISIL MI&A

Operational efficiency for players (Q1 Fiscal 2024)

Segment	Player	AUM per employee (₹ million)(1)							Disbursement per employee (₹ million)(2)						
		FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY 20-23)	FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY 20-23)
Housing Finance	Aptus Value Housing	17	19	21	23	28	NA	23	9	8	7	7	10	NA	8
	Repco Home Finance	118	119	124	127	131	133	125	33	26	19	19	31	7	24
MSME	Five-Star Business Finance	11	10	11	9	9	10	10	8	6	3	3	5	1	4
	Veritas Finance	5	7	7	8	8	NA	7	4	5	3	4	5	NA	4
	Vistaar Finance	7	10	12	12	13	NA	12	3	5	3	4	6	NA	5
MSME and Gold	Fedbank Financial Services	21	20	23	22	25	25	23	21	23	28	26	30	8	27
	SBFC Finance	14	14	15	16	18	17	16	12	11	10	13	NA	2	11
Gold loan	Manappuram Finance	8	9	9	11	12	NA	10	NA	NA	NA	NA	NA	NA	NA

Segment	Player	AUM per employee (₹ million)(1)							Disbursement per employee (₹ million)(2)						
		FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY 20-23)	FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY 20-23)
	Muthoot Finance	14	16	20	22	23	24	20	30	38	48	40	NA	NA	42*
Diversified	HDB Financial Services	6	5	6	5	6	NA	6	3	3	2	2	NA	NA	3*
	IIFL Finance	21	20	23	18	19	NA	20	NA	13	14	13	17	NA	14

Note: NA = Not available, * Average is calculated for 3 years from FY20 to FY22, (1) AUM per employee: AUM at the end of the financial year divided by number of employees at the end of the financial year, (2) Disbursement per employee: Disbursement at the end of the financial year divided by number of employees at the end of the financial year.
Source: Company Reports, CRISIL MI&A

Operational efficiency for players (Q1 Fiscal 2024)

Segment	Player	Cost to income ratio(1)							Opex to total assets (%)(2)						
		FY19	FY20	FY21	FY22	FY23	Q1 FY24	Avg (FY 20-23)	FY19	FY20	FY21	FY22	FY23	Q1 FY24	Avg (FY 20-23)
Housing Finance	Aptus Value Housing	30.4%	26.1%	21.8%	18.5%	19.4%	15.6%	21.6%	3.6%	2.9%	2.4%	2.3%	2.6%	0.6%	2.6%
	Repco Home Finance	20.7%	20.2%	19.6%	20.1%	24.4%	23.9%	21.1%	1.0%	0.9%	0.9%	1.0%	1.2%	NA	1.0%
MSME	Five-Star Business Finance	32.1%	30.1%	29.5%	32.0%	34.7%	32.6%	31.6%	6.1%	5.1%	4.2%	5.0%	5.8%	1.4%	5.1%
	Veritas Finance	67.1%	65.2%	49.0%	48.9%	45.5%	50.0%	52.2%	8.8%	7.6%	5.8%	6.4%	6.9%	2.0%	6.7%
	Vistaar Finance	57.3%	53.1%	43.8%	50.8%	51.2%	49.9%	49.7%	8.8%	7.5%	5.2%	5.5%	5.6%	NA	6.0%
MSME and Gold	Fedbank Financial Services	61.8%	70.6%	61.1%	58.3%	58.6%	59.5%	62.2%	4.8%	6.0%	4.9%	5.2%	5.6%	1.3%	5.4%
	SBFC Finance	72.3%	54.7%	45.9%	57.0%	49.7%	48.4%	51.8%	5.8%	3.7%	3.0%	4.0%	4.5%	1.2%	3.8%
Gold loan	Manappuram Finance	47.6%	39.6%	30.3%	42.7%	47.4%	45.1%	40.0%	7.1%	5.7%	4.3%	5.1%	5.6%	NA	5.2%
	Muthoot Finance	33.2%	30.0%	25.9%	24.6%	30.9%	28.6%	27.9%	4.5%	4.0%	3.1%	2.7%	3.0%	0.8%	3.2%
Diversified	HDB Financial Services	56.2%	56.5%	49.5%	52.2%	55.5%	55.6%	53.4%	6.0%	6.5%	5.7%	6.7%	7.5%	1.8%	6.6%
	IIFL Finance	49.7%	63.6%	39.3%	40.7%	49.5%	52.9%	48.3%	8.1%	4.9%	3.6%	4.4%	5.5%	NA	4.6%

Note: (1) Cost to income ratio: operating expenses for the relevant fiscal year to the sum of net interest income (interest earned minus interest expended) and other income for the relevant fiscal year, expressed as a percentage, (2) Opex to total assets: operating expenses for the relevant fiscal year to the average total assets for the relevant fiscal year, expressed as a percentage.
Source: Company Reports, CRISIL MI&A

Opex to AUM and opex to disbursement ratio for players (Q1 Fiscal 2024)

Segment	Player	Opex to AUM ratio(1)							Opex to Disbursement ratio(2)						
		FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY 20-23)	FY19	FY20	FY21	FY22	FY23	Q1FY24	Avg (FY20-23)
Housing Finance	Aptus Value Housing	3.0%	2.8%	2.4%	2.3%	2.5%	0.6%	2.5%	6.1%	6.9%	7.5%	7.1%	6.9%	6.8%	7.2%
	Repco Home Finance	0.9%	0.9%	0.9%	1.1%	1.2%	0.3%	1.0%	3.2%	4.1%	6.2%	7.0%	5.0%	5.7%	5.6%
MSME	Five-Star Business Finance	5.1%	4.4%	4.8%	6.0%	6.3%	1.7%	5.4%	7.2%	7.1%	17.2%	17.4%	12.9%	11.2%	13.7%
	Veritas Finance	9.1%	8.5%	7.5%	7.0%	6.6%	2.1%	7.4%	12.1%	13.2%	19.1%	13.0%	10.4%	NA	13.9%
	Vistaar Finance	8.8%	7.0%	5.4%	5.8%	5.5%	NA	5.9%	16.7%	14.6%	19.4%	15.6%	12.5%	NA	15.5%
MSME and Gold	Fedbank Financial Services	4.1%	4.6%	4.8%	5.1%	4.8%	1.3%	4.8%	4.4%	4.3%	4.0%	4.2%	4.0%	4.1%	4.1%
	SBFC Finance	7.9%	6.7%	5.6%	5.5%	4.7%	1.3%	5.6%	9.6%	8.7%	8.3%	6.9%	6.3%	10.4%	7.6%
Gold loan	Manappuram Finance	5.9%	4.7%	3.9%	4.5%	4.4%	NA	4.4%	NA	NA	NA	NA	NA	NA	NA
	Muthoot Finance	4.5%	4.3%	3.4%	3.1%	3.4%	0.8%	3.5%	2.1%	1.8%	1.4%	1.7%	NA	NA	1.7%*
Diversified	HDB Financial Services	5.5%	6.4%	5.7%	6.8%	7.0%	1.7%	6.5%	9.6%	12.6%	14.0%	14.4%	NA	NA	13.7%*
	IIFL Finance	2.3%	2.4%	1.7%	2.0%	2.0%	0.5%	2.0%	NA	3.4%	2.7%	2.6%	2.3%	NA	2.9%

Note: NA = Not available, (1) Opex to AUM ratio is calculated as operating expenses for the fiscal year divided by AUM as of end of fiscal year, (2) Opex to Disbursement ratio is calculated as operating expenses for the fiscal year divided by disbursements for the fiscal year, *Average is calculated for 3 years from FY20 to FY22
Source: Company Reports, CRISIL MI&A

Average ticket size for peers (as of June 2023)

Segment	FY23	Average ticket size (₹ Million)	Average LTV	Share of New to credit
Housing Finance	Aptus Value Housing Finance	1.00	<50%**	38%
	Repco Home Finance	1.20	<70%	NA
MSME	Five-Star Business Finance	0.34	38%	NA
	Veritas Finance	0.20^	45%	NA
	Vistaar Finance[$]	0.68	45%	NA
MSME and Gold	Fedbank Financial Services	0.13	59%	7%
	SBFC Finance[$$]	0.98	42%	8%
Gold loan	Manappuram Finance^	0.06	64%	NA
	Muthoot Finance	0.07*	68%	NA
Diversified	HDB Financial Services	NA	NA	NA
	IIFL Finance^^	0.73	70%*	NA

Note: NA = Not available, (*) for fiscal 2023; (^) for Gold Loan; (^^) For LAP loans; (**) As of September 2022, ($) Data as for Vistaar Saral Business Loan as of Fiscal 2023, ($$) Data for secured MSME loans
Source: Company Reports, CRISIL MI&A

State-wise distribution of AUM (as of June 2023)

Segment	FY23	Share of top state	Name of top 5 states
Housing Finance	Aptus Value Housing Finance	42%	Tamil Nadu (42%), Andhra Pradesh (36%), Telangana (14%), Karnataka (8%), Odisha (0%)
	Repco Home Finance	57%	Tamil Nadu (57%), Karnataka (13%), Maharashtra (9%), Andhra Pradesh (6%) and Telangana (5%)
MSME	Five-Star Business Finance	34%	Tamil Nadu (34%), Andhra Pradesh (30%), Telangana (20%), Karnataka (7%) and Madhya Pradesh (5%)
	Veritas Finance*	42%	Tamil Nadu (42%), West Bengal (17%), Telangana (10%), Andhra Pradesh (10%) and Karnataka (7%).
	Vistaar Finance**	37%	Tamil Nadu (37%), Karnataka (23%), Andhra Pradesh (11%), Maharashtra (7%)
MSME and Gold	Fedbank Financial Services	19%	Maharashtra (19%), Karnataka (18%), Tamil Nadu (16%), Delhi (12%), Gujarat (12%)
	SBFC Finance*	17%	Karnataka (17%), Uttar Pradesh (16%), Telangana (13%), Maharashtra (11%), Madhya Pradesh (7%)
Gold loan	Manappuram Finance	NA	NA
	Muthoot Finance	NA	South (48%), North (23%), West (19%), East (10%)
Diversified	HDB Financial Services	NA	NA
	IIFL Finance*^^	NA	West (39%), North (35%), South (21%), East (5%)

Note: NA = Not available; * For Fiscal 2023, ** For Fiscal 2022, ^^ For LAP loan.
Source: Company Reports, CRISIL MI&A

Profitability analysis

Yield on advances, Net Interest Margins, Cost of borrowings, Return on assets and Return on equity for players (Q1FY24)

Segment	Player	Q1FY24^				
		Yield on advances (%)	NIMs (%)	Cost of borrowings (%)	RoA (%)	RoE (%)
Housing Finance	Aptus Value Housing	17.5%	11.5%	8.6%	7.7%	16.9%
	Repco Home Finance	NA	NA	NA	NA	NA
MSME	Five-Star Business Finance	25.9%	16.6%	9.0%	8.3%	16.6%
	Veritas Finance	NA	14.8%	NA	4.4%	NA
	Vistaar Finance	NA	NA	NA	NA	NA
MSME and Gold	Fedbank Financial Services	15.7%	7.7%	8.9%	2.3%	15.6%
	SBFC Finance	16.5%	7.8%	9.3%	3.2%	10.3%
Gold loan	Manappuram Finance	NA	NA	8.5%	NA	16.7%
	Muthoot Finance	18.2%*	10.3%	8.4%	5.3%	18.5%
Diversified	HDB Financial Services	19.9%*	8.3%	NA	3.1%	19.4%
	IIFL Finance	NA	NA	NA	NA	NA

Note: ^Q1FY24 figures have been annualized; *Yield on advances calculated on total interest income; NA = Not available
Source: Company Reports, CRISIL MI&A

Yield on advances and Net Interest Margins for players (Fiscal 2023)

Segment	Player	Yield on advances (%)						NIMs (%)					
		FY19	FY20	FY21	FY22	FY23	Avg (FY 20-23)	FY19	FY20	FY21	FY22	FY23	Avg (FY 20-23)
Housing Finance	Aptus Value Housing	17.2%	17.6%	17.2%	17.2%	17.7%	17.5%	10.3%	9.9%	10.2%	11.4%	12.2%	10.9%
	Repco Home Finance	11.4%	11.7%	11.5%	10.9%	10.8%	11.2%	4.3%	4.3%	4.5%	4.7%	4.5%	4.5%
MSME	Five-Star Business Finance	24.3%	24.2%	24.3%	24.7%	24.5%	24.6%	18.0%	15.8%	13.6%	14.9%	16.4%	15.2%
	Veritas Finance	22.1%	24.9%	23.4%	22.4%	22.6%	23.3%	10.2%	10.5%	11.3%	12.3%	14.4%	12.1%
	Vistaar Finance	21.6%	20.7%	19.2%	18.6%	18.1%	19.2%	14.0%	12.2%	10.0%	9.5%	9.1%	10.2%
MSME and Gold	Fedbank Financial Services	13.6%	14.9%	15.5%	15.6%	15.2%	15.3%	6.5%	7.2%	7.2%	7.9%	8.4%	7.7%
	SBFC Finance	15.7%	15.9%	15.3%	15.1%	16.1%	15.6%	6.5%	5.5%	5.3%	5.8%	7.4%	6.0%
Gold loan	Manappuram Finance	24.2%	25.0%	25.1%	20.6%	19.7%	22.7%	14.6%	14.0%	13.8%	12.0%	11.5%	12.8%
	Muthoot Finance	21.0%	22.1%	21.2%	19.0%	16.4%	19.8%	13.1%	13.0%	11.6%	10.6%	9.3%	11.2%
Diversified	HDB Financial Services	13.7%	14.8%	14.5%	14.3%	14.3%	14.5%	6.7%	7.1%	7.5%	8.1%	8.2%	7.7%
	IIFL Finance	44.3%	17.7%	20.0%	23.8%	24.4%	21.7%	15.0%	6.8%	7.3%	8.6%	8.5%	7.8%

Source: Company Reports, CRISIL MI&A

Cost of Borrowings for players (Fiscal 2023)

Segment	Cost of borrowings (%)	FY19	FY20	FY21	FY22	FY23	Average (FY20-23)
Housing Finance	Aptus Value Housing	9.5%	10.2%	9.1%	8.0%	8.5%	9.0%
	Repco Home Finance	8.2%	8.5%	8.0%	6.9%	7.1%	7.6%
MSME	Five-Star Business Finance	10.1%	13.1%	11.2%	10.0%	7.8%	10.5%
	Veritas Finance	9.0%	13.2%	10.7%	10.5%	9.3%	11.0%
	Vistaar Finance	11.0%	10.8%	10.2%	9.2%	9.3%	9.9%
MSME and Gold	Fedbank Financial Services	8.3%	8.3%	8.3%	7.4%	7.8%	8.0%
	SBFC Finance	7.8%	12.5%	8.2%	7.7%	8.3%	9.2%
Gold loan	Manappuram Finance	8.9%	9.2%	9.7%	7.8%	8.1%	8.7%
	Muthoot Finance	9.3%	8.7%	8.9%	8.0%	7.4%	8.3%
Diversified	HDB Financial Services	8.2%	8.6%	7.8%	6.7%	6.8%	7.5%
	IIFL Finance	8.9%	9.1%	10.1%	9.9%	8.7%	9.5%

Source: Company Reports, CRISIL MI&A

Short-term and long-term credit ratings of players (as of September 2023)

Segment	Player	Short-term credit rating	Long term credit rating
Housing Finance	Aptus Value Housing Finance	NA	ICRA AA-, CARE AA-
	Repco Home Finance	CARE A1+, ICRA A1+	CARE AA-, ICRA AA-
MSME	Five-Star Business Finance	CARE A1+	ICRA AA-, IND AA-, CARE AA-
	Veritas Finance	CARE A1+	CARE A
	Vistaar Finance	ICRA A1	ICRA A, IND A
MSME and Gold	Fedbank Financial Services	CRISIL A1+, ICRA A1+, CARE A1+	CARE AA, IND AA-,
	SBFC Finance	NA	IND A+, ICRA A+, CARE A+
Gold loan	Manappuram Finance	CRISIL A1+, CARE A1+	CRISIL AA, CARE AA
	Muthoot Finance	CRISIL A1+, ICRA A1+	CRISIL PPMLD AA+, /CRISIL AA+/, ICRA AA+
Diversified	HDB Financial Services	CRISIL A1+, CARE A1+	CRISIL AAA/CRISIL PPMLD AAA, CARE AAA
	IIFL Finance	ICRA A1+, CRISIL A1+	ICRA AA, CARE AA, BWR AA+, CRISIL AA/CRISIL PPMLD AA

Note: NA = Not available.
Source: Company Reports, CRISIL MI&A

RoE and RoA for players (Fiscal 2023)

Segment	Player	RoA (%)						RoE (%)					
		FY19	FY20	FY21	FY22	FY23	Avg (FY20-23)	FY19	FY20	FY21	FY22	FY23	Avg (FY20-23)
Housing Finance	Aptus Value Housing	5.9%	7.0%	6.5%	7.3%	7.8%	7.1%	17.4%	17.5%	14.5%	15.1%	16.1%	15.8%
	Repco Home Finance	2.3%	2.4%	2.4%	1.6%	2.4%	2.2%	16.5%	16.9%	15.0%	8.9%	12.5%	13.3%
MSME	Five-Star Business Finance	8.9%	7.8%	7.1%	7.5%	8.0%	7.6%	16.0%	15.8%	16.8%	15.0%	15.0%	15.7%
	Veritas Finance	2.7%	2.3%	3.1%	3.1%	5.2%	3.4%	6.7%	5.3%	7.3%	6.6%	11.8%	7.7%
	Vistaar Finance	2.3%	2.5%	3.0%	2.9%	3.2%	2.9%	5.8%	7.3%	9.6%	10.0%	12.0%	9.7%
MSME and Gold	Fedbank Financial Services	2.0%	1.3%	1.3%	1.7%	2.3%	1.6%	10.1%	6.8%	8.1%	10.4%	14.4%	9.9%
	SBFC Finance	1.5%	1.2%	2.0%	1.5%	2.9%	1.9%	2.8%	3.8%	7.7%	5.2%	9.9%	6.6%
Gold loan	Manappuram Finance	4.9%	5.9%	6.9%	5.0%	4.5%	5.6%	19.3%	25.2%	27.7%	17.6%	15.0%	21.4%
	Muthoot Finance	5.7%	6.8%	6.5%	5.9%	4.9%	6.0%	22.4%	28.3%	27.8%	23.5%	17.6%	24.3%
Diversified	HDB Financial Services	2.3%	1.7%	0.6%	1.6%	3.0%	1.7%	17.4%	13.2%	4.8%	11.2%	18.7%	12.0%
	IIFL Finance	4.7%	0.8%	1.6%	3.3%	3.4%	2.3%	18.0%	4.2%	9.2%	18.1%	16.9%	12.1%

Source: Company Reports, CRISIL MI&A

GNPA and NNPA of players (Q1FY24)

Segment	Player	Q1FY24		
		GNPA	NNPA	Credit Cost
Housing Finance	Aptus Value Housing	1.3%	1.0%	0.0%
	Repco Home Finance	5.5%	2.8%	NA
MSME	Five-Star Business Finance	1.4%	0.8%	0.2%
	Veritas Finance	2.2%	1.3%	0.5%
	Vistaar Finance	3.5%	2.2%	NA
MSME and Gold	Fedbank Financial Services	2.3%	1.8%	0.1%
	SBFC Finance	2.5%	1.6%	0.2%
Gold loan	Manappuram Finance	1.4%	1.2%	NA
	Muthoot Finance	4.3%	3.8%	0.1%
Diversified	HDB Financial Services	2.5%	0.8%	0.4%
	IIFL Finance	1.8%	1.1%	0.4%

Note: NA = Not available.
Source: Company Reports, CRISIL MI&A

GNPA and NNPA of players (Fiscal 2023)

Segment	GNPA	FY19	FY20	FY21	FY22	FY23	Average (FY20-23)
Housing Finance	Aptus Value Housing	0.4%	0.7%	0.7%	1.2%	1.2%	1.0%
	Repco Home Finance	3.0%	4.3%	3.7%	7.0%	5.8%	5.2%
MSME	Five-Star Business Finance	0.9%	1.4%	1.0%	1.1%	1.4%	1.2%
	Veritas Finance	0.9%	1.9%	2.7%	3.9%	2.2%	2.7%
	Vistaar Finance	3.4%	3.7%	3.3%	2.7%	3.8%	3.4%
MSME and Gold	Fedbank Financial Services	2.3%	1.5%	1.0%	2.2%	2.0%	1.7%
	SBFC Finance	0.4%	2.3%	3.2%	2.7%	2.4%	2.7%
Gold loan	Manappuram Finance	0.6%	0.9%	1.9%	3.0%	1.3%	1.8%
	Muthoot Finance	2.7%	2.2%	0.9%	3.0%	3.8%	2.5%
Diversified	HDB Financial Services	1.8%	3.9%	4.5%	5.0%	2.7%	4.0%
	IIFL Finance	1.7%	2.0%	2.0%	3.2%	1.8%	2.1%

Source: Company Reports, CRISIL MI&A

Segment	NNPA	FY19	FY20	FY21	FY22	FY23	Average (FY20-23)
Housing Finance	Aptus Value Housing	0.3%	0.6%	0.5%	0.9%	0.9%	0.7%
	Repco Home Finance	1.4%	1.9%	2.3%	4.9%	3.0%	3.2%
MSME	Five-Star Business Finance	0.7%	1.1%	0.8%	0.7%	0.7%	0.8%
	Veritas Finance	0.8%	1.3%	1.4%	2.3%	1.3%	1.6%
	Vistaar Finance	2.6%	2.5%	2.2%	1.9%	2.5%	2.3%
MSME and Gold	Fedbank Financial Services	1.9%	1.1%	0.7%	1.8%	1.6%	1.3%
	SBFC Finance	0.3%	1.6%	2.0%	1.6%	1.4%	1.6%
Gold loan	Manappuram Finance	0.3%	0.5%	1.4%	2.7%	1.2%	1.5%
	Muthoot Finance	2.4%	2.0%	0.8%	2.7%	3.4%	2.2%
Diversified	HDB Financial Services	1.3%	3.3%	3.2%	2.5%	1.0%	2.5%
	IIFL Finance	0.5%	0.8%	0.9%	1.8%	1.1%	1.2%

Source: Company Reports, CRISIL MI&A

Credit Cost of players (Fiscal 2023)

Segment	Player	Credit cost (%)						Stage 1 provisions to Stage 1 assets	Stage 2 provisions to Stage 2 assets	Stage 3 provisions to Stage 3 assets	Total provision to AUM ratio	Restructured book (%)		
		FY19	FY20	FY21	FY22	FY23	Avg (FY20-23)	FY23	FY23	FY23	FY23	FY21	FY22	FY23
Housing Finance	Aptus Value Housing	0.1%	0.1%	0.1%	0.7%	0.5%	0.4%	0.4%	8.0%	25.0%	1.1%	0.0%	1.5%^	NA
	Repco Home Finance	0.2%	0.5%	0.7%	1.9%	0.4%	0.9%	NA	NA	49.6%	4.2%	NA	NA	NA
MSME	Five-Star Business Finance	0.4%	1.5%	0.7%	0.8%	0.3%	0.8%	0.3%	7.0%	49.3%	1.6%	0.0%	1.4%	NA
	Veritas Finance	0.6%	1.0%	2.0%	2.5%	1.4%	1.7%	0.4%	12.9%	42.8%	1.6%	0.2%	3.6%	1.6%
	Vistaar Finance	3.0%	3.0%	2.4%	1.4%	1.0%	1.9%	0.4%	8.2%	36.2%	1.8%	6.2%	4.3%	NA
MSME and Gold	Fedbank Financial Services	0.2%	0.7%	1.5%	1.4%	0.6%	1.1%	**0.4%**	**11.2%**	**22.2%**	**1.2%**	1.9%	4.6%	2.2%
	SBFC Finance	0.01%	1.1%	0.8%	1.1%	0.6%	0.9%	0.6%	7.0%	39.3%	1.7%	1.5%**	3.8%	2.3%^^
Gold loan	Manappuram Finance	0.2%	0.4%	0.5%	0.3%	0.2%	0.4%	0.5%	1.4%	13.5%	0.5%	0.3%	NA	NA
	Muthoot Finance	0.1%	0.2%	0.2%	0.2%	0.1%	0.2%	0.8%	1.0%	10.3%	1.2%	NA	NA	NA
Diversified	HDB Financial Services	1.3%	2.5%	5.0%	4.0%	2.0%	3.4%	3.0%	28.3%	65.1%	5.2%	5.9%	NA	NA
	IIFL Finance	3.1%	1.5%	3.7%	2.2%	1.2%	2.2%	2.1%	6.4%	41.3%	0.6%	1.7%	0.7%	NA

Note: NA = Not Available, ^ Data as of September 2021, ** Data as of December 2020, ^^ Data as of December 2022
Source: Company Reports, CRISIL MI&A

Segment	Player	Q1FY24	
		Leverage (times)	Capital Adequacy Ratio (%)
Housing Finance	Aptus Value Housing	1.2	75.4%
	Repco Home Finance	NA	36.1%
MSME	Five-Star Business Finance	1.0	60.3%
	Veritas Finance	NA	41.8%
	Vistaar Finance	NA	36.1%
MSME and Gold	Fedbank Financial Services	5.4	19.7%
	SBFC Finance	2.0	33.6%
Gold loan	Manappuram Finance	2.1	30.0%
	Muthoot Finance	2.4	30.0%
Diversified	HDB Financial Services	NA	19.8%

Segment	Player	Q1FY24	
		Leverage (times)	Capital Adequacy Ratio (%)
	IIFL Finance	NA	20.6%

Note: NA = Not available.
Source: Company Reports, CRISIL MI&A

Segment	Player	Leverage (times)						Capital adequacy ratio (%)					
		FY19	FY20	FY21	FY22	FY23	Avg (FY20-23)	FY19	FY20	FY21	FY22	FY23	Avg (FY20-23)
Housing Finance	Aptus Value Housing	2.3	1.2	1.3	0.9	1.1	1.1	43.6%	82.5%	73.6%	85.6%	80.8%	80.6%
	Repco Home Finance	6.1	5.7	5.0	4.3	3.9	4.7	24.1%	25.9%	30.7%	33.6%	35.8%	31.5%
MSME	Five-Star Business Finance	0.7	1.2	1.5	0.7	1.0	1.1	64.8%	52.9%	58.9%	75.2%	67.2%	63.6%
	Veritas Finance	1.3	1.2	1.4	0.8	1.5	1.3	48.0%	59.3%	50.7%	64.4%	45.0%	54.9%
	Vistaar Finance	1.5	2.0	2.1	2.4	2.7	2.3	40.3%	37.6%	36.5%	30.0%	26.4%	32.6%
MSME and Gold	Fedbank Financial Services	3.5	4.7	5.2	4.4	5.3	4.9	21.6%	17.9%	23.5%	23.0%	17.9%	20.6%
	SBFC Finance	1.0	3.0	2.3	2.3	2.2	2.4	44.8%	21.9%	26.3%	26.2%	31.8%	26.5%
Gold loan	Manappuram Finance	2.9	3.3	2.6	2.3	2.1	2.6	23.3%	21.4%	29.0%	31.3%	31.7%	28.3%
	Muthoot Finance	2.7	3.2	3.0	2.7	2.4	2.8	26.1%	25.5%	27.4%	30.0%	31.8%	28.7%
Diversified	HDB Financial Services	6.3	6.2	6.0	5.1	4.8	5.5	17.9%	19.4%	18.9%	20.2%	20.1%	19.7%
	IIFL Finance	3.7	4.0	4.3	3.7	3.4	3.8	18.3%	16.6%	25.4%	23.9%	20.4%	21.6%

Source: Company Reports, CRISIL MI&A

ALM position of various peers

Segment	Q1FY24 (In ₹ Bn)	Assets		Liability		Net		Assets to Liabilities ratio@	
		Within 12 months	After 12 months	Within 12 months	After 12 months	Within 12 months	After 12 months	Within 12 months	After 12 months
Housing Finance	Aptus Value Housing Finance	27.3	109.3	16.1	52.0	11.3	57.4	170%	210%
	Repco Home Finance**	26.4	98.8	26.3	73.8	0.1	25.1	100%	134%
MSME	Five-Star Business Finance**	26.1	60.9	15.3	28.3	10.8	32.6	171%	215%
	Veritas Finance**	13.3	27.6	8.2	16.8	5.0	10.9	161%	165%
	Vistaar Finance*	7.9	19.7	6.3	14.4	1.7	5.4	126%	137%
MSME and Gold	Fedbank Financial Services**	57.6	43.2	31.3	60.4	26.2	-17.2	184%	71%
	SBFC Finance	54.9	162.4	30.5	139.2	24.4	23.2	180%	117%
Gold loan	Manappuram Finance**	231.7	61.7	120.1	83.5	111.6	-21.8	193%	74%
	Muthoot Finance**	671.4	55.1	338.8	177.1	332.7	-122.0	198%	31%
Diversified	HDB Financial Services**	266.2	434.3	227.4	358.7	38.8	75.6	117%	121%
	IIFL Finance	258.5	288.0	180.4	366.1	78.1	-78.1	143%	79%

Note: * Data for fiscal 2022, ** Data for fiscal 2023, @ Asset to liabilities ratio is calculated by dividing the percentage of assets maturing in the specified time period by percentage of liabilities maturing in the same time period.
Source: Company Reports, CRISIL MI&A

OUR BUSINESS

The industry related information contained in this section is derived from the CRISIL Report, which has been exclusively commissioned only for the purposes of the Offer and paid for by our Company. Forecasts, estimates, predictions, and other forward-looking statements contained in the CRISIL Report are inherently uncertain because of changes in factors underlying their assumptions, or events or combinations of events that cannot be reasonably foreseen. Actual results and future events could differ materially from such forecasts, estimates, predictions, or such statements. A copy of the CRISIL Report will be available on the website of our Company at https://fedfina.com/investor/disclosure/ from the date of filing of this Red Herring Prospectus until the Bid/Issue Closing Date. We have included certain non-GAAP financial measures and other performance indicators relating to our financial performance and business in this Red Herring Prospectus, each of which are supplemental measures of our performance and liquidity and are not required by, or presented in accordance with Ind AS, Indian GAAP, IFRS or U.S. GAAP. Such measures and indicators are not defined under Ind AS, IFRS or U.S. GAAP, and therefore, should not be viewed as substitutes for performance, liquidity or profitability measures under Ind AS, IFRS or U.S. GAAP. In addition, such measures and indicators, are not standardized terms, hence a direct comparison of these measures and indicators between companies may not be possible. Other companies may calculate these measures and indicators differently from us, limiting their usefulness as a comparative measure. Although such measures and indicators are not a measure of performance calculated in accordance with applicable accounting standards, our management believes that they are useful to an investor in evaluating us as they are widely used measures to evaluate a company's operating performance.

Our financial year-ends on March 31 of each year, so all references to a particular FY, Fiscal or Fiscal Year, Financial or Financial Year are to the 12 months ended March 31 of that year.

Unless otherwise stated or unless context otherwise requires, all financial information of our Company used in this section has been derived from our Restated Financial Information.

Some of the information in this section, including information with respect to our business plans and strategies, contain forward-looking statements that involve risks and uncertainties. You should read "Forward-Looking Statements" on page 26 for a discussion of the risks and uncertainties related to those statements and also "Risk Factors", "Industry Overview" "Restated Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Statistical Information" beginning on pages 27, 128, 297, 398 and 276, respectively, for a discussion of certain factors that may affect our business, financial condition or results of operations. Our actual results may differ materially from those expressed in or implied by these forward-looking statements.

Overview

We are a retail focused non-banking finance company ("**NBFC**") promoted by The Federal Bank Limited. We have the second and third lowest cost of borrowing among the micro, small and medium enterprises ("**MSMEs**"), gold loan and MSME & gold loan peer set in India in Fiscal 2023 and three-months period ended June 30, 2023, respectively. *(Source: CRISIL Report)* As on March 31, 2023, we had the third fastest AUM growth among NBFCs in the peer set in India with a three year CAGR of 33% between Fiscals 2020 and 2023, and the fourth fastest year-on-year AUM growth of 42% for three-months period ended June 30, 2023. *(Source: CRISIL Report)* We are one among five private bank promoted NBFCs in India. *(Source: CRISIL Report)* We are the fastest growing gold loan NBFC in India among the peer set as of March 31, 2023, and had the fastest year-on-year growth among gold loan NBFCs in India as of June 30, 2023. *(Source: CRISIL Report)* As on June 30, 2023, 86.24% of our total Loan Assets are secured against tangible assets, namely gold or customer's property.

We are focused on catering to the MSMEs and the emerging self-employed individuals ("**ESEIs**") sector. According to the CRISIL Report, the ESEI and MSME segment is largely unaddressed by lending institutions in India. We believe that this segment provides us with a sizeable opportunity to rapidly grow and expand further. We have a well-tailored suite of products targeted to match our customers' needs, which includes mortgage loans such as housing loans; small ticket loan against property ("**LAP**"); and medium ticket LAP, unsecured business loans, and gold loans. We had the third highest growth in disbursement among the peer set with a three year CAGR of 35% between Fiscals 2020 and 2023. (*Source: CRISIL Report*) Our mortgage loans, gold loans and our unsecured business loans had an AUM of ₹ 47,024.46 million, ₹ 31,241.72 million and ₹ 14,872.49 million, respectively as on June 30, 2023.

We have been rated "AA" by CARE for our non-convertible debentures ("**NCDs**") since 2022, and "AA-"– by India Ratings and Research Private Limited for our NCDs and bank loans since 2018.We are promoted by Federal Bank, which, we believe, adds a degree of trust among our stakeholders. Federal Bank will continue to own more than 51% of our outstanding share capital post the completion of the Offer. We believe that our long operating history, track record, management expertise and the "Federal Bank" brand have enabled us to establish a competitive position in the markets we serve and create trust among our customers, lenders, regulators and investors. For further details in relation to our Promoter and Promoter Group, see *"Our Promoter and Promoter Group"* on page 269.

We are headquartered in Mumbai, Maharashtra. As of June 30, 2023, we are present in 17 states and union territories across India with a strong presence in Southern and Western regions of India. Based on the CRISIL Report, these states contribute more than 75% of India's GDP in Fiscal 2023. As of June 30, 2023, we covered 190 districts in 17 states and union territories in India through 584 branches. Our branches are located in states, such as Andhra Pradesh (including Telangana) and Rajasthan, which have better asset quality than other states as of Fiscal 2023. (*Source: CRISIL Report*) Additionally, we have dedicated micro-sites on our website for each of our branches, which focus solely on customer engagement for our branch customers.

We also have a "Phygital" doorstep model, a combination of digital and physical initiatives, for providing customized services to our customers across all of our products. This also helps us to constantly remain in touch with our customers. Technology is the core building block of our underwriting model which combines electronic data and physical information and document collection. We have entered into an agreement in Fiscal 2020 with a service provider for records management, preservation of documents and related services, valid for period of five years. When we underwrite a loan, we collect various data points from the customer, including subjective and objective information. These are collected in digital and physical format. Subsequently, we spend time validating the data and analyzing the customers' creditworthiness. Thereafter, the information is validated through various application programming interfaces ("**APIs**"), which are integrated in our loan origination system. Lastly, for our gold loan portfolio, the information is passed through the decision engine for final determination of sanctions of the loan amount. Our underwriting process has allowed us to manage defaults and NPAs across all our products in Fiscals 2023, 2022 and 2021, and the three-months period ended June 30, 2023. Our Gross NPA was 2.26%, 2.05%, 2.03%, 2.23% and 1.01% for the three-months period ended June 30, 2023 and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively, and Net NPA was 1.76%, 1.57%, 1.59%, 1.75% and 0.71% for the three-months period ended June 30, 2023 and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively. For details in relation to the impact of COVID-19 on our NPAs, see "*Risk Factors – 37. The resurgence of the COVID-19 pandemic may affect our business and operations in the future.*" on page 52.

People are at the forefront of our organization. As on June 30, 2023, we have employed 3,732 personnel across our 584 branches. From Fiscals 2021 to 2023, we have been certified as a "Great Place to Work" by Great Place to Work Institute.

We seek to empower emerging India with easy access to loans. We believe we are filling a gap in the Indian financial services industry, by addressing our target customer segments' loan requirements.

Our Competitive Strengths

We believe the following strengths give us a competitive advantage in the Indian retail credit industry:

- ***We are present in large, underpenetrated markets with strong growth potential***
- ***We are focused on retail loan products with a collateralized lending model targeting individuals and the emerging MSME sector***
- ***Strong underwriting capability and presence in select customer segment combined with robust risk management capabilities focused on effective underwriting and collections***
- ***Experienced, cycle tested management team***
- ***Well diversified funding profile with an advantage of lower cost of funds***
- ***Technology driven company with scalable operating model***
- ***We are present in large, underpenetrated markets with strong growth potential***

According to the CRISIL Report, the Indian retail credit market grew at a strong pace over the last few years from ₹ 30 trillion in Fiscal 2018 to ₹ 60 trillion in Fiscal 2023, and it constituted 32% of total systemic credit in India. Retail credit is expected to further grow at a CAGR of 14-15% between Fiscals 2023 and 2025. *(Source: CRISIL Report)* The credit gap is much larger in case of ESEIs *(Source: CRISIL Report)* and we are focused on catering to the financial needs of such ESEIs.

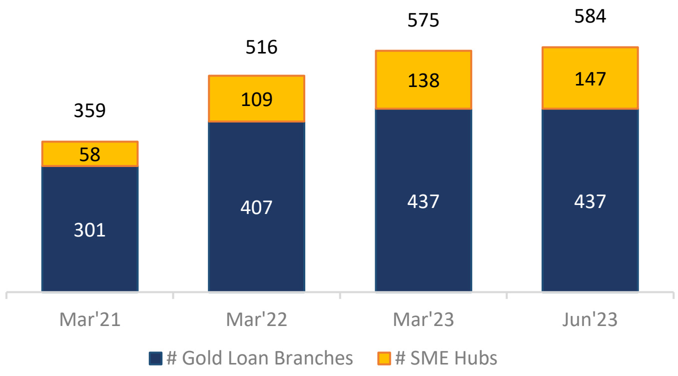
Given that the market is large, has good growth prospects, is under penetrated and profitable, retail credit is expected to continue to remain a key focus area for banks and NBFCs. *(Source: CRISIL Report)* In terms of credit to households as a proportion of GDP, India lags other markets, with retail credit hovering at around 26% of GDP as of Fiscal 2023. *(Source: CRISIL Report)* We believe this presents us with an opportunity for growth. Due to increasing awareness about benefits of availing gold loans from the organized segment, the share of organized gold loan financiers has increased from 56-58% in Fiscal 2017 to approximately 61-63% (in terms of value) in Fiscal 2023. *(Source: CRISIL Report)* Further, as of March 2023, the gold pledged with financiers constituted around 7% of the 28,000 tons of gold holdings in Indian households. *(Source: CRISIL Report)* We believe that we are well positioned to take advantage of the opportunity this presents for growing our gold loan business.

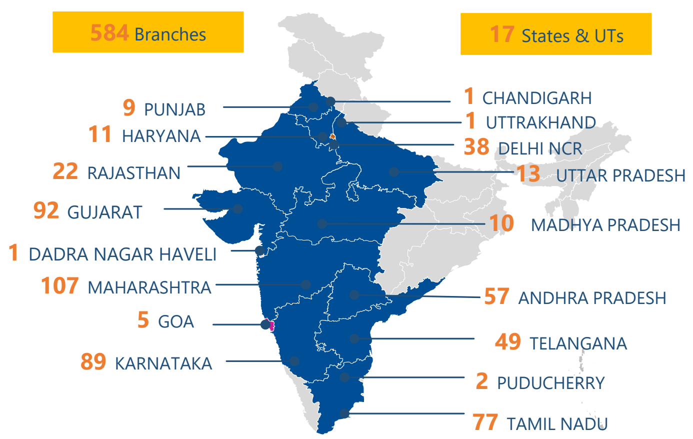
Based on the CRISIL Report, the retail credit growth is expected to benefit from factors such as formalization of the economy, growing working population, increasing urbanization and increasing digital adoption in India. For further details, see *"Industry Overview*" on page 128. Additionally, the portfolio of MSME loans with ticket size between ₹ 1 million and ₹ 10 million is expected to grow at 14-16% CAGR over Fiscals 2023 and 2025, aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and continued government support. *(Source: CRISIL Report)* NBFC credit is expected to grow at a higher rate of 13-14% in Fiscal 2024, as compared to 12-14% expected for banking credit. *(Source: CRISIL Report)* The credit growth is expected to be driven by the retail vertical, including housing, auto, and microfinance segments. *(Source: CRISIL Report)* Rapid revival in the economy is expected to drive consumer demand in Fiscal 2024, leading to healthy growth NBFCs. *(Source: CRISIL Report)* We believe our presence in the retail credit industry with our product suite provides us with a platform to benefit from this anticipated growth.

As of June 30, 2023 we are present in 17 states and union territories across India with a strong presence in Southern and Western regions of India. As of June 30, 2023, we covered 190 districts in 17 states and union territories in India through 584 branches. Our branches are located in states, such as Andhra Pradesh (including Telangana) and Rajasthan, which have better asset quality than other states. (*Source: CRISIL Report*) Our presence across these contiguous states allows us to diversify our exposure across local micro markets.

As on June 30, 2023, our AUM across our various products was 33.12% for gold loans, 25.33% for medium ticket LAP, 24.52% for small ticket LAP and housing loans and 15.76% for unsecured business loans. According to the CRISIL Report, housing finance and gold loans cover 46% and 12% of the retail loans industry, respectively, in India in Fiscal 2023. The retail nature of our business reduces any industry concentration risk to our total AUM.

The following chart and map set forth our branch network as on June 30, 2023 and our branch footprint evolution during the last three Fiscals and the three-months period ended June 30, 2023.





As of June 30, 2023

In the three-months period ended June 30, 2023 and Fiscals 2023, 2022 and 2021, our top five states in terms of AUM constituted 78.01%, 78.72%, 80.30% and 85.07% of our total AUM, respectively, while our top three states in terms of AUM contributed towards 53.63%, 54.59%, 58.54% and 63.66% of our total AUM, respectively. Further, as on June 30, 2023, 305 of our total branches have been in operation for more than three years while the remaining 279 have been in operation for less than three years.

We have made significant investment in setting up this comprehensive branch network. We have spent ₹ 268.75 million (excluding refundable security deposits for lease of property) in aggregate to open branches in last three Fiscals and the three-months period ended June 30, 2023. We have adopted a contiguous strategy wherein we aim to expand across regions in India where we have a presence and expand to adjacent geographies by evaluating areas with established credit culture. We believe that our deep penetration in 17 states and union territories in India, built through our contiguous expansion strategy has provided us with significant scale and diversification advantages and will result in growth of our AUM as our branches mature over time. We also have 1,796 local channel partners as on June 30, 2023 to complement our branch network and increase our geographical penetration while controlling our costs. For further information on our branch network and channel partners, see *"- Description of our business and operations –Distribution Network"* on page 218.

The ESEI and MSME segment is largely unaddressed by lending institutions in India. (*Source: CRISIL Report*) We have, accordingly, increased our footprint in the states we operate in with a focus on customer acquisition and retention in the higher quality small loan ticket segment.

We offer mobility-based solutions for our customers providing them with transparency and convenience of engagement and transaction execution. For further details in relation to our digital solutions, see "- *Technology driven company with scalable operating model*" and "- *Description of our business and operations – Information Technology*" on pages 208 and 225, respectively.

We believe that our multi-channel network combined with our physical branches, channel partners and digital solutions provides us with a significant footprint in our target geographies.

We are focused on retail loan products with a collateralized lending model targeting individuals and the emerging MSME sector

We are largely focused on a collateralized lending model for our retail finance segment, targeting ESEI consumers and the emerging MSME sector. As on June 30, 2023, 86.24% of our total Loan Assets are secured against tangible assets, namely our customer's gold or property. Our average ticket size was ₹ 0.13 million in the three-months period ended June 30, 2023. Out of the collateral for our medium ticket LAP and small ticket LAP, 77.37% of our collateral is self-occupied residential or commercial property as of June 30, 2023. As on June 30, 2023, average LTV on our total Loan Assets with property collateral at the time of sanctioning the loan was 51.37%. In our experience, the value of collateral property generally appreciates over time. In addition, our LTV at the time of sanction further reduces over the term of the loan as the loan is serviced.

The following table provides the split of our AUM by product category as at June 30, 2023 and June 30, 2022, and March 31, 2023, 2022 and 2021, year on year growth, split of total AUM as at June 30, 2023, ATS for disbursal in the three-months period ended June 30, 2023, yield as at June 30, 2023, NPA percentage as on June 30, 2023, underwriting methodology and average LTV as at June 30, 2023:

Product	**AUM as at June 30, 2023 (₹ in million)**	**AUM as at June 30, 2022 (₹ in million)**	**AUM as at March 31, 2023 (₹ in million)**	**AUM as at March 31, 2022 (₹ in million)**	**AUM as at March 31, 2021 (₹ in million)**	**Growth from June 30, 2022 to June 30, 2023**	**YoY Growth from Fiscal 2022 to Fiscal 2023**	**YoY Growth from Fiscal 2021 to Fiscal 2022**	**Split of AUM (as at June 30, 2023)**	**ATS (₹ in million) for disbursal in the three-months period ended June 30, 2023**	**Yield on disbursement as at June 30, 2023**	**NPA % (as at June 30, 2023)**	**Underwriting**	**Average LTV (As at June 30, 2023)**
Mortgage loan														
Small Ticket LAP	17,219.25	11,940.28	16,661.56	10,864.10	6,768.62	44.21%	53.36%	60.51%	18.25%	1.18	17.68%	2.36%	Assessed Income	46.81%
Medium Ticket LAP	23,892.28	15,925.68	22,884.02	15,258.50	13,324.13	50.02%	49.98%	14.52%	25.33%	4.79	12.51%	3.23%	Income Based	51.94%
Housing Loan	5,912.92	3,684.10	5,518.20	3,201.90	1,413.37	60.50%	72.34%	126.54%	6.27%	1.36	13.95%	2.45%	Assessed Income	62.37%
Gold Loan	**31,241.72**	**24,247.85**	**29,860.34**	**22,475.30**	**19,177.87**	**28.84%**	**32.86%**	**17.19%**	**33.12%**	**0.10**	**16.23%**	**0.88%**	**In-house Valua**	**71.75%**

Product	AUM as at June 30, 2023 (₹ in million)	AUM as at June 30, 2022 (₹ in million)	AUM as at March 31, 2023 (₹ in million)	AUM as at March 31, 2022 (₹ in million)	AUM as at March 31, 2021 (₹ in million)	Growth from June 30, 2022 to June 30, 2023	YoY Growth from Fiscal 2022 to Fiscal 2023	YoY Growth from Fiscal 2021 to Fiscal 2022	Split of AUM (as at June 30, 2023)	ATS (₹ in million) for disbursal in the three-months period ended June 30, 2023	Yield on disbursement as at June 30, 2023	NPA % (as at June 30, 2023)	Underwriting	Average LTV (As at June 30, 2023)
													tion	
Unsecured Business Loan	**14,872.49**	**9,892.28**	**14,542.80**	**9,010.18**	**4,978.89**	**50.34%**	**61.40%**	**80.97%**	**15.76%**	**2.31**	**17.37%**	**0.38%**	**Income Based**	**NA**
Others	1,203.42	954.03	1,229.12	1,062.06	2,961.43	26.14%	15.73%	-64.14%	1.28%	Nil	NA	37.51%	-	NA
Total	**94,342.08**	**66,644.22**	**90,696.04**	**61,872.04**	**48,624.31**	**41.56%**	**46.59%**	**27.25%**	**100.00%**	**0.13**	**16.07%**	**2.26%**	**-**	**59.51%**

Notes:

1. *ATS means average ticket size of the loan at the time of sourcing.*
2. *LTV means loan to value ratio of the portfolio.*
3. *LAP means loan against property.*

Our products meet the specific requirements of our target customers with quick turnaround times and customized services for each customer's unique needs. Our target customers require us to employ differentiated strategies to evaluate creditworthiness, provide them with customized loan products and be able to understand local market requirements. We also have the ability to understand customers who lack formal documentation, understand the local market needs and underwrite products in a timely manner. For further details in relation to credit approval and disbursements, see "- *Description of our business and operations – Credit Approval and Disbursement*" on page 221.

Strong underwriting capability and presence in select customer segment combined with robust risk management capabilities focused on effective underwriting and collections

We have an effective underwriting capability, built on our experienced underwriting team and established processes, which assess the quality of our potential customers' business and collaterals, and then reasonably estimate the possibility of defaults, prior to disbursal of loans. The percentage of our retail installment loans which are underwritten is represented by the sanction to login ratio, which was 40.05%, 44.01%, 45.30%, 45.83% and 43.51% for the three-months periods ended June 30, 2023 and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively. We recognize risk management as an integral part of our business. We have formulated our risk management policy taking into account, among others, the practices and principles governing risk management prescribed by the RBI. Our Board, supported by our senior management team, takes the lead in establishing a strong risk management culture. Our risk management framework is driven by our Board and its subcommittees including the Audit Committee, the Risk Management Committee and the asset liability committee of our Company. For further details, see "- *Description of our business and operations – Risk Management Framework*" on page 223.

We assess, measure and review risks holistically across our operations, including credit, market, liquidity, operational, regulatory and legal, cyber and information security and reputational risks. We have put in place approval processes for all new products, activities, processes and systems that assesses underlying risks. In addition, we have a strong internal control environment that utilizes policies, processes and systems and appropriate internal controls and risk management and transfer strategies.

We have various product programs that define customer and target market segments and risk acceptance criteria. These programs help us curate customized loan solutions based on the anticipated cash flows of our customers. We undertake a verification process for all electronic or physical material provided by our customers and have an independent risk containment unit, for protection against fraud. We ensure that our loan officers spend time getting to know our customers and their requirements.

Our knowledge of our customer's environment and their respective finances and unique facts assists us in our credit decision making process. Every loan is reviewed and approved by separate team members as per the product program to ensure checks and balances. Any deviations from the defined product program are escalated to the higher level within the credit risk management group for approval. Performance across product parameters and impact of all the deviations on portfolio performance is monitored across product segments and the learnings are fed back into the product program.

As on June 30, 2023, we had an independent quality assurance team of 219 employees for our mortgage loans, gold loans and unsecured business loans. The team reviews the quality of business at the time of loan origination. Every loan undergoes check post disbursal confirming adherence to the underwriting criteria through a variety of interventions by our quality assurance team. Instances of departure from the criteria are analyzed and findings are incorporated in the standard operating procedures to avoid future recurrence. For further details of our underwriting processes, see *"- Description of our business and operations – Credit Approval and Disbursement"* on page 221.

As June 30, 2023, 2.22% of our employees were in internal audit function and such personnel conduct periodic audits across sales, operations, credit, customer service, branch operations and other support functions. Further, all our branches undergo regular audits along with random surprise audits to ensure adherence to the policies and standard operating procedures. In addition, an external audit agency augments our internal audit function. For further details in relation to our technology framework for collection of data for providing credit solutions, see *"- Our Competitive Strengths – Technology driven company with scalable operating model*" on page 208.

While we focus on the underserved category of the Indian retail loan market, we follow prudent customer selection policies with 86.71% of our customers having an established credit history, and 77.94% of our credit rated borrowers rated with a CIBIL score greater than 650 or CMR score less than or equal to 6 as on June 30, 2023.

Our effective credit risk management is reflected in our portfolio quality indicators such as our collection efficiency backed by adequate provisioning cover. We believe that our risk management policies have resulted in our healthy asset quality and low credit costs. For further details in relation to our product wise % Gross NPA, see *"Selected Statistical Information – Product-Wise % Gross NPA"* on page 288.

The following tables sets out the break-up of our loans across stages as per Ind AS:

Particulars	For three-months period ended June 30,		For Fiscals		
	2023	2022	2023	2022	2021
	(₹ in million, except percentages)				
Gross Carrying Amount – Loans					
1. Stage 1[(1)]	78,571.16	56,688.47	75,689.67	51,311.37	44,514.09
2. Stage 2[(2)]	3,594.21	4,156.94	3,766.77	5,012.22	1,288.18
3. Stage 3[(3)]	1,897.71	1,272.78	1,645.03	1,285.82	468.08
4. Total Gross Carrying Amount – Loans[(4)]	84,063.12	62,118.19	81,101.47	57,609.41	46,270.35
Expected Credit Loss Allowance – Loans					
5. Stage 1	328.49	282.09	317.09	252.52	453.56
6. Stage 2	344.67	453.07	422.24	625.07	155.52
7. Stage 3	423.86	301.83	365.18	283.73	139.86
8. Total ECL Allowance Loans[(5)]	1,097.02	1,036.99	1,104.51	1,161.32	748.94
Net Carrying Amount – Loans					
9. Stage 1 (9=1-5)	78,242.67	56,406.38	75,372.58	51,058.85	44,060.53
10. Stage 2 (10=2-6)	3,249.58	3,703.87	3,344.53	4,387.15	1,132.66
11. Stage 3 (11=3-7)	1,473.85	970.95	1,279.85	1,002.09	328.22
12. Total Net Carrying Amount – Loans (12=4-8)	82,966.06	61,081.20	79,996.96	56,448.09	45,521.41
13. Ratio of Total ECL Allowance Loans to Total Gross Carrying Amount (13=8/4*100)	1.30%	1.67%	1.36%	2.02%	1.62%

Notes:

*(1) Stage 1 Loans refers to less than 30 Day Past Due ("**DPD**") accounts other than restructured less than 30 DPD accounts and NPA less than 30 DPD accounts.*
(2) Stage 2 Loans refers to 30 to 59 DPD, 60-89 DPD and all loans, restructured under the Resolution Framework, which allowed a one-time restructuring of loans impacted by COVID-19 pandemic, which are Stage 2 or below as per DPD.
(3) Stage 3 Loans refers to loans under our Gross Loan Book as of the last day of the relevant period or closing balance of Gross Loan Book which are classified as credit impaired loans in accordance with Ind AS 109 (Financial Instruments).
(4) Gross carrying amount -loans means loan assets measured at amortized cost and at fair value through other comprehensive income.
(5) Includes expected credit loss of loan assets measured at amortized cost and fair value through other comprehensive income.

Experienced, cycle tested management team

Our senior management team has significant experience in the financial services industry and the team members are instrumental in developing and implementing our business strategy and commitment to fair and transparent business practices. Our senior management team has a consolidated experience of over 200 years with a diversified track record in the banking and financial services industry. The track record and experience of our senior management across various events in Indian economic history provides us with the ability to react to changes and adapt and implement innovative solutions to deal with economic challenges.

Our Managing Director and Chief Executive Officer has over 28 years of experience in the financial services sector. For further details in relation to our Board and key managerial personnel, see *"Our Management*" on page 252.

Well diversified funding profile with an advantage of lower cost of funds

Our ability to access diversified sources of funding is a key contributor to our growth. We intend to continue to diversify our funding sources, identify new sources and pools of capital and implement robust asset liability management policies with the aim of further optimizing our borrowing costs and help expand our net interest margin. Our average cost of borrowing was 2.22%, 1.86%, 7.77%, 7.44% and 8.30% for the three-months periods ended June 30, 2023 and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively. We have the ability to access borrowings at a competitive cost due to our stable credit history, credit ratings, conservative risk management policies and strong brand equity.

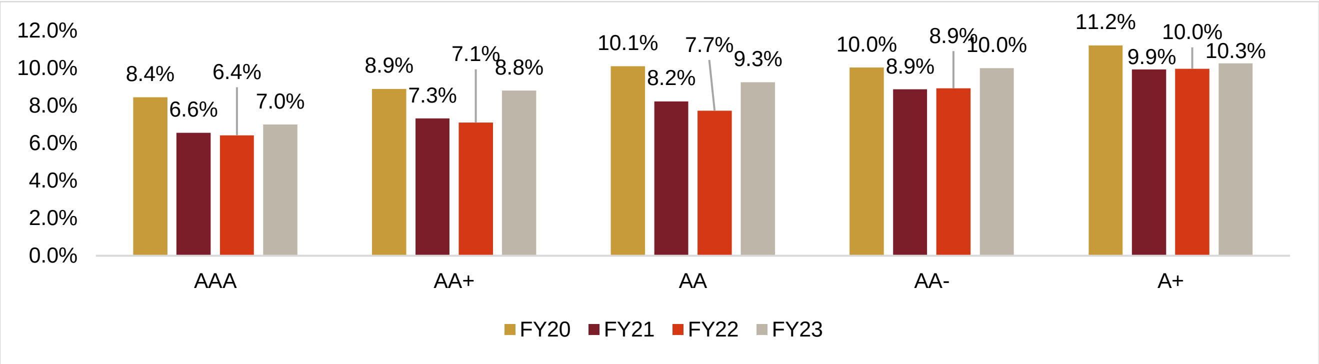
We have the second and third lowest cost of borrowing among the MSME, gold loan and MSME & gold loan peer set in India in Fiscal 2023 and three-months period ended June 30, 2023, respectively. *(Source: CRISIL Report)*

In addition, our cost of incremental borrowings, being new loans sanctioned in the relevant period, reduced from 8.36% in Fiscal 2021 to 7.02% in Fiscal 2022. It increased to 8.02% in Fiscal 2023 due to an increase in interest rates. Our cost of incremental borrowings during the three-months period ended June 30, 2023 was 8.57%.

Further, while we have been rated "AA-" by CARE for our NCDs since 2022, and "AA-" by India Ratings and Research Private Limited for our NCDs and bank loans since 2018. According to the CRISIL Report, we are one of only two long term AA rated players among the peer set which have cost of borrowings less than 8.5% between Fiscals 2019 and 2023. Our rating of AA and AA-indicates, resilient liability origination despite challenges faced by the Indian economy for varied factors and the failure of other NBFC companies in India.

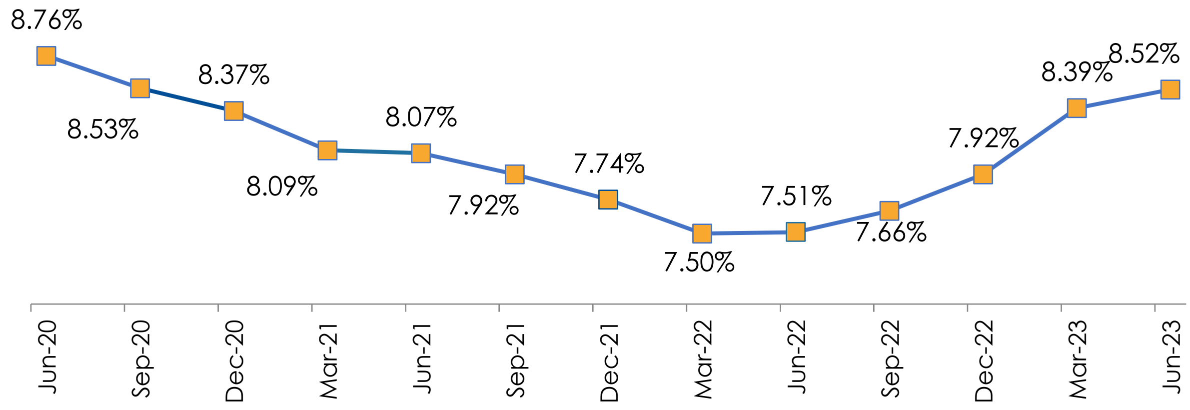
The following charts set forth the average cost of borrowing trend in the industry by ratings category:

Average Cost of Borrowing Trend by Ratings Category



Source: CRISIL Report

Our Average Monthly Cost of Borrowing



We have historically secured financing from diversified sources of capital from banks, financial institutions, mutual funds and other financial institutions, including term loans, proceeds from loans securitized, proceeds from the issuance of NCDs, proceeds from loans assigned and commercial papers, to meet our capital requirements. In addition, we have access to capital from our Promoter, Federal Bank. We have grown our liability relationships from 23 lending institutions as on March 31, 2021 to 27 institutions as on June 30, 2023. As of June 30, 2023, we borrowed from 12 private sector banks (including our Promoter, Federal Bank), 9 public sector banks, 1 NBFC, 1 foreign bank and 4 other entity (such as the Small Industries Development Bank of India). As of June 30, 2023, our outstanding borrowings were ₹ 31,098.36 million from private sector banks, ₹ 28,320.72 million from public sector banks, ₹ 2,046.87 million from an NBFC, ₹ 1,500.00 million from a foreign bank, and ₹ 13,229.09 million from other entities.

We actively monitor our loan portfolio to build our priority sector lending portfolio. This portfolio enables us to undertake securitization transactions with banks looking to meet their priority sector lending obligations. As of June 30, 2023, we had a securitized portfolio across leading public sector banks and private sector banks aggregating to ₹ 11,831.33 million. As of June 30, 2023, our total borrowings aggregated to ₹ 76,195.16 million, comprising primarily of term loans of ₹ 64,529.83 million, NCDs of ₹ 7,755.03 million and commercial papers of ₹ 3,910.30 million.

In addition, we also believe we have effective asset liability management strategies in place. The following table shows our ALM position in the three-months period ended June 30, 2023:

(In ₹ billion)

Assets		**Liability**		**Net**		**Assets to Liabilities ratio@**	
Within 12 months	**After 12 months**	**Within 12 months**	**After 12 months**	**Within 12 months**	**After 12 months**	**Within 12 months**	**After 12 months**
55,856.68	43,150.80	29,456.95	64,083.15	26,399.73	(20,932.36)	190%	67%

@ Asset to liabilities ratio is calculated by dividing the percentage of assets maturing in the specified time period by percentage of liabilities maturing in the same time period

For further details in relation to our ALM position in comparison to our various peers, see *"Industry Overview"*, on page 128. The following table shows the asset-liability maturities for the periods indicated:

Particulars	**As of**				
	June 30, 2023	**June 30, 2022**	**March 31, 2023**	**March 31, 2022**	**March 31, 2021**
Average maturity of assets (in months)	97	82	90	82	81
Average maturity of liabilities (in months)	25	21	23	20	25

We believe that our diversified sources of borrowing, stable credit history, credit ratings and effective asset-liability management have allowed us to gain better access to cost-effective debt financing. As of June 30, 2023, our cash and cash equivalents and other bank balance amounted to ₹ 2,477.71 million, which we believe reflects our strong liquidity position.

Technology driven company with scalable operating model

The following chart reflects our technology framework as of June 30, 2023:

We are a technology driven company using systems with digital infrastructure to manage a scalable and sustainable operating model. This enables us to expand and scale our businesses and drive growth in revenue at lower incremental costs. Our technology stack is deployed with customized tools and applications that enhances operational efficiency, automation and customer convenience.

During the three-months period ended June 30, 2023, and Fiscals 2023, 2022 and 2021, we have invested an aggregate amount of ₹255.93 million in our information technology and digital systems. Our continuing investment in technology systems will enable us to improve recoveries and reduce our operating expenses, our cost of customer acquisition and credit costs over time. It will also enable us to expand our efficiency through automations and further deepen customer engagement with digital touchpoints and maximize digital delivery. We leverage our information technology platforms to drive economies of scale through increase in productivity, reduce turnaround time in processing and reduce transaction costs.

We are able to capture significant amounts of data points through credit bureau data, API stack enabling independent validation from source, customer financials, observations from our front-end team, and feedback from our credit underwriting and management teams. The data are stored in a highly secured manner and through a cloud services platform. Our integrated loan management and loan origination systems provide us with a seamless transaction processing capability and standardization of processes across branches which finally flows into a cloud-based central repository, thereby enabling superior portfolio management and customer engagement.

Comprehensive digitization and automation of our processes enables us to offer quick turnaround in processing complemented by digital marketing as well as data validation through API integration for, among other things, KYC function, doorstep gold loan offering, and e-disbursals. We disbursed door-step loans aggregating to ₹1,255.01 million and ₹3,450.80 million in the three-months period ended June 30, 2023 and Fiscal 2023, constituting 5.46% and 4.64% of our total disbursals for gold loans. Our gold loan branches are equipped with technology led surveillance and security systems, cash and inventory management that is integrated with our ERP application. For further detail in relation to our gold branches, see "- *Description of our business and operations – Distribution Network*" on page 218. These also help us in bringing uniformity in our processes, superior customer experience and objectivity in decision making.

We offer mobility solutions for our customers providing them with transparency and convenience of engagement and transaction execution. The digital application allows customers to perform a variety of transactions and share their experiences which manifests in the form of customer ratings. As a result of our digital initiative, as of June 30, 2023, Fedfina digital portals has a presence on Fedfina Loans: Gold Loans, LAP, Business & Home Loan (customer application), Fedfina Lite – Employee App (employee application), website and social media channels. As of June 30, 2023, our customer application has over 495,000 downloads and a 4.1 star rating on Google Play Store. As of June 30, 2023, more than 500 branches have a presence on microsites as well as search engines for easy access of potential customers. As of June 30, 2023, our social media had an aggregate of over 416,000 followers with presence across Facebook, YouTube, LinkedIn and Instagram channels. As of June 30, 2023, active customers on digital portals (being gold loan customers who are registered on digital platforms, mobile applications and login-based customer self-service web portal and are activated in the system to perform online transaction using such platforms) are 125,636 representing approximately 64.31% of our total customer base for gold loans. We had over 6.76 million page views and more than 180,000 transactions conducted through our digital portals which constitutes 43.32% of total transactions for the three-months period ended June 30, 2023.

Our systems and applications are maintained on a robust infrastructure, which is protected by information security policies. This aids us in sustaining high volume traffic spread across hundreds of branches and providing consistent uptime for smooth functioning and enterprise expansion.

Our Strategies

We aim to implement the following key strategies in our business:

- ***Continue to deliver consistent and one of the industry leading return matrices building on past performance***
- ***Focus on performance of our large branch network and extracting operating leverage***
- ***Continue to invest in technology and digitization initiatives***
- ***Continue to invest in talent and employee training to achieve industry leading productivity parameters***
- ***Capitalize on our understanding of our customer as a foundation for customer retention and customer acquisition***
- ***Continue to deliver consistent and one of the industry leading return matrices building on past performance***

We have delivered consistent and one of the industry leading performances across various benchmarks, such as AUM Growth and cost of funds. For example, As on March 31, 2023, we had the third fastest AUM growth among NBFCs in the peer set in India with a three year CAGR of 33% between Fiscals 2020 and 2023. (*Source: CRISIL Report*) According to the CRISIL Report, we are one of only two long term AA rated players among the peer set which have cost of borrowings less than 8.5% between Fiscals 2019 and 2023. We have the second and third lowest cost of borrowing among the MSME, gold loan and MSME & gold loan peer set in India in Fiscal 2023 and three-months period ended June 30, 2023, respectively. *(Source: CRISIL Report)*

Our performance is a result of our business model and the implementation of different initiatives across our business. Further, as a result of these various initiatives, we believe we will be in a position to reduce our GNPA and NNPA levels, improve our credit ratings for new fund raising, further reduce the cost of our borrowing and deliver better return ratios.

Focus on performance of our large branch network and extracting operating leverage

As of June 30, 2023, we are present in 17 states and union territories across India with a strong presence in Southern and Western regions of India. As of June 30, 2023, we covered 190 districts in the 17 states and union territories in India through 584 branches.

There is a huge demand-supply gap in the MSME loan segment, especially in lower ticket size segments. (*Source: CRISIL Report*) The MSME loans segment has been growing strongly with a four-year CAGR of 18% between Fiscals 2019 and 2023 and the overall MSME portfolio is expected to grow at 12-14% CAGR between Fiscals 2023 and 2025. (*Source: CRISIL Report*) As on March 31, 2023, the top 15 states accounted for 92% of the overall MSME loans portfolio, based on the value of the overall MSME loans outstanding. (*Source: CRISIL Report*). For further details, see *"Industry Overview"* on page 128.

Our presence across these states gives us the ability to meet the demand from these under-penetrated markets and customer categories. We intend to continue to focus on our branch level AUMs to increase our total number of customers and total AUM. Further, we have adopted a contiguous strategy wherein we aim to expand across regions in India where we have a presence and expand to adjacent geographies by evaluating areas with established credit culture. For further details on our intended expansion of branch network, please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Factors Affecting our Financial Condition and Results of Operations – Expansion of branch network*" on page 402.

Continue to invest in our technology and digitization initiatives

We have invested ₹ 4.75 million, ₹ 9.80 million, ₹ 82.68 million, ₹ 128.40 million and ₹ 40.10 million in our information technology and digital systems, in the three-months periods ended June 30, 2023 and June 30, 2022, and Fiscals 2023, 2022 and 2021, respectively, constituting 0.13%, 0.40%, 0.70%, 1.48% and 0.58% of our revenue from operations during the same periods. We have implemented automated, digitized technology-enabled services to increase our customer offerings. We plan to continue investing in technology and digitization and to ensure our information technology systems continue to help us with several functions, including loan origination, credit underwriting, risk management, collections, customer service and retention. We believe that such investments will help improve recoveries and reduce our operating expenses, our cost of customer acquisition and credit costs over time.

Continue to invest in talent and employee training to achieve industry leading productivity parameters

Our business model requires us to hire a large number of sales employees and as on June 30, 2023, we have 2,878 sales employees. We undertake comprehensive onboarding training as well as ongoing training initiatives so that our employees are equipped to deal with business and regulatory requirements. As a result, our employees are trained to assess and appraise the creditworthiness of our customers with limited documented income. Further, our employees are trained to handle and engage customers and these trainings have helped their dealings with our customers, with an emphasis on marketing and sales knowledge for our products. In addition, our employees periodically receive training on our products, processes, incentives. Further, they also receive regular training related to our core systems to enable them to operate our systems with minimum intervention. Our employees are trained to exercise operational risk controls including effective segregation of duties, access, authorization and reconciliation procedures. For further details in relation to operational risks management, see "*- Description of our business and operations – Risk Management Framework – Operational Risk*" on page 224. We had the second highest and the highest disbursement per employee among the peer set in Fiscal 2023 and three-months period ended June 30, 2023, respectively. *(Source: CRISIL Report)*

Capitalize on our understanding of our customer segment as a foundation for customer retention and customer acquisition

We have a customer centric model and accordingly, our products and services are designed and customized to meet the requirements of our customers and our target markets. We are focused on catering to the ESEI and the MSME segment. We have a "Phygital" doorstep model, a combination of digital and physical initiatives, and have been using technology, people and all the other resources to improve customer experience. Over the years, we have gained a deep understanding of the Indian retail loan industry, including ESEI and MSME customers, which has enabled us to meet the financing requirements of potential customers.

According to the CRISIL Report, as of Fiscal 2023, the MSME credit demand is estimated to be around ₹ 117 trillion, of which 21% of demand was met through formal financing. Historically, there has been a perception of high risk and prohibitive costs for delivering services physically and that has constrained the ability of traditional institutions to provide credit to underserved or unserved MSMEs and self-employed individuals. *(Source: CRISIL Report)* As a result, such borrowers resort to credit from informal sources. *(Source: CRISIL Report)*

We believe customers prefer a single and reliable source for financial services, and we have accordingly customized a range of products to address a variety of financing requirements. These include specialized products such as doorstep loans as well as reduction of turn-around time for disbursals of loans. Our engagement with our target customer segments and understanding of related socio-economic dynamics allows us to establish effective credit and operational procedures, identify potential market demand, and leverage our existing operating network to streamline and customize our product portfolio by offering products which offer better returns and increase our customer base. In particular, our credit analysis and valuation methodology require market knowledge and practical experience developed over a period of time, which will allow us to continue to grow and service our customers.

Our Board is also exploring registering with the Insurance Regulatory and Development Authority of India under the Insurance Regulatory and Development Authority of India (Registration of Corporate Agent) Regulation, 2015, to act as a composite corporate agent for distributing life, general and health insurance products.

Description of our business and operations

We are registered with the RBI as a NBFC-ND-SI. Our Company was initially engaged in the distribution of, among others, personal car and housing loans for our Promoter, Federal Bank. In 2018, True North Fund VI LLP, our financial investor, invested in us and has since, together with our Promoter, supported us with capital to fuel our growth. As a result, our net worth has grown to ₹ 14,149.03 million during the three-months period ended June 30, 2023 from ₹ 13,556.82 million during Fiscal 2023, ₹ 11,535.18 million during Fiscal 2022 and ₹ 8,347.34 million during Fiscal 2021.

We have categorized our business into three business segments, namely the distribution segment, the retail finance segment and the wholesale finance segment. The distribution segment comprises of distributing housing loans, personal car loans, personal loans, home equity mortgage loans and retail asset products for our Promoter, Federal Bank. The retail finance segment comprises gold loans, medium ticket LAP, small ticket LAP, unsecured business loans, personal loans and housing loans. The wholesale finance segment comprises construction finance to developers and loans to other NBFCs. We have reduced our exposure to the wholesale finance. For further details in relation to our wholesale finance segment, see "*- Wholesale Finance Segment*" on page 217. For further details on our segment information, please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" on page 398.

Our AUM for mortgage loans, gold loans, unsecured business loans and other loans as at June 30, 2023, March 31, 2023, March 31, 2022 and March 31, 2021, are as follows:

Particulars	**AUM as at June 30,**				**AUM as at March 31,**					
	2023		**2022**		**2023**		**2022**		**2021**	
	₹ in million	**% of total AUM**	**₹ in million**	**% of total AUM**	**₹ in million**	**% of total AUM**	**₹ in million**	**% of total AUM**	**₹ in million**	**% of total AUM**
Mortgage Loans	**47,024.46**	**49.84%**	**31,550.06**	**47.34%**	**45,063.78**	**49.69%**	**29,324.50**	**47.40%**	**21,506.12**	**44.23%**

Particulars	AUM as at June 30,				AUM as at March 31,					
	2023		2022		2023		2022		2021	
	₹ in million	**% of total AUM**	**₹ in million**	**% of total AUM**	**₹ in million**	**% of total AUM**	**₹ in million**	**% of total AUM**	**₹ in million**	**% of total AUM**
Medium Ticket LAP	*23,892.28*	*25.33%*	*15,925.68*	*23.90%*	22,884.02	25.23%	15,258.50	24.66%	13,324.13	27.40%
Small Ticket LAP and Housing Loan	*23,132.17*	*24.52%*	*15,624.38*	*23.44%*	*22,179.76*	*24.46%*	*14,066.00*	*22.73%*	*8,181.99*	*16.83%*
Small Ticket LAP	*17,219.25*	*18.25%*	*11,940.28*	*17.92%*	*16,661.56*	*18.37%*	*10,864.10*	*17.56%*	*6,768.62*	*13.92%*
House Loan	*5,912.92*	*6.27%*	*3,684.10*	*5.53%*	*5,518.20*	*6.08%*	*3,201.90*	*5.18%*	*1,413.37*	*2.91%*
Gold Loans	**31,241.72**	**33.12%**	**24,247.85**	**36.38%**	**29,860.34**	**32.92%**	**22,475.30**	**36.33%**	**19,177.87**	**39.44%**
Unsecured Business Loans	**14,872.49**	**15.76%**	**9,892.28**	**14.84%**	**14,542.80**	**16.03%**	**9,010.18**	**14.56%**	**4,978.89**	**10.24%**
Other(1)	**1,203.42**	**1.28%**	**954.03**	**1.43%**	**1,229.12**	**1.36%**	**1,062.06**	**1.72%**	**2,961.43**	**6.09%**
Total	**94,342.08**	**100.00%**	**66,644.22**	**100.00%**	**90,696.04**	**100.00%**	**61,872.04**	**100.00%**	**48,624.31**	**100.00%**

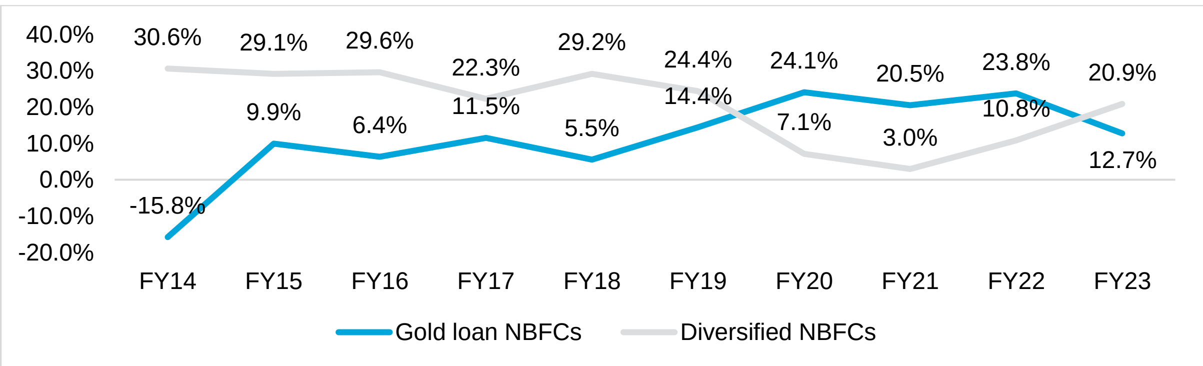
(1) *Others includes wholesale portfolio exposure and partnership business, which is being wound down due to reduced focus on these businesses.*

Retail Finance Segment

Under our retail finance segment, we offer a wide range of financial solutions that help ESEI consumers and MSMEs meet their growing credit needs. Our retail finance operations are divided into three categories: gold loans which are loans against gold as a collateral, mortgage loans to MSMEs and ESEIs which include loans against property as collateral such as small ticket LAP, medium ticket LAP and housing loans and unsecured business loans. We operate a "small business lending model" with gold loans as an important element of this model to provide us a countercyclical hedge for disruptions in the Indian economy and the retail loans industry. The credit demand from the ESEI and the MSME segment drives our business growth when there is an upturn in the economy. On the other hand, the demand for gold loans drives our business growth when there is a downturn in the economy. Our gold loan portfolio acts as an active hedge against the cyclicality in the Indian retail lending industry that may arise due to economic or other factors. Over the years, gold prices have shown a consistent increase, and have, in most part, increased at a pace higher than the annual rate of inflation. (*Source: CRISIL Report*) For instance, from Fiscal 2011 to Fiscal 2016, gold prices increased at a CAGR of approximately 7%, as against an approximately 8% inflation observed in this period, while during the subsequent five-year period between Fiscals 2016 and 2022, the gold price and inflation increased at a CAGR of approximately 12% and 5%, respectively. (*Source: CRISIL Report*)

Most lenders tend to be pro-cyclical, lending aggressively during good times and cautious during periods of distress and slowdown in economic growth. (*Source: CRISIL Report*) As a result, small businesses and enterprises especially may find it difficult to get credit during periods of economic downturn as established lenders tend to tighten their underwriting standards. (*Source: CRISIL Report*) According to the CRISIL Report, one asset class that tends to see healthy growth when the overall economy or other loan segments are not doing well is gold–backed lending. As lenders become more cautious and stringent due to slowdown in economy, gold loans serve as a quick, easy and convenient avenue to fund short term needs of customers. *(Source: CRISIL Report)* For example, during Fiscals 2020 and 2021, when growth for diversified NBFCs witnessed sharp decline, gold loan NBFCs witnessed strong double-digit year-on-year growth of over 20% during the same period. (*Source: CRISIL Report*) According to the CRISIL Report, this counter cyclical nature of gold loans provides a cushion and acts as an active hedge for overall growth of NBFCs which have a good portfolio mix of gold loans and other loans.

Y-o-Y growth trend of gold loans NBFCs vs diversified NBFCs



Note: Gold loan NBFCs includes – Muthoot Finance, Manappuram Finance, Kosamattam Finance and Muthoottu Mini; Diversified NBFCs includes – Aditya Birla Finance, Bajaj Finance, Fullerton India Credit, HDB Financial Services, IIFL Finance, L&T Finance, Shriram City Union Finance and Tata Capital

Source: CRISIL Report

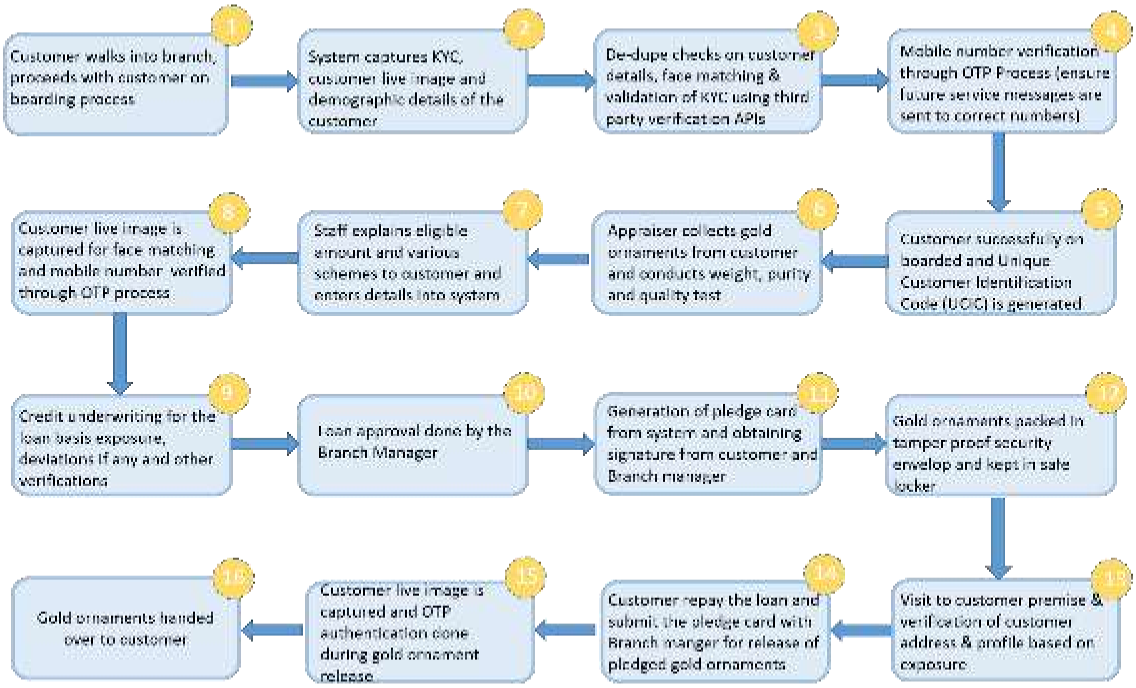
<u>Gold Loans</u>

We target individual customers for our gold loan products, which start from ₹ 3,000 with an average ticket size of ₹ 0.10 million. We believe our key proposition to such customers includes our quick processing times and accessibility during the pledge and release, transparency and friendliness, trust and security, privacy and confidentiality, as well as a respect for their hard-earned or sentimental asset. Our gold loan offerings come with tailor made schemes with flexibility of tenor, interest payment choices and digital and branch-based repayment options. As of June 30, 2023, we had approximately 0.32 million gold loan accounts, representing an AUM of ₹ 31,241.72 million, accounting for 33.12% of our total Loan Assets, while as of June 30, 2022, we had approximately 0.25 million gold loan accounts, representing an AUM of ₹ 24,247.85 million, accounting for 36.38% of our total Loan Assets. As of March 31, 2023, we had approximately 0.32 million gold loan accounts, representing an AUM of ₹ 29,860.34 million, accounting for 32.92% of our total Loan Assets. As of March 31, 2022, we had approximately 0.23 million gold loan accounts, representing an AUM of ₹ 22,475.30 million, accounting for 36.33% of our total Loan Assets. As at March 31, 2021, our gold loans AUM stood at ₹ 19,177.87 million, accounting for 39.44% of our total Loan Assets.

We also offer doorstep gold loans, whereby our employees carry out the appraisal and instant disbursal at our customers' premises, before transferring the pledged gold to a nearby branch with in-transit security which includes an electronic safe with GPS for tracking. We further utilize multi-tier authentication, as well as online portal and mobile applications for real-time tracking and customer service. This offers customers the convenience and privacy of their own premises, lowers branch walk-ins and frees up branch bandwidth. This also enables us to access customers that prefer doorstep service, including digitally savvy customers. As on June 30, 2023, we have established 13 door-step gold loan hubs catering to our 279 gold loan branches. In the three-months period ended June 30,2023 and Fiscal 2023, 4,771 and 10,707 customers opted for our doorstep gold loans, respectively, of which 1,549 and 7,160 were new customers, respectively. We disbursed gold loans aggregating to ₹ 1,255.01 million in the three-months period ended June 30, 2023 as compared to ₹ 612.82 million in the three-months period ended June 30, 2022, representing an increase of 104.79% in gold loan disbursals. We disbursed gold loans aggregating to ₹ 3,450.80 million in Fiscal 2023 as compared to ₹ 441.88 million in Fiscal 2022, representing an increase of 680.94% in gold loan disbursals.

We introduced a maker-checker model, end-to-end monitoring device 'Prototype Sec Box' in Fiscal 2023, which has a digital locking system, which is automated and can only be operated by our central team. It has multiple features such as audio video recorder, heat sensor and vibration sensor.

The chart below illustrates the typical process for extending a gold loan from start to end. For further details, see "- *Credit Approval and Disbursement*" on page 221.



Mortgage Loans

Our mortgage loans target the emerging MSME sector. Each product has multiple programs, and we can provide customized credit solution to the target segment depending on the customer's needs and available documentation. Mortgage loans are sanctioned on the basis of cash flows assessed using multiple income evaluation methods. We typically provide mortgage loans for working capital purposes. As of June 30, 2023, 98.30% of our mortgage loans qualify for priority sector lending.

In particular, each of our product categories has a different value proposition to our customers:

- *Small ticket LAP and housing loans*: This product caters to the needs of self-employed customers with a proprietary setup and salaried customers with a medium income, typically from periphery of Tier 1 cities as well as Tier 2 and Tier 3 cities in India. Such target customers typically have a median income of approximately ₹ 0.50 million per annum, with an irregular or minimal record of financial transactions but a healthy household cash flow and commensurate asset holdings, as well as ownership of an unencumbered property. As of June 30, 2023, our small ticket LAP and housing loans collectively have an ATS of ₹ 1.23 million, an average disbursement yield of 16.54% and an average LTV of 52.49%.

  We typically provide small ticket LAPs for business expansion or for the acquisition of a new property. We fulfil loan requirements for various business needs, and loans typically range from ₹ 1.00 million to ₹ 2.00 million. We typically provide housing loans for construction or acquisition of a new property. We fulfil loan requirements for housing needs, and the loans typically range from ₹1.00 million to ₹2.00 million.

  As of June 30,2023, our small ticket LAPs have an ATS of ₹ 1.18 million and an average disbursement yield of 17.68%. As of June 30, 2023, our housing loans have an ATS of ₹1.36 million and an average disbursement yield of 13.95%. Our employees spend substantial time at the customer location to understand the business and assess the accurate income and cash flows and carry out in-depth personal discussions to ascertain the customers' creditworthiness. We provide a single window for all our customers' needs and use local business understanding to provide customized solutions. We are able to provide adequate loans with the available documents, without insistence on formal documentation and utilizing convenient service and processes.

- *Medium ticket LAP*: This product caters to the needs of MSMEs, including traders, wholesalers, distributors, retailers, self-employed professionals and small manufacturing companies. We provide loans for various purposes, which include capital infusion, expansion of businesses, working capital, asset acquisition as well as capital expenditure. The target customer segment typically has established income streams. We currently provide medium ticket LAPs from our branches located in 11 key locations across India, namely being Mumbai, Maharashtra; Delhi, National Capital Territory of Delhi; Chennai, Tamil Nadu; Bengaluru, Karnataka; Hyderabad, Telangana; Jaipur, Rajasthan; Ahmedabad, Gujarat; Surat, Gujarat; Pune, Maharashtra; Coimbatore, Tamil Nadu and Chandigarh. Loans are usually collateralized against completed and self-occupied residential and commercial properties, which we believe in turn enhances the value of the collateral.

  As of June 30, 2023, our medium ticket LAPs were secured with an average LTV ratio of approximately 51.16%. Loans were provided on a fixed and floating interest rate basis and typically range from ₹ 2.50 million to ₹ 10.00 million. As of June 30, 2023, our medium ticket LAPs have an ATS of ₹ 4.79 million and an average disbursement yield of 12.51% We provide multiple income evaluation methods to arrive at income eligibility, carry out in-depth personal discussions to understand the business and cash flows of the customer, and leverage technology to achieve faster end-to-end turnaround times.

Unsecured business loans

This product is curated to take care of the credit needs of, among others, self-employed professionals and non-professionals, and salaried doctors. Our target customer segment comprises customers with a turnover of approximately ₹ 10.00 million per annum and a minimum of five years of business experience in their current business or profession. This loan product typically provides funds to bridge working capital and business expansion, without requiring any collateral. As of June 30, 2023, our unsecured business loans have an ATS of ₹ 2.31 million and average disbursement yield of 17.37%. In the last three Fiscals and the three-months period ended June 30, 2023, our unsecured business loans constituted less than 15.00% of our Gross Loan Book. For further details, see *"Selected Statistical Information – Gross Loan Book"* on page 280. We provide quick underwriting through our assessment of the financials, cash flows, GST and turnover, and personal discussions with our customers.

Case Studies

The case studies below illustrate the types of loan products we offer, the underwriting process we conduct and the customers which have benefited from them:

Mr. Bharat Yadav– Small Ticket LAP

Mr. Bharat Yadav is engaged in the business of operating a paan parlor, tea stall and snacks outlet for the last 20 years at a prime location along Waghawadi Road, Bhavnagar, Gujarat. The outlet is adjacent to the Government College, and it received customer footfall from college students. Mr. Bharat required funds to expand his product offering and to renovate the store. Mr. Bharat had a self-occupied residential property at a prime location in Bhavnagar, and it was valued at ₹ 2.90 million. Our sales and credit team spent time with Mr. Bharat at his business location to understand the business and the daily turnover. Our team also took stock of the products purchased by Mr Bharat on a daily basis, and conducted parallel checks with his major wholesale suppliers, to derive Mr. Bharat's monthly supply and arrive at his tentative monthly income. At the time of taking stock, Mr. Bharat's stock was valued at ₹ 60,000, which was confirmed by his average daily purchases as well. We further understood that he had serviced a prior loan well. Accordingly, we sanctioned a small ticket LAP of ₹ 1.60 million in Fiscal 2021 with an LTV of 55.17% and an equated monthly instalment ("**EMI**"). EMI of ₹ 33,812 per month.

M/s MS Food – Medium Ticket LAP

Mr. Manish Mansukh Sukhadia is a proprietor of M/s MS Foods, a firm that is in a business of selling snacks, savouries, and bakery items through a chain of outlets in Chennai. Mr Manish needed funds to refurbish a few existing outlets and open two additional outlets. M/s MS Foods has a self-occupied commercial and rental property, valued at ₹ 23.63 million as on date of making the loan application. M/s MS Foods did not qualify to receive the requested loan amount. However, our employees conducted a field visit and verified the records and took inventory of the stock, and based on this fieldwork, we assessed M/s MS Foods' turnover to be higher than as reported. We sanctioned a medium ticket LAP of ₹ 7.45 million in Fiscal 2022 with an LTV of 31.53% and an EMI of ₹ 97,850 per month.

E Power Engineering– Unsecured Business Loan

E Power Engineering is in the business of trading and installation of industrial electrical products such as panel accessories, cable kits, bus duct and UPS protection regulators. E Power Engineering required a loan for the purchase of raw materials, but the required cash flows for an initial loan assessment were not evident in its financial statements. Further, based on the available documents, its ability to service its debt looked challenging. Based on discussions with E Power Engineering and a review of its GST returns and banking details, we identified that the business had almost doubled since the start of the COVID-19 pandemic, and its bottom line grew by more than 150% over the past year according to the advance tax payments. We sanctioned a loan of ₹ 3 million in Fiscal 2022 with an EMI of ₹ 108,457 per month.

Mrs. T Ashwini – Gold loan

Mrs. T Ashwini is in the business of tailoring for over three years. Mrs. T Ashwini required funds to purchase an additional sewing machine and raw material as well as renovate her shop in line with her expanding business. Given that most of her business transactions were conducted in cash and she had a limited banking profile, it was difficult for Mrs. T Ashwini to get funding from other formal channels. We helped her by processing the loan quickly and sanctioning a loan of ₹ 0.1 million in May 2023 at 73.82% LTV against gold jewelry worth ₹ 0.14 million with flexibility in repayment.

Distribution Segment

The distribution segment was originally formed in Fiscal 2008, on behalf of Federal Bank and to cater to its retail asset products – end to end sourcing and sales. Initially the segment was operational in Mumbai, Maharashtra; Pune, Maharashtra; Delhi, National Capital Territory of Delhi; Bengaluru, Karnataka; Chennai, Tamil Nadu and Coimbatore, Tamil Nadu. Subsequently, as the need arose, the segment expanded to Ahmedabad, Gujarat, Chandigarh, Jaipur, Rajasthan and Hyderabad, Telangana. The products distributed for Federal Bank in these locations were primarily housing loans, home equity mortgage loans, personal loans and personal car loans, in addition to retail asset products.

Particulars	Three-months period ended June 30, 2023	Three-months period ended June 30, 2022	Fiscal 2023	Fiscal 2022	Fiscal 2021
Disbursal (in ₹ million)	4,944.68	4,151.05	21,654.54	16,686.97	12,259.10

Wholesale Finance Segment

We undertook the wholesale finance business prior to March 31, 2021. We have since limited this business and have not made any fresh sanctions. Our AUM under the wholesale finance segment was ₹ 475.91 million, ₹ 619.81 million, ₹ 519.43 million,

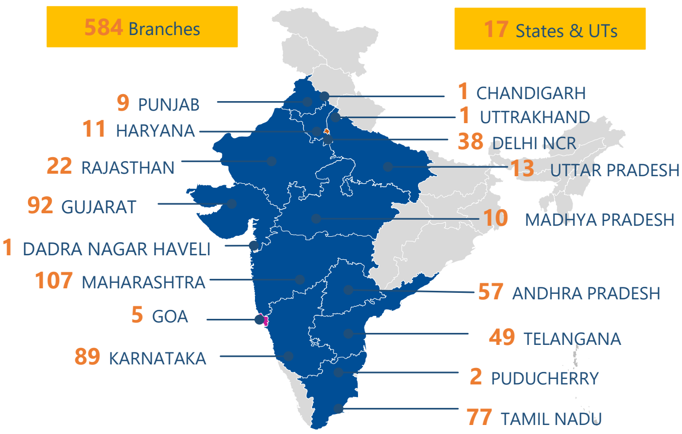
₹ 655.80 million and ₹ 1,904.27 million as at June 30, 2023, June 30, 2022, March 31, 2023, March 31 2022 and March 31, 2021 respectively.

We are servicing the existing loans as on the respective dates subsequent to March 31, 2021. While we have reduced our exposure to the wholesale finance business and are not currently focusing on growing this business, we may opportunistically look to grow this business in the future.

Distribution Network

As of June 30, 2023, we conducted our operations through 584 branches, of which 237 branches were located in western and northern India in the states/union territory of Gujarat, Maharashtra and Delhi and 272 branches were located in southern India in states of Telangana, Andhra Pradesh, Tamil Nadu and Karnataka. The remainder were spread across contiguous states and union territories in India. We believe we have proven our ability to quickly set up low-cost branches, having opened 215 branches in the last two Fiscals. We registered the fastest CAGR in terms of number of branches among the peer set over the course of Fiscals 2020 to 2023 *(Source: CRISIL Report)*.

The following map sets forth our branch network in India:



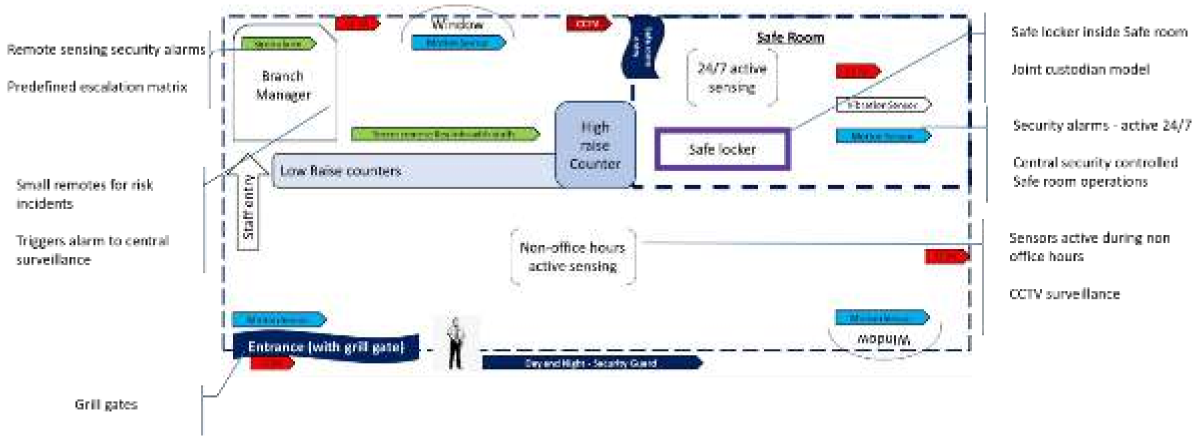
** As at June 30, 2023*

The following table sets forth the product wise details of our branches, as at June 30, 2023:

State/Union Territories	Gold Loan	MSME Hubs	Total
Andhra Pradesh	41	16	57
Chandigarh	0	1	1
Dadra & Nagar Haveli	1	0	1
Delhi NCR	36	2	38
Goa	5	0	5
Gujarat	65	27	92
Haryana	9	2	11
Karnataka	73	16	89
Madhya Pradesh	8	2	10
Maharashtra	71	36	107
Pondicherry	1	1	2
Punjab	9	0	9
Rajasthan	10	12	22
Tamil Nadu	63	14	77
Telangana	35	14	49
Uttar Pradesh	10	3	13
Uttrakhand	0	1	1
Grand Total	**437**	**147**	**584**

Before setting up new branches, we conduct in-depth studies and market research and consider a number of factors such as regional demographics, level of urbanization and the competitive landscape. We also examine the delinquency levels of financiers for loans to understand the repayment history of borrowers in the region. We have increased our geographical presence by adopting a strategy of contiguous expansion across regions and have set up branches, on a lease or leave and license basis, in districts which offer us significant growth potential. For further details, see "*Risk Factors – 48. We conduct our business operations on leased premises, including our Registered and Corporate Office, and our inability to renew such leases may adversely affect our operations.*" on page 57.

Our branch network comprises gold loan branches and MSME hubs. Our gold loan branches are primarily located in urban, including metro, and semi-urban areas with strategic presences in some of the metro and rural locations. In Fiscals 2022 and 2023, we have collectively opened 136 gold loan branches of which 95 are in urban locations and 41 are in semi-urban and rural locations. We provide a range of schemes for our customers' diverse requirements along with multiple disbursal modes and repayment options for convenience of transacting. Our gold loan branches also have heightened security measures, including a grill gate for safe rooms, physical security personnel with metal detectors, CCTV surveillance and sensors active during non-office hours. Within the safe room of the gold loan branches, we have safe lockers under the joint custodian model, 24/7 security alarms and central security controlled safe room operations. Along the customer-service counters, we have a panic switch for risk incidents which trigger alarm to central surveillance and remote sensing security alarms, and our employees are trained in our predefined escalation matrix. The following diagram shows the typical layout of a gold loan branch and its security features:



Our MSME hubs are also spread across semi-urban, urban and metro locations in 14 states and union territories. Our network of 147 MSME hubs gives us access to a large ESEI customer base. These branches are cost-effective, with lean infrastructure, and are optimally equipped in terms of personnel, infrastructure and product offerings.

As of June 30, 2023, we have 1,796 local channel partners, to complement our branch network and increase our geographical penetration while controlling our costs. We utilize such local channel partners, which are typically direct selling agents ("**DSAs**") and other local lead providers, to locally source for potential customers for our loan products for a commission at a fixed rate (as agreed from time to time on the basis of business seasonality). Local channel partners are usually identified by our local sales staff, and subsequently empaneled according to our approved on-boarding process (involving KYC and business verification processes). We typically enter into service agreements with our DSAs, and the terms of these agreements govern how the DSAs market our products and services within the respective territory on a non-exclusive basis. The terms of these agreements are typically for a fixed term with a right to renew and include key terms such as the code of conduct which we require DSAs to follow. In the three-months period ended June 30, 2023, we sourced 1,812 customers from DSAs out of a total of 127,005 customers. Accordingly, in the three-months period ended June 30, 2023, 1.43% customers were sourced from DSAs and 98.57% customers were acquired by our internal teams.

Customer Base

Mortgage Loans: We primarily serve ESEI customers in India who have limited access to formal banking channels. We offer loans to self-employed customers, whose main source of income is their profession or their business and salaried customers, whose main source of income is salary from their employment. The average age of our mortgage loans customers was 40 years in the three-months period ended June 30, 2023.

The customer base in respect of our medium ticket LAP products mainly comprises MSMEs, including traders, wholesalers, distributors, retailers, self-employed professionals and small manufacturing companies. On the other hand, our small ticket LAP products are catered towards self-employed customers with a proprietary setup and salaried customers with a medium income, typically from periphery of Tier 1 cities as well as Tier 2 and Tier 3 cities in India. Such customers of our small ticket LAP products typically have median income of approximately ₹ 0.50 million per annum, with an irregular or minimal record of financial transactions but a healthy household cash flow and commensurate asset holdings, as well as ownership of an unencumbered property.

Unsecured Business Loans: We primarily serve, among others, self-employed professionals and non-professionals, and salaried doctors. Such customers have turnover of approximately ₹ 10.00 million per annum and a minimum of five years of business experience in their current business or profession.

Gold Loans: In relation to our gold loan products, our customer base consists primarily of traders, service and manufacturing unit owners and their employees, who earn informal cash salaries, and non-income earners with emergency requirements (such as housewives). However, those involved in jewelry manufacturing, or the professions of goldsmith and pawn brokering, are the subject of our negative list and not permitted to avail themselves to our gold loan products.

As of June 30, 2023, our customer application has over 495,000 downloads and a 4.1 star rating on Google Play Store. As of June 30, 2023, more than 500 branches have a presence on microsites as well as search engines for easy access of potential customers. As of June 30, 2023, our social media had an aggregate of over 416,000 followers with presence across Facebook, YouTube, LinkedIn and Instagram channels. As of June 30, 2023, active customers on digital portals (being gold loan customers who are registered on digital platforms, mobile applications and login-based customer self-service web portal and are activated in the system to perform online transaction using such platforms) are 125,636 representing approximately 64.31% of our total customer base for gold loans. We had 6.76 million page views and more than 180,000 transactions conducted through our digital portals which constitutes 43.32% of total transactions for the three-months period ended June 30, 2023.

Loan-to-Value (LTV) Ratio, EMI and Tenure

The NBFC Scale Based Directions issued by the RBI prescribe the maximum permissible parameters of the loan amount that can be provided to gold loan customers. Under applicable regulations, NBFCs are required to maintain LTV ratio not exceeding 75% for loans granted against the collateral of gold jewelry, provided that for the purposes of determining the maximum permissible loan amount, the value of gold jewelry shall be the intrinsic value of the gold content therein with no additional cost elements.

The Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 (Master Direction DOR.FIN.HFC.CC.No.120/03.10.136/2020-21) dated February 17, 2021, as amended from time to time, also prescribe the maximum permissible parameters of the loan amount that can be provided to housing loan customers. A property with market value of (i) up to ₹ 3.00 million is permitted to have a maximum LTV ratio of up to 90.00%; (ii) between ₹ 3.00 million and ₹ 7.50 million is permitted to have maximum LTV ratio of up to 80.00%; and (iii) above ₹ 7.50 million is permitted to have maximum LTV ratio of up to 75.00%.

We have set an LTV ratio range for each of our gold loans and LAP that is within the relevant range prescribed by RBI. Our gold loans had an average loan-to-value on AUM of 71.75%, as of June 30, 2023.

Our housing loans, medium ticket LAP and small ticket LAP had an average onboarding LTV on AUM of 62.37%, 51.94% and 46.81%, as of June 30, 2023, respectively.

While approving a loan application, we review, among others, the customer's repayment capacity. This is determined by factors such as the customer's age, educational qualification, family details, the customer's business and salary profile and the security being provided by the customer. The amount and LTV of the loan is subject to our credit assessment of the customer and factors including value of the collateral and regulatory limits. Loans are required to be repaid in EMIs over an agreed period. The size of the EMI depends on the size of loan, interest rate and tenure of loan.

As of June 30, 2023, the tenure of our gold loans, LAPs and unsecured business loans can be for a period up to 12, 180 and 60 months, respectively, and vary according to the purpose of the loan, the customer's age and the customer segment.

Interest Rates, Fees and Collateral

A majority of our loan portfolio is at fixed rates of interest, and the pricing of such fixed interest rate loans is generally determined on the basis of market conditions. We determine our reference rate based on market conditions and price our loans at either a discount or a premium to our reference rate. For variable rate loans, the interest rate is linked to our reference rate.

In addition to the normal rate of interest, the company may also levy certain charges such as processing fees, cheque bouncing charges and pre-payment charges. The details of all charges are mentioned in the loan agreement or other documents executed between us and the customer. These fees are subject to change from time to time based on market conditions and regulatory requirements.

The underlying collateral for LAPs and housing loans is real estate, and the security is created either through an equitable mortgage by way of deposit of title deeds or a registered mortgage of immovable property. Our mortgage loan portfolio is covered by credit shield insurance by each of the customers wherein the entire loan outstanding is repaid by the insurance company in the event of death of a customer.

For our gold loans, the underlying collateral is gold jewelry, and the security is created by way of a pledge. The underlying collateral is physically held at our branches with heightened security features.

Credit Approval and Disbursement

For our gold loans mortgage loans and unsecured business loans, we follow robust risk based underwriting and operational controls. For our mortgage loans and unsecured business loans, we follow prudent customer selection policies with 86.71% of our customers having an established credit history and 77.94% of our credit rated borrowers rated with a CIBIL score greater than 650 or CMR score less than or equal to 6, as of June 30, 2023. Our underwriting process is digitized with various modules for credit approvals, audit and field verification, and built around an API led architecture.

Gold Loans

For gold loans, the gold is appraised by two employees (by way of a maker-checker concept). The amount funded against the gold jewelry is based on a fixed rate per gram for the gold content in the jewelry only, and we do not take into account the gold jewelry's total weight, production cost, style, brand or gemstone value. We value the jewelry's gold content based on appraised karat grading guided by our centralized policies and guidelines. The price per gram of gold is fixed daily based on multiple factors such as the last 30 days and 15 days average closing gold rates. As a result, the price fixed for per gram of gold is generally lower than the market price of gold at any given time. Within this range, the actual loan amount varies based on the type of gold jewelry pledged. Thus, we believe our gold loans are well collateralized, given that the actual value of the collateral in all cases will be expected to realize a higher value than our appraised value. For details on the LTV of our collaterals, see "*Selected Statistical Information – Product Wise LTV on Gross AUM on Origination Basis (%)*" on page 287.

Appraisal of the gold jewelry that serves as collateral is the most critical part of the loan approval process. All our branch staff are certified, trained and have experience in appraising the gold karat grading and gold content of the jewelry. The appraisal process begins with weighing the jewelry using calibrated weighing machines, before subjecting it to prescribed valuation tests for the quality and karat grading of gold, including stone tests and acid tests. This is followed by additional tests, if required, such as salt tests, sound tests, weight tests, pointed scratching tests, flexibility tests, color tests, smell tests, usability tests, and magnifying glass and finishing tests. Once the gold jewelry passes these tests, its relevant details, including its gross weight, net weight, various deductions, karat grading, and its photographs are captured in the loan origination system. Based on the information entered, the system displays the eligible loan amount considering the rates per gram of gold for the day. Although disbursement times vary depending on the loan ticket size and the number of jewelries pledged, the time to sanction is short.

At the branch level, we have also digitized the entire process from application to sanction and disbursal, as well as carry out real time deduplication against negative list customers, based on their credit history and records.

We undertake customer KYC authentication integrated in our loan origination systems. Our branch staff are also trained to observe and handle fraudulent customers by observing their behavior, verifying the ownership of the gold and matching the jewelry with the customer profile or location. Further, depending on the ticket size of the loan, we undertake field verification of the customer prior to disbursement. In addition, we undertake periodic audits and surprise audits of our gold loan branches. We have enabled electronic onetime password-based customer authentication for all gold loan transactions. We use technology enabled solutions for customer KYC, data collection and lead management including disbursal into the customer's bank account through integration with the bank platforms. The unique bank account registration process is carried out through the "penny drop check" method, mobile number authentication through a onetime password process as well as capturing the customer's photo for each transaction.

At the time of disbursement, a pledge card is signed by the customer, which states the customer's detail, name and address of our relevant branch office, a detailed description of the gold jewelry provided as collateral (along with a photograph of it), the loan amount, the interest rate, the date of the loan, and other terms and conditions.

Mortgage Loans and Unsecured Business Loans

For our mortgage loans and unsecured business loans, we collect over 100 data points in relation to every customer to ensure we know all aspects of our customer profile prior to making a credit decision. Our loan officers are required to spend a significant amount of time getting to know our customers and their loan needs. Our local knowledge of our customers' environment assists us in our credit decision making process. Every loan in these categories is reviewed and approved by separate team members to ensure checks and balances. We undertake a verification process for all electronic or physical material provided by the customer and have an independent risk containment unit overseeing the entire exercise for protection against fraud. Finally, we undertake a post-disbursal verification process to ensure that all the processes were correctly followed, and information provided by the customer was accurate.

Loan Collection and Monitoring

We have set up a robust and tiered, collections management process with prescribed collection action at each stage of severity of default. Our central analyst team analyzes delinquent accounts and allocates them on a hierarchy basis. Low risk accounts are treated through interactive voice response calls and text messages, low-to-medium risk loans are treated through call centers, and medium-to-high risk accounts are allocated to in-house collection teams or empaneled agencies. We monitor our customer accounts and undertake pre-delinquency management through a structured collection process wherein we remind our customers of their payment schedules through text messages and request them to maintain adequate balance in their account on the due date. Based on the severity of non-payment and location of our customer, in-house collection teams or empaneled agencies are assigned to collect the overdue amounts. Our internal collection management process ensures account-level tracking of payments, resolutions, flows and legal action. Difficult loans are allocated to senior members of the team along with support from collection agencies, if available. We have also implemented a mobile based application 'Fed-Collect' in phase I, which enables our field team to drive its processes, such as digital receipt issuance. This enables us to reduce our operational risks and reconciliation challenges, such as those associated with cash collection against a physical receipt issued to customers, and to improve supervisory oversight. We are in the process of implementing phase II, which would involve our field team to drive processes such as allocations, trail update and enable supervisors to track field movement at the executive level through GPS. This is expected to improve our operational efficiencies and productivity. Additionally, we have a full-fledged in-house legal department as well as a team of empaneled advocates across geographies in India to initiate arbitration, proceedings under the SARFAESI Act, 2002 or civil and criminal proceedings, for the purposes of recovering the necessary amounts.

We initiate recovery action immediately after the customer defaults in their monthly payment and the severity of our action increases as the number of days past due increase.

Treasury Operations and Funding

Our treasury operations are mainly focused on raising funds for meeting our funding requirements and managing short term surpluses. We have historically secured financing from diversified sources of capital from banks, financial institutions, mutual funds and other financial institutions, including term loans, working capital facilities, proceeds from loans securitized, proceeds from the issuance of NCDs, proceeds from loans assigned and commercial papers, to meet our capital requirements. In addition, we have access to capital from our Promoter, Federal Bank and our financial investor, True North Fund VI LLP. We have grown our liability relationships from 23 lending institutions as on March 31, 2021 to 27 institutions as on June 30, 2023. As of June 30, 2023, we borrowed from 12 private sector banks (including our Promoter, Federal Bank), 9 public sector banks, 1 NBFC, 1 foreign bank, and 4 other entity (such as Small Industries Development Bank of India). We are continuously seeking to diversify our sources of funding to facilitate flexibility in meeting our funding requirements. Due to the composition of our loan portfolio, which also qualifies for priority sector lending, we also engage in securitization and direct assignment transactions.

The following table sets out our sources of capital for the periods indicated:

Particulars	**For the three-months period ended June 30,**		**For Fiscals**		
	2023	**2022**	**2023**	**2022**	**2021**
	(₹ in million)				
Term Loans – Secured					
Banks	54,288.60	42,410.51	57,341.37	40,029.13	31,675.48
NBFC and Financial Institutions	6,755.09	764.80	1,962.15	312.37	499.52
Term Loans – Unsecured					
Banks	0.00	500.03	-	502.77	500.02
NBFC and Financial Institutions	250.06	250.05	250.06	249.23	249.00
Debt Securities – Secured					
NCDs	3,077.44	1,880.29	4,045.90	2,006.78	3,054.48
Subordinated Liabilities					
NCDs	4,677.59	2,653.83	2,596.67	2,590.72	2,584.59
Commercial Papers	3,910.30	4,863.04	2,066.40	3,327.39	2,882.50
Working Capital Demand Loan	3,236.08	1,651.81	3,095.68	1,149.96	1,663.37
Others					
Liability component of compound financial instruments	-	-	-	-	6.17
Collateralized Borrowing	-	-	-	-	165.79
Total	**76,195.16**	**54,974.36**	**71,358.23**	**50,168.35**	**43,280.92**

Our treasury department undertakes liquidity management by seeking to maintain an optimum level of liquidity and complying with the RBI's requirement for asset liability management. We have an asset liability committee, which manages our liquidity risk based on our liquidity risk management measures set out in our asset liability management policy, and to ensure there are no concentrations on either side of the balance sheet. The asset liability committee of our Company meets periodically, and reviews asset liability mismatches based on the RBI's required time buckets and takes corrective measures wherever warranted.

For details on the maturity pattern of our Company's liabilities and assets as of June 30, 2023, see "*Selected Statistical Information – ALM*" on page 286.

Capital Adequacy Ratios

The NBFC Scale Based Directions currently require NBFCs such as our Company to comply with a capital to risk (weighted) assets ratio, or capital adequacy ratio ("**CRAR**"), consisting of Tier I and Tier II capital. As per the NBFC Scale Based Directions, we are required to maintain a minimum capital adequacy ratio, consisting of Tier I capital and Tier II capital, of not less than 15.0% of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. At a minimum, Tier I capital of an NBFC, at any point of time, cannot be less than 10% by March 31, 2017.

The following table sets forth certain details of our CRAR in accordance with the NBFC Scale Based Directions, as of the dates indicated:

Particulars	**As of**				
	June 30, 2023	**June 30, 2022**	**March 31, 2023**	**March 31, 2022**	**March 31, 2021**
CRAR (%)	19.71%	20.90%	17.94%	23.04%	23.52%
CRAR – Tier I Capital (%)	14.70%	16.50%	15.09%	18.38%	17.10%
CRAR – Tier II Capital (%)	5.01%	4.40%	2.85%	4.65%	6.42%

Credit Ratings

Our credit ratings are set forth below as of the respective dates indicated:

Rating Agency	**Instrument**	**As on the date of this Red Herring Prospectus**	**As on March 31, 2023**	**As on March 31, 2022**	**As on March 31, 2021**
CARE	NCDs	AA/stable	AA/stable	AA-/stable	AA-/stable
CARE	Long-term / Short-term bank facilities	AA/stable, A1+	AA/stable, A1+	-	-
CARE	Long-term instruments – Subordinated debt	AA/stable	-	-	-
India Rating and Research Private Ltd.	Bank loans	AA-/positive	AA-/stable	AA-/stable	AA-/stable
India Rating and Research Private Ltd.	NCDs	AA-/positive	AA-/stable	AA-/stable	AA-/stable
India Rating and Research Private Ltd.	NCDs – Subordinated debt	AA-/positive	AA-/stable	AA-/stable	AA-/stable
CRISIL	Commercial paper	A1+	A1+	A1+	A1+
ICRA Limited	Commercial paper	A1+	A1+	A1+	A1+
Acuite Ratings & Research Limited	Commercial paper	-	-	A1+	A1+

Risk Management Framework

Risk management forms an integral part of our business. We continue to improve our internal policies and implement them rigorously for the efficient functioning of our business. As a lending institution, we face financial and non-financial risks. We have established a risk management and audit framework to identify, assess, monitor and manage various types of internal and external risks, including credit, market, liquidity, operational, regulatory and legal, cyber and information security and reputational risks. We conduct regular training of our staff members with respect to risk related matters, and continue to invest in people, processes and technology as part of our risk management process.

Our risk management framework is driven by our Board, its subcommittees and other management committees including the Audit Committee the Risk Management Committee, and our asset liability committee. We give due importance to prudent lending practices and have implemented suitable measures for risk mitigation, which include verification of credit history from credit information bureaus, personal verification of a customer's business and residence, technical and legal verifications, conservative loan to value, and required term cover for insurance.

The major types of risk we face in our businesses are credit risk, liquidity risk, market risk and operational risk, as described below. For further details, see "*Restated Financial Information – Risk Management*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Analysis of Market Risks*" on pages

362 and 423, respectively.

Credit Risk

Credit risk is the risk of financial loss arising out of a customer or counterparty failing to meet their repayment obligations to us and arises principally from the Company's placements and balances with other banks, loans to customers, government securities and other financial assets.

The Risk Management Committee reviews and approves our loan product programs on an on-going basis. These product programs outline the framework of any credit financial product being offered by our Company. Within this established framework, credit policies have been incorporated to manage, among others, the sourcing of proposals, channels of business acquisition, process of underwriting, information systems involved, verification, documentation, disbursement procedures, portfolio quality triggers, recovery mechanism and NPA management.

Our Risk Management Committee also has oversight over the implementation of our core credit policies and remedial management policies, as well as the review of the overall portfolio credit performance of and establishing concentration limits by product programs, collateral types, tenures and customer segments. Product level credit risk policies are implemented to segment all new customer acquisitions across locations and regions, individual profiles, income levels, leverage positions, collateral types and value, source of income and continuity of employment/business.

Credit risk monitoring is broadly done at two levels: account level and portfolio level. Account monitoring aims to identify weak accounts at an incipient stage to facilitate corrective action. Portfolio monitoring aims at managing risk concentration in the portfolio as well as identifying stress in certain occupations, markets and states. Our portfolio credit quality is determined by our Risk Management Committee by reviewing non-performing loan loss rates, provision held, write-offs and statuses of recoveries from defaulting borrowers.

Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that we might be unable to meet our payment obligations when they fall due, as a result of mismatches in the timing of cash flows. We maintain liquidity buffers sufficient to meet all our near-term obligations. The liquidity buffers are maintained by a combination of liquid assets (such as cash and cash equivalent, liquid investments in callable FDs and overnight / liquid mutual funds) and undrawn committed credit lines.

In addition, we also have in place effective asset liability management strategies. For further information on our asset liability matching, see the section "*Selected Statistical Information – Average Cost of Borrowings and Tenure*" and "*Selected Statistical Information – ALM*" on page 286. This allows us to better meet the growing loan demands of our customer base, even if external borrowings and funding sources face temporary realignment. Further, our Promoter has periodically funded our capital and provides us with access to potential fundraising opportunities in the debt capital markets.

Liquidity risk is managed by our asset liability committee based on our liquidity risk management measures set out in our asset liability management policy and ensures that we have adequate liquidity not only on an on-going basis but also examines how liquidity requirements are likely to evolve under different assumptions. Our asset liability committee also reviews statement of structural liquidity in line with guidance provided by the RBI.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as gold prices (relevant to lending against gold business of our Company), interest rates, foreign currency rates.

- Gold price fluctuation risk: our Risk Management Committee does a periodic review of the gold price movement and its trends and its impact on the gold loan margins in present condition as well as under stress scenario.
- Interest rate risk: interest rate risk is the risk of change in market interest rates which might adversely affect our profitability.

Foreign currency rate fluctuation risk: we are not exposed to risk in fluctuation of foreign currency rates as our cash flows are in Indian Rupees.

Operational Risk

Operational risks are risks of a loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is associated with human error or fraud, system failures and inadequate procedures and controls. It is the risk of loss arising from the potential that inadequate information system, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational risks may result in unexpected losses or reputation damage. We endeavor to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit. Reports of the internal auditors as well as the action taken on the matters reported upon are discussed and reviewed at the Audit Committee meetings.

Risk Management Architecture

In order to address the risks that are inherent to our business, we have developed a risk management architecture that includes monitoring by our Board through committees including the Audit Committee, the Risk Management Committee and the asset liability committee of our Company. For further details in relation to our Audit Committee and Risk Management Committee, see "*Our Management – Committees of our Board of Directors*" on page 257.

- *Audit Committee*. Our Audit Committee is authorized to establish accounting policies, review changes to accounting policies, and review internal and external audit reports and other related matters. It also evaluates internal financial controls and risk management systems and procedures periodically.
- *Risk Management Committee*. Our Risk Management Committee was formed to supervise the Board-approved risk management policy, which lays down the overall framework for identifying, assessing, measuring and monitoring various elements of risk involved in the business and to formulate procedures and systems for mitigating such risks.
- *Asset Liability Committee*. Our asset liability committee manages our liquidity risk based on our liquidity risk management measures set out in our asset liability management policy. It also reviews and manages our liquidity gaps, structural liquidity and interest rate sensitivity, and develops a view on the potential direction of interest rate movements and decides on the appropriate funding mixes.

Further, close monitoring and timely auctions have prevented any instance of material principal waivers or interest write-backs in gold loans. Gold auction realizations continue to remain at approximately 91.92% of market value as at June 30, 2023. An independent credit audit has been instituted to review the mortgage and structured finance loans to assist the management in embracing rigorous processes and adopting best practices.

Intellectual Property

Intellectual property rights are important to our business, and we devote significant time and resources to their development and protection. We rely on trademarks to protect our intellectual property.

Our Company has registered two trademarks, under class 36, with the Registrar of Trademarks under the Trademarks Act, 1999, details of which are set out below:

S. No.	Description	Trademark Number	Class	Nature of mark
1.	FEDBANK FINANCIAL SERVICES LIMITED	3849435	36	Image mark
2.	FEDFINA	3849400	36	Image mark

For details, see "*Government and Other Approvals – Intellectual property*" on page 438.

Information Technology

We have actively invested and deployed various technologies and a platform for loan origination, lead management and credit underwriting, allowing our credit officers to judge the creditworthiness of an individual. The platform provides information after considering many factors, such as an individual's internal credit rating, external credit rating, income and banking details and other asset details. With the help of this platform, our credit officers perform the decision-making process with an appropriate audit trail.

In addition, we have implemented niche technology capabilities in the area of facial liveliness recognition and optical character recognition, which results in process efficiency, ensures seamless business growth and better customer experiences. We believe our advanced information technology systems, and continued investments thereto, result in better customer experiences due to reduced turnaround time, minimal operational risks due to human errors and provide us with a competitive edge.

We allow instant disbursal of loans into our customer's bank account. This feature is powered by seamless integration with various fund transfer API integration in our core product processor. We have also invested in a loan and branch operations management tool, which integrates various modules and systems. In line with our customer centric approach, we have introduced multi-channel customer service via email, web portal and mobile applications, as well as gateways for EMI payments.

We have also adopted a differentiated technology framework with customized systems and tools that enhance convenience for our customers as well as increasing operational efficiencies. For our gold loan products, we have digitized the process from end-to-end. We use digital marketing for loan origination, as well as various technology enabled solutions for customer KYC, data collection and lead management including disbursal into the customer's bank account through appropriate integration. This service entails, among other things, creating awareness about our financial products, customer acquisition, document collection and collection of loan instalments from customers. The underwriting process is automated and digitized with various modules for credit approvals, audit and field verification. Our gold loan branches are also technology enabled with security systems, inventory and cash management integrated with our ERP system. Our customer service options include email, web portal, mobile application as well as customer rating and feedback collection on an episodic and transaction basis. For our mortgage loan and unsecured business loan products, we have implemented a combination of digital and physical initiatives for customer origination and have automated several operational aspects. The underwriting, loan operations and customer service implement various digital features covering many aspects of our operational requirements.

We have consolidated our data in the form of a cloud-based central repository and to store data from our different applications in an external data repository. This has continued to bring us efficiency in our processes, and it has the potential to sustain a multi-fold increase in scale over our current volumes. We also avail on-cloud data storage that enables uptime and sustainable growth.

We maintain a disaster recovery site at Hyderabad to ensure availability of critical information technology systems. A documented recovery time objection ("**RTO**") and recovery point objective ("**RPO**") is defined for all critical information technology systems and an annual disaster recovery drill is conducted and documented by our IT department to ensure conformity against the defined RTO and RPO.

We also have an IT strategy committee that reviews and approves information technology strategies to align with our corporate strategies, policy reviews by our Board, our cybersecurity arrangements and any other matters related to information technology governance.

Marketing

We have focused on below-the-line marketing activities to reach out to our target customer segment, namely, the emerging Indian population. We utilize a localized and differentiated promotion and branding approach that helps us reach prospective customers to create and retain brand recall. For instance, we prudently invest in social media marketing to deepen our branding footprint in the digital space. This approach helps us reach prospective customers to generate larger number of leads. Most of our marketing communications are also produced in local regional languages to increase accessibility.

We further enhance our visibility and reach through a variety of initiatives such as wall branding, auto rickshaw cover brandings and leaflet distributions with an aim to increase brand awareness and recall in rural and semi-urban areas. We have also entered into an agreement for term of three years, for provision of telemarketing services through, among other things, email, SMS and call centers.

Employees

As of June 30, 2023, our Company employed 3,732 people. 77.12% of our staff are in the sales function, while 11.87% of the employees are dedicated for credit, risk management, audit and quality functions. The breakdown of our employees in different functionalities as of June 30, 2023, has been provided below:

Function	Permanent Employees
Sales	2,878
Quality Team	219
Credit & Risk	141
Collection	130
Operation	101
Audit	83
Business Support	46
Information Technology	33
Finance	28
Facility Management Group	17
Digital Transformation Group	16
Human Resources	14
Legal	10
Treasury	7
Secretarial Department	3
Compliance	3

Function	Permanent Employees
CEO's Office	3
Grand Total	**3,732**

The number of our employees as of the periods indicated are as follows:

Particulars	For the three-months period ended June 30,		For Fiscals		
	2023	2022	2023	2022	2021
Number of on-roll employees*	3,732	3,056	3,570	2,855	2,125

** Number of on-roll employees represents aggregate number of our employees as of the last day of relevant period.*

We believe that human talent is one of the key pillars for our success and growth. We have established practices of skill-building through regular trainings, leadership development programs and transparent performance management system. We further strive to provide our employees with a healthy work-life balance, which we believe enhances their productivity and motivate their performance. We have entered into agreements, typically ranging from two to five years, for outsourcing human resources management services, including but not limited to payroll management, employee training, labor law compliance management and analyzing organization-wide feedback.

We have sourced approximately 93% of our talent from established financial services companies with more than 4 years of experience.

To further motivate our employees, we have an employees' stock option scheme for selected employees. For details of the employees' stock option scheme, see "*Capital Structure – Employee Stock Option Scheme*" on page 102. Our ability to attract and retain talent is demonstrated by our Company being certified as a "Great Place to Work" for the last three consecutive years, by the Great Place to Work Institute, India, which is a global research, consulting and training firm that identifies, great workplaces with high-trust workplace cultures and were ranked 16th in Best Places to Work in India 2021 Employee Choice Awards by AmbitionBox. Further, in calendar year 2023, we have been recognized as one of the Top 50 Indian's Best Workplaces in BFSI 2023' by the Great Place to Work Institute, India. In addition, we have developed a program called the 'i-Learn program', which comprises of, among others, an onboarding and training platform, career and professional development initiatives, as part of our focus on learning and commitment to the development of our employees.

The details of our number of employees and statutory dues paid (provident fund) for them by our Company in Fiscals 2021, 2022 and 2023 are set out below:

As of and for the year ended	Statutory dues paid (Provident Fund) (₹ in million)	Number of employees
March 31, 2023	197.78	3,570
March 31, 2022	153.05	2,855
March 31, 2021	114.45	2,125

As on date of this Red Herring Prospectus, there are no statutory dues to our employees pending to be paid.

None of our employees are represented by a labor union. We have not experienced any work stoppages since our incorporation. We believe we have good relations with our employees.

Competition

Our competitors include established Indian and foreign commercial banks, NBFCs, HFCs, small finance banks, microfinance companies and the private unorganized and informal financiers who principally operate in the local market. In particular, many of our competitors may have operational advantages in terms of access to cost-effective sources of funding and in implementing new technologies and rationalizing related operational costs. For more details, see "*Risk Factors – 30. We participate in markets that are competitive with continuously evolving customer needs, and if we do not compete effectively with established companies and new market entrants, our business, results of operations, cash flows and financial condition could be adversely affected.*" and "*Risk Factors – 31. We are subject to competition with commercial, regional rural and cooperative banks and if we do not compete effectively with such entities, our business, results of operations, cash flows and financial condition could be adversely affected.*" on page 48.

Insurance

We maintain various insurance policies to cover the different risks involved in the operation of our business. We maintain a directors' and officers' liability policy to cover certain liabilities that may be imposed on our directors and officers. For collections, we have fidelity insurance and insurance for money in transit. We also maintain insurance policies covering electronic equipment, burglary, standard fire and special peril and machinery breakdown.

Corporate social responsibility initiatives

We have adopted a corporate social responsibility ("**CSR**") policy in compliance with the requirements of the Companies Act, 2013 and the Companies (Corporate Social Responsibility) Rules, 2014. Our CSR initiatives are part of our overall strategy of developing communities and environmental sustainability, as well as creating a protected future for the generations to come. In order to achieve this, our CSR initiatives are aimed towards promoting education, employment enhancing vocational training, social development and skill building, healthcare, gender equality and women empowerment, ensuring environmental sustainability, promotion of sports and protection of national heritage arts and culture, among others. For instance, we have partnered with the Cuddles Foundation to provide counselling, assessment and nutrition management, caregiver program, ration bundles, in-meal supplements and food and nutritional supplements to under-privileged children suffering from cancer.

Environmental, Social and Governance

We are also cognizant of the impact of our business on our customers, employees, society and the environment, and are committed towards sustainability. We aim to create a consistently profitable business with a strong focus on environmental, social and governance ("**ESG**") aspects and to demonstrate a strong commitment to our ESG goals by adopting an ESG policy. Our ESG policy supports achieving our core commitment towards responsible lending, maximizing development impact and minimizing ESG risks in a responsible, inclusive and sustainable manner. Our lending policy is aligned to ensure exclusion of industries that are illegal and hazardous to the environment and society, and to minimize ESG risks (such as climate hazards, insensitivity to customers or employees and wastage of natural resources).

We further ensure equal opportunity and non-discrimination as it is our policy to not discriminate on any bases, whether it be caste, religion, gender or any other such characteristics at the time of processing a loan application. We believe in high standards of corporate governance. Our ESG Committee and execution team play a vital role in ensuring implementation of our ESG policy. Our ESG policies include our human resource policy, whistle blower policy, prevention of sexual harassment, employee grievance redress policy, and fair practice code. We also recruit locally which we believe enables our ability to serve communities within the semi-urban, urban and rural communities in which we operate, as well as providing viable employment opportunities within such communities.

Properties

Our Registered and Corporate Office is located at Kanakia Wall Street, A Wing, 5th Floor, Unit No. 511, Andheri Kurla Road, Andheri (East), Mumbai – 400093 Maharashtra, India. Our Registered and Corporate Office is on a leave and license basis for a term of five years starting from March 15, 2019. As of June 30, 2023, we had a network of 584 branches and the premises of all our branches have been taken on lease or leave and license basis. As of June 30, 2023, the average lease tenure is approximately 8 years and 18 branches have leases which expire in Fiscal 2024. For further details, see "*Risk Factors – 48. We conduct our business operations on leased premises, including our Registered and Corporate Office, and our inability to renew such leases may adversely affect our operations.*" on page 57.

Significant Developments after June 30, 2023

For further details in relation to significant developments after June 30, 2023, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Significant Developments occurring after June 30, 2023*" on page 425.

KEY REGULATIONS AND POLICIES

Given below is a summary of certain sector specific key laws and regulations in India, which are applicable to our Company. The information detailed in this section has been obtained from various statutes, regulations and/or local legislations and the bye laws of relevant authorities that are available in the public domain. This description may not be exhaustive and is only intended to provide general information to investors, and is neither designed, nor intended as a substitute for professional legal advice. The statements below are based on the current provisions of applicable law, which are subject to change or modification by subsequent legislative, regulatory, administrative, or judicial decisions. For details regarding the registrations and approvals obtained by our Company under applicable laws and regulations see, "Government and other Approvals" on page 437.

1. Key Regulations Applicable to our Company

The Reserve Bank of India Act, as amended (the "RBI Act")

The RBI is entrusted with the responsibility of regulating and supervising NBFCs by virtue of powers vested in Chapter IIIB of the RBI Act. The RBI Act defines an NBFC as: (a) a financial institution which is a company; (b) a non-banking institution which is a company in the principal business of receiving deposits, under any scheme or arrangement or in any other manner, or lending in any manner; or (c) such other non-banking institution or class of institutions, as the RBI may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

A company categorized as an NBFC is required to have a net owned fund of such amount as the RBI may, by notification in the Official Gazette specify from time to time. Further, NBFCs are required to obtain a certificate of registration from the RBI prior to commencement of the business as an NBFC.

Pursuant to Section 45-IC of the RBI Act, every NBFC is required to create a reserve fund and transfer thereto a sum not less than 20% of its net profit every year, as disclosed in the profit and loss account and before any dividend is declared. No appropriation can be made from such fund by the NBFC except for the purposes specified by the RBI from time to time and every such appropriation shall be reported to the RBI within 21 days from the date of such withdrawal.

Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 ("NBFC Scale Based Regulations")

Applicability

The NBFC Scale Based Regulations are applicable to all NBFCs, categorized into the following layers:

(i) NBFC- Base Layer (NBFC-BL) comprising non-deposit taking NBFCs with an asset size of less than ₹10 billion and (b) NBFCs undertaking the following activities - (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFC not availing public funds and not having any customer interface.

(ii) NBFC-Middle Layer (NBFC-ML) comprising (a) all deposit taking NBFCs (NBFCs-D), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹ 10 billion and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealer (SPD), (ii) Infrastructure Debt Fund-Non-Banking Financial Company (IDF-NBFC), (iii) Core Investment Company (CIC), (iv) Housing Finance Company (HFC) and (v) Non-Banking Financial Company-Infrastructure Finance Company (NBFC-IFC).

(iii) NBFC- Upper Layer (NBFC-UL) consisting of NBFCs that are specifically identified by the RBI as warranting enhanced regulatory requirement.

(iv) NBFC-Top Layer (NBFC-TL) remain empty unless the RBI is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer.

References to NBFC-ND-SI (systemically important non - deposit taking NBFC) shall mean NBFC-ML or NBFC-UL, as applicable. Under the NBFC Scale Based Regulations, all regulations applicable to an NBFC-BL are also applicable to an NBFC-ML, unless specified otherwise.

Corporate Governance

Constitution of Committees

All NBFC-ML are required to constitute the committees disclosed below:

(i) Audit Committee: An NBFC is required to constitute an audit committee consisting of not less than three members of its board of directors. The audit committee constituted by an NBFC as required under Section 177 of the Companies Act, 2013 shall be the audit committee for the purposes of the NBFC Scale Based Regulations as well, and its powers and functions shall be as provided under Section 177 of the Companies Act, 2013.

(ii) Nomination Committee: NBFCs are required to constitute a nomination committee to ensure 'fit and proper' status of proposed or existing directors, which shall have the same powers and functions as the nomination and remuneration committee required to be constituted under Section 178 of the Companies Act, 2013.

(iii) Risk Management Committee: NBFCs are required to constitute a risk management committee for evaluating the overall risks faced by the NBFC including liquidity risk.

(iv) Asset-Liability Management Committee: Non-deposit taking NBFCs with asset size more ₹ 10 million are required to constitute an asset liability management committee. The asset liability management committee is required to be headed by the chief executive officer/ managing director or the executive director of such NBFC, as prescribed under the Guidelines on Liquidity Risk Management Framework in the NBFC Scale Based Regulations.

Fit and Proper Criteria for Directors

Applicable NBFCs are required to (a) maintain a policy approved by the board of directors for ascertaining the fit and proper criteria of the directors at the time of appointment, and on a continuing basis, in line with the guidelines prescribed under the NBFC Scale Based Regulations; (b) obtain a declaration and undertaking from directors giving additional information on the directors, in the format prescribed under the NBFC Scale Based Regulations; (c) obtain a deed of covenant signed by directors, in the format prescribed under the NBFC Scale Based Regulations; and (d) furnish to the RBI a quarterly statement on change of directors and a certificate from the managing director of the Applicable NBFCs that fit and proper criteria in selection of the directors has been followed. The statement must be submitted to the Regional Office of the Department of Non-Banking Supervision of the RBI where the Applicable NBFC is registered, within 15 days of the close of the respective quarter. The statement submitted for the quarter ending March 31, is required to be certified by the auditors.

Disclosure and Transparency

Applicable NBFCs are required to place before the board of directors, at regular intervals, as may be prescribed by their respective boards of directors, the following:

(i) progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the concerned Applicable NBFC; and

(ii) conformity with corporate governance standards including composition of committees, their roles and functions, periodicity of the meetings and compliance with coverage and review functions and so on.

NBFC-ML are required to disclose the following in their annual financial statements:

(i) registration/licence/authorisation obtained from other financial sector regulators;

(ii) ratings assigned by credit rating agencies and migration of ratings during the year;

(iii) penalties, if any, levied by any regulator;

(iv) information namely, area, country of operation and joint venture partners with regard to joint ventures and overseas subsidiaries; and

(v) asset-liability profile, extent of financing of parent company products, non-performing assets and movement of non-performing assets, details of all off-balance sheet exposures, structured products issued by them as also securitization/ assignment transactions and other disclosures, as prescribed under the NBFC Scale Based Regulations.

Additionally, the NBFCs shall comply with the following disclosure requirements in the format included in the NBFC Scale Based Regulations:

(i) committees of the Board and their composition;

(ii) general body meetings;

(iii) details of non-compliance with the requirements of the Companies Act, 2013;

(iv) details of penalties and strictures;

(v) breach of covenants; and

(vi) divergence in asset classification and provisioning.

NBFCs are also required to disclose their Capital to Risk Assets Ratio Exposure to real estate sector (direct and indirect) and maturity pattern of assets and liabilities in their balance sheet. Further, NBFCs shall frame their internal guidelines on corporate governance with the approval of the board of directors which shall be published on their respective websites.

Acquisition or Transfer of Control

Applicable NBFCs are required to obtain prior written permission of RBI for (a) any takeover or acquisition of control, which may or may not result in change in management, (b) any change in the shareholding, including progressive increases over time, which would result in acquisition or transfer of shareholding of 26% or more of the paid-up equity capital (no prior approval is required if the shareholding going beyond 26% is due to buy-back of shares or reduction in capital where it has approval of a competent court but must be reported to the RBI within one month of the occurrence), and (c) any change in the management of the Applicable NBFCs, which results in change in more than 30% of the directors, excluding independent directors, provided that no prior approval shall be required in case of directors who get re-elected on retirement by rotation. NBFCs are required to continue informing the RBI regarding any change in their directors or management regardless of their application for prior written permissions.

Prudential Norms

All NBFCs are required to maintain capital adequacy ratio consisting of Tier – I and Tier – II capital which shall not be less than 15% of the NBFC's aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. The Tier – I capital in respect of Applicable NBFCs, at any point of time, shall not be less than 10%.

NBFCs risk exposure to a single party or a single group of parties is also kept under control through ceiling limits on NBFCs investment and lending capacity to single party or a single group of parties. NBFCs are not to invest more than 25% of their Tier 1 capital to a single party and more than 40% of their Tier 1 capital to a single group of parties. The NBFCs are also mandated to formulate a policy for managing the exposure risk to single party/ single group of parties.

Certain specific directions have been issued under the NBFC Scale Based Regulations for NBFCs which are in the business of lending against collateral of gold jewellery. NBFCs primarily engaged in lending against gold jewelry, with such loans comprising 50.00% or more of their financial assets, will be further subject to the requirement to maintain a minimum Tier I capital of 12.00% of aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items. Such NBFCs must – (a) maintain a Loan-to-Value (LTV) Ratio not exceeding 75 per cent for loans granted against the collateral of gold jewellery; (b) disclose in their balance sheet the percentage of such loans to their total assets; (c) not grant advance against primary gold/ gold bullions and gold coins, and not grant loans for the purpose of purchase of gold in any form including primary gold, gold bullion, gold jewellery, gold coins, units of Exchange Traded Funds (ETF) and units of gold mutual fund. Methodology for gold valuation and verification of ownership of gold is also prescribed under the NBFC Scale Based Regulations. NBFCs shall have an explicit policy in this regard as approved by the board in their overall loan policy.

Procedure for auction of collateral entails following obligations on the part of the such NBFCs –

(i) The auction shall be conducted in the same town or taluka in which the branch that has extended the loan is located. NBFCs can however pool gold jewellery from different branches in a district and auction it at any location within the district, subject to meeting the following conditions:

    (a) The first auction has failed.

(b) The NBFC shall ensure that all other requirements of the extant directions regarding auction (prior notice, reserve price, arms-length relationship, disclosures, etc.) are met.

Non-adherence to the above conditions will attract strict enforcement action

(ii) While auctioning the gold the NBFC shall declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments shall not be less than 85% of 30 days average of closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd. (BBA) or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission.

(iii) It shall be mandatory on the part of the NBFCs to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding shall be payable to the borrower

(iv) NBFCs shall disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction

Besides, such NBFCs are required to obtain prior approval of the RBI to open branches exceeding 1000. while NBFCs which already have more than 1000 branches are required to approach the RBI for prior approval for any further branch expansion.

Liquidity Risk Management Framework and Liquidity Coverage Ratio

Liquidity Risk Management Framework

Non-deposit taking NBFCs with an asset size of ₹ 1,000 million and above and all deposit taking NBFCs are required to adhere to the liquidity risk management framework prescribed under the NBFC Scale Based Regulations. The guidelines, *inter alia*, require the board of directors of the Applicable NBFC to formulate a liquidity risk management framework detailing entity-level liquidity risk tolerance, funding strategies, prudential limits, framework for stress testing, liquidity planning under alternative scenarios, nature and frequency of management reporting, and periodical review of assumptions used in liquidity projections.

Liquidity Coverage Ratio

All non-deposit taking NBFCs with an asset size of more than ₹ 50,000 million and all deposit taking NBFCs irrespective of their asset size are required to adhere to the Guidelines on Liquidity Coverage Ratio under the NBFC Scale Based Regulations. All non-deposit taking NBFCs with asset size of ₹ 100 billion and above, and all deposit taking NBFCs irrespective of their asset size, are required to maintain a liquidity buffer in terms of liquidity coverage ratio which will promote resilience of NBFCs to potential liquidity disruptions by ensuring that they have sufficient high quality liquid asset to survive any acute liquidity stress scenario lasting for 30 days. The stock of high quality liquid asset to be maintained by the NBFCs is required to be a minimum of 100% of total net cash outflows over the next 30 calendar days. The liquidity coverage ratio requirement is binding on NBFCs from December 1, 2020 with the minimum high quality liquid assets to be held being 50% of the liquidity coverage ratio, progressively reaching up to the required level of 100% by December 1, 2024, in accordance with the timeline prescribed below:

From	**December 1, 2020**	**December 1, 2021**	**December 1, 2022**	**December 1, 2023**	**December 1, 2024**
Minimum Liquidity Coverage Ratio	50%	60%	70%	85%	100%

All non-deposit taking NBFCs with asset size of ₹50 billion and above but less than ₹100 billion are required to also maintain the required level of liquidity coverage ratio in accordance with the timeline given below:

From	**December 1, 2020**	**December 1, 2021**	**December 1, 2022**	**December 1, 2023**	**December 1, 2024**
Minimum Liquidity Coverage Ratio	30%	50%	60%	85%	100%

Asset Classification and Provisioning Norms

All NBFCs are required to adopt the asset classification and provisioning norms as set forth below:

Asset Classification

(i) a “standard asset” means the asset in respect of which no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.

(ii) a “sub-standard asset” means (a) an asset which has been classified as non-performing asset for a period not exceeding 18 months; (b) an asset where the terms of the agreement regarding interest and/or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms. However, the classification of infrastructure loans as sub-standard assets is subject to the conditions stipulated in the NBFC Scale Based Direction.

(iii) a “doubtful asset” means (a) a term loan, or (b) a lease asset, or (c) a hire purchase asset, or (d) any other asset, which remains a sub-standard asset for a period exceeding 18 months.

(iv) a “loss asset” means (a) an asset which has been identified as loss asset by an Applicable NBFC or its internal or external auditor or by the RBI during the inspection of the Applicable NBFC, to the extent it is not written off by the Applicable NBFC; and (b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

(v) a “non-performing asset” means: (a) an asset for which interest has remained overdue for a period of more than 90 days; (b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 90 days or on which interest amount remained overdue for a period of more than 90 days; (c) a demand or call loan, which remained overdue for a period of three months or more from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days; (d) a bill which remains overdue for a period of 90 days or more; (e) the interest in respect of a debt or the income on receivables under the head ‘other current assets’ in the nature of short term loans/advances, which facility remained overdue for a period of more than 90 days; (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 90 days; (g) the lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days; (h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset. Provided that in the case of lease and hire purchase transactions, an Applicable NBFC is required to classify each such account on the basis of its record of recovery.

<u>Provisioning Norms</u>

In addition to provisioning norms under applicable accounting standards and the NBFC Scale Based Regulations, all applicable NBFCs are required to, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:

<table>
<tr><th>S. No.</th><th colspan="2">Provisioning Requirement</th></tr>
<tr><td>1.</td><td colspan="2">Loans, advances and other credit facilities including bills purchased and discounted</td></tr>
<tr><td></td><td>Loss Assets</td><td>The entire asset is to be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding is to be provided for.</td></tr>
<tr><td></td><td>i) Doubtful Assets</td><td>100% provision to the extent to which the advance is not covered by the realizable value of the security to which the Applicable NBFC has a valid recourse is to be made. The realizable value is to be estimated on a realistic basis.
In addition to (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e., estimated realizable value of the outstanding) is to be made on the following basis –
<table>
<tr><th>Period for which the asset has been considered as doubtful</th><th>Per cent of provision</th></tr>
<tr><td>Up to one year</td><td>20%</td></tr>
<tr><td>One to three years</td><td>30%</td></tr>
<tr><td>More than three years</td><td>50%</td></tr>
</table></td></tr>
<tr><td></td><td>Sub-standard Assets</td><td>A general provision of 10% of total outstanding is to be made.</td></tr>
<tr><td>2.</td><td colspan="2">Lease and hire purchase assets -</td></tr>
<tr><td></td><td>Hire purchase Assets</td><td>I. In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by -</td></tr>
</table>

<table>
<tr><th>S. No.</th><th colspan="2">Provisioning Requirement</th></tr>
<tr><td></td><td></td><td>
(a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and
(b) the depreciated value of the underlying asset, is to be provided for.
<u>Explanation:</u> (i) the depreciated value of the asset is to be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of 20% per annum on a straight line method; and (ii) in the case of second hand asset, the original cost is to be the actual cost incurred for acquisition of such second hand asset.
II. Additional provision for hire purchase and leased assets:
<table>
<tr><td>Where hire charges or lease rentals are overdue upto 12 months</td><td>Nil</td></tr>
<tr><td>Where hire charges or lease rentals are overdue for more than 12 months upto 24 months</td><td>10% of the net book value</td></tr>
<tr><td>Where hire charges or lease rentals are overdue for more than 24 months but upto 36 months</td><td>40% of the net book value</td></tr>
<tr><td>Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months</td><td>70% of the net book value</td></tr>
<tr><td>Where hire charges or lease rentals are overdue for more than 48 months</td><td>100% of the net book value</td></tr>
</table>
III. On expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value is to be fully provided for
</td></tr>
</table>

Standard Asset Provisioning

All NBFC-BLs are required to make provisions for standard assets of 0.25%, which shall not be reckoned for arriving at the net NPAs. NBFC-MLs are required to make provisions for standard assets of 0.40%, which shall not be reckoned for arriving at the net NPAs. The provision towards standard assets shall not be netted from gross advances but are required to be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet of the Applicable NBFCs.

<u>Balance Sheet Disclosures</u>

(i) Applicable NBFCs are required to separately disclose in their financial statements the provisions made, as prescribed under the NBFC Scale Based Regulations, without netting them from income or against the value of assets.

(ii) The provisions are to be distinctly indicated under separate heads of account as:

a. Provisions for bad and doubtful debts; and

b. Provisions for depreciation in investments.

(iii) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the Applicable NBFC.

(iv) Such provisions for each year are required to be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves are required to be written back without making adjustment against them.

(v) Additionally, Applicable NBFCs are required to disclose: (a) Capital to risk assets ratio; (b) exposure to real estate sector, both direct and indirect; and (iii) maturity pattern of assets and liabilities.

Regulation of Excessive Interest Charged by NBFCs

(i) The board of directors of each Applicable NBFC is required to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest, the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers are required to be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

(ii) The rates of interest and the approach for gradation of risks are also required to be made available on the website of the Applicable NBFCs or published in the relevant newspapers. The information published in the website or otherwise published is required to be updated whenever there is a change in the rates of interest.

(iii) The rate of interest must be annualized rate so that the borrower is aware of the exact rates that would be charged to the account.

Although rates of interest charged by NBFCs are not regulated by the RBI, rates of interest beyond a certain level may be seen to be excessive. The board of directors of Applicable NBFCs are required to layout appropriate internal principles and procedures in determining interest rates and processing and other charges.

Accounting Standards

Accounting Standards and guidance notes issued by the Institute of Chartered Accountants of India are required to be followed by NBFCs insofar as they are not inconsistent with any of the provisions of the NBFC Scale Based Regulations.

Fair Practices Code

All Applicable NBFCs having customer interface are required to adopt a fair practices code in line with the guidelines prescribed under the NBFC Scale Based Regulations. The NBFC Scale Based Regulations stipulate that such fair practices code should cover, *inter alia*, the form and manner of processing of loan applications; loan appraisal and terms and conditions thereof; and disbursement of loans and changes in terms and conditions of loans. The NBFC Scale Based Regulations also prescribe general conditions to be observed by Applicable NBFCs in respect of loans and requires the board of directors of Applicable NBFCs to lay down a grievance redressal mechanism. Such fair practices code should preferably be in vernacular language or language understood by borrowers of the Applicable NBFCs.

The Board of directors of an NBFC dealing in the business of lending money against a collateral of gold jewellery must put in place a policy covering the following practices and ensure that:

(i) adequate steps are taken to ensure that the KYC guidelines stipulated by the RBI are complied with and adequate due diligence is carried out on the customer before extending any loan;

(ii) proper assaying procedure is established for the jewellery received as collateral;

(iii) internal systems is set up to satisfy ownership of the gold jewellery;

(iv) adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans shall not be extended by branches that do not have appropriate facility for storage of the jewellery;

(v) the jewellery accepted as collateral shall be appropriately insured;

(vi) transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There shall be no conflict of interest and the auction process must ensure that there is arm’s length relationship in all transactions during the auction including with group companies and related entities;

(vii) the auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper;

(viii) as a policy, the Applicable NBFCs themselves shall not participate in the auctions held;

(ix) gold pledged shall be auctioned only through auctioneers approved by the Board; and

(x) the policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.

NBFCs lending money against gold jewellery must insist on a copy of the PAN Card of the borrower for all transaction above INR 0.5 million and also ensure a standardised documentation requirement across all branches. The Loan Agreement prepared by the NBFCs must disclose the details of auction process as well.

Penal Charges in Loan Accounts

Penalties for non-compliance with material terms and conditions of a loan contract by a borrower shall be treated as ‘penal charges’ and shall not be levied as a ‘penal interest’ that is added to the rate of interest charged on advances. No further interest shall be computed on such penal charges.

The NBFC Scale Based Regulations prohibit regulated entities, which include NBFCs, from introducing any additional component to the rate of interest and stipulate that all NBFCs shall formulate a Board approved policy on penal charges or similar charges on loans. The quantum of penal charges shall be reasonable without being discriminatory within a particular loan or product category. In addition to being displayed on the NBFCs' website, the reasons for penal charges shall be clearly disclosed by the NBFCs to the customers in the loan agreement and the key fact statement.

Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans

At the time of sanction of EMI based floating rate personal loans, regulated entities (including NBFCs) are required to take into account the repayment capacity of borrowers to ensure that adequate headroom is available for elongating the tenor or increasing the EMI. In order to address consumer grievances related to elongation of loan tenor or increases in the EMI amount, the notification requires NBFCs to put in place appropriate policy frameworks to meet the following requirements:

(i) at the time of sanction, clearly communicating to the borrowers about the possible impact of change in interest rate on the loan that can lead to changes in the EMI and/or the tenor;

(ii) at the time of the reset of interest rates, providing the option to the borrowers to switch over to a fixed rate as per their Board approved policy;

(iii) all applicable charges for switching of loan from floating to fixed rate and any other service charges or administrative costs shall be transparently disclosed in the sanction letter;

(iv) ensuring that the elongation of tenor for floating rate loans do not result in negative amortization;

(v) sharing a statement at the end of each quarter that enumerates the principal and interest recovered till date, the EMI amount, the number of EMIs left and the annualized rate of interest/ Annual Percentage Rate for the entire tenor of the loan.

The notification requires the instructions enumerated therein to be extended to existing and new loans suitably by December 31, 2023, and for existing borrowers to be sent a communication through appropriate channels, intimating the options available to them.

Declaration of Dividend

The NBFC Scale Based Regulations intend to infuse greater transparency and uniformity in practice of distribution of dividends by setting eligibility criteria and disclosure requirements for NBFCs for distribution of dividends. According to the NBFC Scale Based Regulations, NBFCs must comply with four minimum prudential criteria to be considered eligible to declare dividends: (i) prescribed levels of capital adequacy; (ii) prescribed levels of Net NPA; (iii) compliance with provisions of Section 45IC of the RBI Act; and (iv) continuous general compliance with RBI regulations and guidelines concerning NBFCs. The NBFC Scale Based Regulations also prescribe to the board of directors of the NBFCs to consider the decision to roll out dividends in light of certain definite factors. NBFCs, other than NBFC-BL, that declare dividend have to report dividend declared during the financial year in the format prescribed under the NBFC Scale Based Regulations.

Instructions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs

The NBFC Scale Based Regulations specify the activities that cannot be outsourced and also provide the basis for deciding materiality of outsourcing. It mandates the regulatory and supervisory requirements and risk management practices to be complied with by every NBFC before outsourcing its activities. Further, an NBFC intending to outsource any of the permitted activities under the NBFC Scale Based Regulations is required to formulate an outsourcing policy which is to be approved by its board of directors.

Integrated Ombudsman Scheme, 2021

The NBFC Scale Based Regulations specify that all NBFCs covered under the Integrated Ombudsman Scheme, 2021 ("**Scheme**"), must comply with the directions provided under the Scheme. Pursuant to its notification dated November 12, 2021, the RBI had integrated the Banking Ombudsman Scheme, 2006, the Ombudsman Scheme for Non-Banking Financial Companies, 2018 and the Ombudsman Scheme for Digital Transactions, 2019 into the Integrated Ombudsman Scheme, 2021.The Scheme is an expeditious and cost free apex level mechanism for resolution of complaints of customers of NBFCs registered with RBI under Section 45-IA of the RBI Act, relating to deficiency in certain services rendered by NBFCs.

The NBFC Scale Based Regulations also specify that pursuant to RBI's circular on Appointment of Internal Ombudsman by NBFCs dated November 15, 2021, all applicable NBFCs shall appoint an Internal Ombudsman and shall adhere to the corresponding guidelines.

Prevention of Money Laundering Act, 2002 ("PMLA")

The PMLA was enacted to prevent money laundering and to provide for confiscation of property derived from, or involved, in money laundering, and for incidental matters connected therewith. Section 12 of the PMLA inter alia casts certain obligations on reporting entities (as defined under the PMLA) in relation to preservation of records and reporting of transactions.

Master Direction (Know Your Customer) Directions, 2016 dated February 25, 2016, as amended (the "KYC Directions")

The KYC Directions require regulated entities (as defined in such directions) to follow certain customer identification procedures while undertaking a transaction. These directions are applicable to every entity regulated by RBI, including scheduled commercial banks, regional rural banks, local area banks, primary (urban) co- operative banks, state and central co-operative banks, all India financial institutions, NBFCs, miscellaneous non- banking companies and residuary non-banking companies, amongst others. Every entity regulated thereunder is required to adopt a 'know your customer' ("**KYC**") policy, duly approved by its board of directors, which shall include four key elements, namely, customer acceptance policy; risk management policy; customer identification procedures; and monitoring of transactions. Regulated entities are required to ensure compliance with the KYC policy through specifying 'senior management' for the purposes of KYC compliance; allocation of responsibility for effective implementation of policies and procedures; independent evaluation of compliance with KYC and anti-money laundering policies and procedures, including legal and regulatory requirements; concurrent/internal audit system for compliance to verify compliance with KYC and anti-money laundering; and submission of quarterly audit notes and compliance to the audit committee of the board of directors of the regulated entity.

Master Direction – Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016 dated September 29, 2016 ("Monitoring of Frauds Directions")

The Monitoring of Frauds Directions are applicable to all deposit taking NBFCs and NBFC-ND-SIs and requires them to put in place a reporting system for recording of frauds. All frauds are required to be reported to the RBI. Fraud reports are required to be submitted to the Central Fraud Monitoring Cell of the RBI in case amount of fraud INR 10 million and above. In cases where the amount of fraud is less than INR 10 million, reports shall be sent to the regional office of the Department of Non-Banking Supervision of the RBI, under whose jurisdiction the registered office of the related entity falls. The amounts involved in frauds reported by the entity shall be disclosed in its balance sheet for the year of such reporting. The Monitoring of Frauds Directions also requires submission of a copy when there is any progress, in the format prescribed.

Master Direction – Non–Banking Financial Company Returns (Reserve Bank) Directions, 2016, dated September 29, 2016 ("Returns Master Direction")

The Returns Master Direction lists detailed instructions in relation to submission of returns prescribed by the RBI for various categories of NBFCs, including their periodicity, reporting time, due date, purpose and the purpose of filing such returns.

Master Direction - Non- Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016 dated September 29, 2016 ("Auditor's Report Directions")

The Auditor's Report Directions set out disclosures that are to be included in every auditor's report on the accounts of an NBFC such as: (i) the validity of such NBFC's certificate of registration and whether the NBFC is entitled to continue to hold such certificate of registration in terms of its principal business criteria as of March 31 of the applicable year; and (ii) compliance with net owned fund requirements as laid down in the Master Directions.

Master Direction - Information Technology Framework for the NBFC Sector Directions, dated June 8, 2017 ("IT Framework Directions")

The IT Framework Directions have been notified with the view of benchmarking the information technology/information security framework, business continuity planning, disaster recovery management, information technology ("**IT**") audit and other processes to best practices for the NBFC sector. Systemically important NBFCs are required to comply with the IT Framework Directions by June 30, 2018. The IT Framework Directions require all systemically important NBFCs to undertake IT governance through formation of an IT strategy committee and formulation of a board approved IT policy. They also require systemically important NBFCs to conduct an information system audit at least once in a year.

In addition to the above IT Framework Directions, we are also required to comply with the Information Technology Act, 2000, as amended, and the rules framed thereunder.

Notification on Financial Inclusion by Extension of Banking Services – Use of Business Correspondents, dated June 24, 2014, issued by the Reserve Bank of India ("RBI")

By virtue of its notification dated June 24, 2014, the RBI permitted NBFCs-ND to act as business correspondents of banks, with the aim of accelerating financial inclusion. Prior to this notification, NBFCs could not be appointed as business correspondents. The following conditions need to be satisfied in order for the banks to engage NBFCs-ND as business correspondents:

(i) It should be ensured that there is no comingling of bank funds and those of the NBFC-ND appointed as business correspondent;

(ii) There should be specific contractual arrangement between the bank and the NBFC-ND to ensure that possible conflicts of interest are adequately taken care of; and

(iii) Banks should ensure that the NBFC-ND does not adopt any restrictive practice such as offering savings or remittance functions only to its own customers and the forced bundling of services offered by the NBFC-ND and the bank does not take place.

Guidelines on Risk-based Internal Audit ("RBIA") System for Select NBFCs and Urban Co-operative Banks dated February 3, 2021 (the "RBIA Guidelines")

The RBIA for non-deposit taking NBFCs with an asset size of INR 5000 crore and above (the "**Applicable NBFCs**"), was mandated by the RBI through its notification dated February 3, 2021 bearing reference number DoS.CO.PPG./SEC.05/11.01.005/2020-21. Under the RBIA Guidelines, Applicable NBFCs are required to implement the RBIA framework by March 31, 2022. The RBIA Guidelines, inter alia, are intended to enhance the efficacy of internal audit systems and contribute to the overall improvement of governance, risk management and control processes followed by the Applicable NBFCs. Under the RBIA Guidelines, the board of directors of the Applicable NBFC must approve a policy clearly documenting the purpose, authority, and responsibility of the internal audit activity, with a clear demarcation of the role and expectations from risk management function and the RBIA function. The RBIA Guidelines also mandate that the policy be reviewed periodically, and that the internal audit function is not outsourced. Further, the RBIA Guidelines also require that the risk assessment of business and other functions of Applicable NBFCs should be conducted at least on an annual basis.

Master Direction –Transfer of Loan Exposures, dated September 24, 2021

With the intent to create a robust secondary market for loan exposures, the RBI has introduced a comprehensive set of self-contained guidelines applicable to transfer and acquisitions of loan exposures by Schedules Commercial Banks, Regional Rural Banks, Primary (Urban) Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks; All India Financial Institutions; Small Finance Banks and NBFCs (including HFCs). The self-contained nature of the Master Direction is explicit in its prohibition on transfer and acquisition of loans except those permitted under the Master Direction.

Pursuant to the directions, the Board must approve a policy for transfer and acquisition of loans which lay down the minimum quantitative and qualitative standards relating to due diligence, valuation, requisite IT systems for capture, storage and management of data, risk management, periodic Board level oversight, etc. Further, the policy must also ensure independence of functioning and reporting responsibilities of the units and personnel involved in transfer / acquisition of loans from that of personnel involved in originating the loans. The loan transfers shall not impact the terms and conditions of the original loan contract. The general requirements also state that the lender may not re-acquire a loan exposure.

Transfer of Stressed Loans

Stressed Loans are mean loan exposures which are classified as NPA or as special mention accounts. Such loans can only be transferred through novation or assignment. Well documented policy on transfer of stressed loans is required under the Master Directions which follow the top-down management approach in identification of the stressed loans to be transferred and require the board/board committee to conduct periodic review of loans classified as NPA. This policy must also cover the following aspects –

(i) Norms and procedure for transfer or acquisition of such loans;

(ii) Valuation methodology to be followed to ensure that the realisable value of stressed loans, including the realisability of the underlying security interest, if available, is reasonably estimated;

(iii) Delegation of powers to various functionaries for taking decision on the transfer or acquisition of the loans;

(iv) Stated objectives for acquiring stressed assets;

(v) Risk premium to be applied

The board of directors of NBFCs transferring their loans must also put in place a policy for valuation of loan exposures proposed to be transferred. The policy must also delineate the grounds for valuation of stressed loans. In case, the loan exposure to be transferred is INR 1000 million, the NBFCs would require two external valuation reports. Another internal policy mandated to formalise the transfer of stressed loans concerns adoption of Swiss Challenge Method to finalise the auction of the stressed loans. The policy should specify the conditions under which lender(s) may opt for the Swiss Challenge method, and the minimum mark-up over the base-bid required for the challenger bid to be considered by the lender(s), which in any case, shall not be less than 5% and shall not be more than 15%

Crucial to note is the limitation placed on the types of entities which can acquire stressed loans. The RBI permits only Scheduled Commercial Banks, All India Financial Institutions, Small Finance Banks, and NBFCs, (Permitted Transferees) and Asset Reconstruction Companies (ARCs) to acquire stressed loans. Further, the NBFCs can acquire the stressed loans only on cash basis. Such NBFCs must hold the loans for a period of 6 months in their books and are generally prohibited to acquire those loans which have been transferred as stressed loans in the previous 6 months. In case an NBFC has an existing exposure to the borrower whose stressed loan account is acquired, the asset classification of the acquired exposure shall be the same as the existing asset classification of the borrower with the transferee. Otherwise, the acquired exposure would be treated as Standard by the NBFC.

Transfer of Loans not in Default

A non-payment of whole or any part or instalment of the debt upon being due and payable is considered as default on the part of the borrower. These loans can be transferred to Permitted Transferees including NBFCs through novation, assignment, or loan participation contracts. The transfer shall be only on cash basis and the consideration shall be received not later than at the time of transfer of loans. The transfer consideration should be arrived at in a transparent manner on an arm's length basis. The NBFCs can transfer loans only after a minimum holding period, as counted from the date of registration of security interest, i.e., (a) three months in case of loans with tenor of up to 2 years; (b) six months in case of loans with tenor of more than 2 years.

Disclosure and Reporting

Under the Master Direction, an NBFC must set out (a) disclosures concerning total amounts of loans not in default, and stressed loans transferred and acquired on a quarterly basis in their financial statements; (b) disclosures to trade reporting platforms notified by the RBI of each loan transfer transaction undertaken and maintain a database of such transactions.

Outsourcing of Financial Services - Responsibilities of regulated entities employing Recovery Agents, dated August 12, 2022

In light of the alleged deviations and violations by agents employed by regulated entities and reiterating that the responsibility for outsourcing activities vests ultimately with regulated entities, the RBI has directed regulated entities, including NBFCs, to strictly ensure that they or their agents do not resort to intimidation or harassment of any kind for recovery of overdue loans, making false and misleading representations, etc.

Guidelines on Digital Lending dated September 2, 2022 ("Digital Lending Guidelines")

RBI has laid down guidelines for digital lending which are required to be complied with by regulated entities (as defined in the circular, which include NBFCs). The Digital Lending Guidelines *inter alia* stipulate that regulated entities shall ensure that all loan servicing, repayment, etc., are executed by the borrower directly in the regulated entity's bank account without any pass-through account/ pool account of any third party. Further, the Digital Lending Guidelines state that the rate of any penal charges shall be disclosed upfront on an annualized basis to the borrower. Regulated entities are also required to make certain disclosures to borrowers *inter alia* with respect to Annual Percentage Rate (APR), Key Fact Statement (KFS), details of recovery agent etc. The Digital Lending Guidelines have included a framework for grievance redressal, including a nodal grievance redressal officer and regulate the collection and storage of borrowers' data, mandating the formulation of a comprehensive privacy policy by regulated entities.

Master Direction - Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions Directions dated September 21, 2023

Pursuant to notification dated September 20, 2023 bearing reference number DoR.FIN.REC.39/20.16.056/2023-24, the RBI issued guidelines to assess the quality of data submissions for the Data Quality Index ("**DQI**") made by Credit Institutions ("**CI**") to Credit Information Companies ("**CIC**"). CICs are required to prepare DQIs as per Annex I and II of the Master Direction. The CICs shall compute industry level DQIs for each of the three reporting segments (consumer, commercial and microfinance) as a weighted average of the CI level DQI in their respective category (for example, NBFCs).

CIs have been advised to undertake a half yearly review of the DQI for all segments to improve the quality of data that is submitted to CICs.

Master Direction – Information Technology Governance, Risk, Control and Assurance Practices dated November 7, 2023 ("Master Direction - IT")

Pursuant to notification dated November 7, 2023 bearing the reference number DoS.CO.CSITEG/SEC.7/31.01.015/2023-24, the RBI issued guidelines to regulate the governance of information technology ("**IT**") and the risks, assurance practices, control mechanisms and disaster management associated with IT and cyber security. The Master Direction - IT is applicable to all NBFCs, including all NBFC-BL, NBFC-ML and NBFC-TL, but excludes NBFC-Core Investment Companies. The key requirements are as follows:

IT Governance

The Master Direction - IT lays down an framework for information technology ("**IT Governance Framework**") that focuses on strategic alignment, risk management, resource management, performance management and disaster recovery management. NBFCs are obligated to set up an IT Governance Framework that specifies the governance structure adhering to the business objectives of the respective NBFC, that specifies the roles of the board of directors and includes adequate oversight mechanisms to mitigate risks associated with cyber and information security. Under the IT Governance Framework, an IT Strategy Committee ("**ITSC**") must be established that shall, *inter alia*, ensure that the NBFC has an effective IT strategic planning process and the NBFC's IT governance provides for accountability. The risk management policy, which shall include IT related risks and cyber security related risks, shall be reviewed periodically by the risk management committee of the board, in consultation with the ITSC.

IT Infrastructure and Services Management

The Master Direction – IT also mandates NBFCs to have a framework that supports their information systems and infrastructure ("**IT Service Management Framework**") to ensure operational resilience. In the event there are third-parties handling the NBFC's information technology or cyber security, the NBFC are required to put in place appropriate vendor risk assessment processes to, *inter alia*, mitigate risk and to eliminate and address any conflict of interests.

IT Information and Security Risk Management

Under the Master Direction – IT, NBFCs are mandated to set up a framework that, *inter alia*, contains internal control and processes to mitigate and manage risks, identifies critical information systems and provides for the fortification of the same and contains procedures and controls to ensure a secure transmission/ storage/ processing of data and information.

Business Continuity Plan and Disaster Recovery Policy

The Master Direction – IT, prescribes a business continuity plan and disaster recovery policy in order to reduce the likelihood and impact of disruptive incident and to ensure the continuity of business. Disaster recovery drills in relation to critical information are required to be done at least on a half-yearly basis and for other information systems, as per the risk assessment of the NBFC.

Information System ("IS") Audit

The Master Direction - IT states that the audit committee of the board shall overlook the functioning of the IS Audit. All entities are required to have an IS audit policy that shall describe the mandate, scope and purpose of the audit. The audit committee, under the Master Direction - IT, has to review the critical issues related to IT, information security and cyber security and thereafter, provide guidance to the management regarding the same.

2. Restrictions in Foreign Ownership applicable to our Company

The Consolidated FDI Policy Circular of 2020 (No. 5(2)/2020) dated October 15, 2020, as amended ("FDI Circular") issued by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India ("DPIIT")

Foreign investment in NBFCs, carrying on activities approved for FDI, is subject to the conditions specified in Paragraph 5.2.26 of the FDI Circular. Pursuant to these norms, FDI of up to 100% is permitted under the automatic route in our Company. This sector is also subject to minimum capitalization norms as prescribed by the RBI or other government agencies from time to time.

Emergency Credit Line Guarantee Scheme dated May 23, 2020

The Government of India, through the Ministry of Finance, Department of Financial Services introduced the emergency credit line guarantee scheme ("**ECLGS**"). Pursuant to the ECLGS, the National Credit Guarantee Trustee Company ("**NCGTC**"), a wholly owned trustee company of the Government of India, provided a 100% credit guarantee with respect to eligible credit facilities extended by NBFCs in the form of additional term loans. The NCGTC, pursuant to a circular dated June 29, 2023 the ECLGS up to March 31, 2023 or until guarantees for an amount of ₹ 5,000 billion are issued (taking into account all components of the ECLGS), whichever is earlier.

Special Liquidity Scheme for NBFCs/HFCs dated July 1, 2020 and the Partial Credit Guarantee Scheme

The Government of India approved the Special Liquidity Scheme for NBFCs and HFCs to improve the liquidity position of NBFCs through a special purpose vehicle to avoid potential systemic risks to the financial sector. In order to avail the scheme, NBFCs are required to, inter alia, (a) have made a net profit in one of the two preceding financial years; and (b) be rated investment grade by a SEBI registered rating agency. In accordance with the circular, the scheme is managed by a special purpose vehicle set up by a subsidiary of the State Bank of India, SBI Capital Markets Limited.

Master Circular dated April 3, 2023 on Bank Finance to Non- Banking Financial Companies

The circular lays down RBI's regulatory policy regarding financing of NBFCs by banks. The circular specifies, inter alia, certain guidelines for bank finance to NBFCs registered with RBI and bank finance to NBFCs not requiring registration. The circular further specifies activities which are not eligible for bank credits and other prohibitions on bank finance to NBFCs.

Reserve Bank of India's Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 1, 2023

The RBI issued the "*Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances*" on April 1, 2023, collating the clarifications from the "*Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications*" issued on November 12, 2021 ("**November 12 Circular**"). The clarification was issued with a view of ensuring uniformity in the implementation of IRACP norms across all lending institutions. The November 12 Circular clarified certain aspects of the extant regulatory guidelines, which will be applicable to be all lending institutions. The clarifications were made applicable immediately from the date of circular except for the instructions related to specification of due date / repayment date which were made applicable from December 31, 2021 and instructions related to non-performing assets classification in case of interest payments and customer education which will be applicable from March 31, 2022 onwards. The November 12 Circular, amongst other things, requires borrower accounts to be flagged as overdue by lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as special mention accounts ("**SMA**") as well as NPA is required to be undertaken as part of day-end processes for the relevant date, such that the date of SMA/ NPA shall reflect the asset classification status of an account at the day-end of that calendar date. The November 12 Circular clarifies that the SMA classification requirement for borrower accounts is applicable to all loans, including retail loans, irrespective of size of exposure of the lending institution. Further, the November 12 Circular provides that upgradation of accounts classified as NPAs may be upgraded to 'standard' only if the entire arrears of interest and principal are paid by the borrower, as opposed to such upgradation being undertaken upon payment of only interest overdues.

Priority Sector Lending Classification

Pursuant to its 'Statement on Developmental and Regulatory Policies' and notification dated April 7, 2021, the RBI with a view to ensure continued availability of credit to specified sectors to aid faster economic recovery, decided to extend the priority sector lending ("**PSL**") classification for lending by banks to NBFCs for on-lending by six months i.e. up to September 30, 2021. Previously, the PSL classification, allowing banks to classify lending to NBFCs for on-lending to agriculture/MSME/housing as PSL, was permitted till March 31, 2021. Considering the increased traction observed in delivering credit to underserved/unserved segments of the economy, the facility was extended till March 31, 2022 vide RBI circular dated October 8, 2021. To ensure continuation of the synergies that had been developed between banks and NBFCs in delivering credit to the specified priority sectors, the facility has been allowed on an on-going basis pursuant to RBI circular dated May 13, 2022.

3. Other Regulations

In addition to the above, our Company is required to comply with the provisions of the Companies Act, FEMA, RBI guidelines on securitisation of standard assets, labour laws, various tax related legislations and other applicable statutes for its day-to-day operations.

HISTORY AND CERTAIN CORPORATE MATTERS

Brief history of our Company

Our Company was incorporated as '*Fedbank Financial Services Limited*' on April 17, 1995 in Kerala at Kochi, as a public limited company under the Companies Act, 1956 and was granted a certificate of incorporation by the Registrar of Companies, Kerala at Kochi. Our Company received a certificate of commencement of business issued by the Registrar of Companies, Kerala dated July 17, 1995. Subsequently, pursuant to a change in our registered office by way of a resolution passed by our shareholders on February 10, 2021, a certificate of registration in relation to the change of state was issued by the RoC on July 26, 2021. Our Company is registered with the RBI to carry on the business of a non-banking financial institution without accepting public deposits (certificate of registration no. N-16.00187). For details, see "*Government and Other Approvals*" on page 437.

Changes in the Registered Office

Except as disclosed below, there has been no change in the registered office of our Company since the date of incorporation:

Effective Date of change of Registered office	Details of the address of Registered Office	Reason for change
July 26, 2021	The registered office of the Company was changed from Federal Towers, Aluva, Ernakulam 683101, Kerala, India to Kanakia Wall Street, A Wing, 5th Floor, Unit No. 511, Andheri Kurla Road, Andheri (East), Mumbai 400 093, Maharashtra, India	Administrative and operational convenience

Main Objects of our Company

"*1. To carry on the business of merchant banking in all its aspects, to assist capital formation, to act as Manager to Issues and Offers, whether by way of Public Offer or otherwise of shares, stocks, debentures, debenture stock, bonds, units, participation certificates, deposit certificates, notes, bills, warrants or any other paper, instrument, whether or not transferable or negotiable, commercial or other paper or scripts (hereinafter collectively referred to as the "securities'), to act as agents of and/or dealers in the securities in the course of merchant banking business, to act as financial consultants, Joint Managers, Lead Managers, Co-Managers, Advisers and Counsellors in Investment and Capital Markets, to underwrite, sub-underwrite, or to provide standby or procurement arrangement, to give any other commitments for subscribing or agreeing to subscriber procure or agree to procure subscription for the securities, to manage portfolio investments, to arrange financial and investment assistance for the purpose herein, to act as Issue House, Registrars to Issue, transfer agents for the securities, clearing houses for securities, to form syndicates or consortia of managers, agents and purchasers for or of any of the securities, to syndicate any financial arrangements whether In domestic market or international market and whether by way of loans or guarantees, to conduct share Shoppe, to set up Investment service centres; to undertake general secretarial services to Corporate Sector including work related to the Office of Registrar of Companies; to invite and accept amounts including Public Deposits for the purpose of investing in securities/mutual funds; to assist persons including Non-Resident Indians, foreign citizens of Indian origin and foreign nationals In portfolio investment and in establishing economic enterprises; to provide counselling services to any entrepreneur, company, corporation, society, firm, trust, person, Govt., State, Dominion, Sovereign, Municipality, Civic Body, Public Authority or any economic endeavour; to arrange or syndicate credit, loan, lease facility, guarantee, letter of credit, acceptance and fund based and non-fund based facility of any type including foreign currency loans, aid and assistance; to arrange Inter-Corporate Investments, Deposits and Loans; to deal in commercial paper, treasury bills, certificate of deposits and other financial instruments.*

2. To carry on, in India or elsewhere, the business of retail financing, wholesale financing, Housing Finance to the extent permissible under the applicable regulations, retail leasing (financing and operating leases), vehicle fleet leasing (financing and operating leases), dealer inventory financing, dealer capital financing, dealer equipment financing, developer / dealer real estate financing, factoring of dealer receivables, and other related after-sales products, with respect to vehicles, to also carry on the business of a leasing and hire purchase company and investments and finance company and, in this connection and for any other business to undertake all types of leasing and hire purchase business and financing of consumers, individuals or corporate relating to all kind of vehicles, aircrafts, ships, machinery, plant, equipment, factories, rolling stock, consumer durables, movable and immovable property, to arrange or syndicate leasing or hire purchase business, to undertake bills discounting business to purchase, finance, discount, i.e. discount bills of exchange, to act as a discount and acceptance house, to arrange acceptance or co-acceptance of bills, to buy, sell, lease or finance the buying and selling and trading in Immovable property, land, buildings, real estate, factories to borrow to lend, to negotiate loans, to transact business as promoter financiers, monetary agents, to borrow monies, to lend, to negotiate loans, to carry on business of a company established with the Object of financing Industrial enterprises, to invest the capital, or other funds of the company in purchase or acquisition of rights in moveable and immovable property, to use the capital, funds and assets of the Company as security for borrowing and acquisition of *rights in moveable and immovable property, or shares, stocks, debentures, debenture stock, bonds, mortgages, obligations, securities, or to finance their acquisition or leasing or hire purchase, to raise or provide venture capital, to promote or finance the promotion of joint stock companies, to invest in, to underwrite, to manage the issue of , and to trade in the shares or other securities of any body corporate) corporation, to undertake factoring, to purchase the book debts and receivables of sole proprietorships, partnership firms, companies or any other incorporated or unincorporated, or statutory or non-statutory, Central /State Government Bodies and to lend, make advances or give credit against the same and to sell, enforce, dispose-off the book debts, receivables, securities of the borrowers pledged, hypothecated, mortgaged with the company by the borrowers and / or customers of the company and also to undertake share broking, currency broking, wealth management and investment banking services and to provide and to engage in all businesses as may be related or ancillary to the aforesaid business areas as may be permitted by SEBI, NHB and other regulators.*

3. *To act as Managers, brokers, dealers and agents in connection with the securities, bullion and precious metals and obtain membership In one or more stock exchanges including OTC Exchange of India Ltd and bullion exchanges, commodity exchanges in India and abroad and hold membership in any association of bankers, merchant bankers, insurance companies, brokers, leasing companies, security dealers or any other related associations.*

4. *To give advice and/or give, take, circulate and/or otherwise organise, accept or implement any takeover bids, mergers, amalgamation, acquisitions, diversification, rehabilitation or restructuring of any business concern, undertaking, company, body corporate, partnership firm or any other association of persons whether incorporated or not, by acquisition of shares or assets and liabilities, and whether as a going concern or as a part of the concern, or otherwise as may be required having regard to business exigencies and to promote or procure incorporation, formation or setting up of concerns and undertakings whether as Company, body corporate, partnership or any other association of persons, either as a subsidiary or otherwise, for engaging in any industrial, commercial or business activities which the Company is authorised to carry on or for any other purposes which may seem directly or indirectly calculated to benefit the Company or to promote or advance the interests of the Company.*

5. *To identify projects, project ideas, to prepare project profiles, project reports, market research, feasibility studies, and reports, pre investment studies and investigation of Industries on micro and macro level, to undertake appropriate service to identify Scope of potential for economic and industrial development in any particular Geographical area or location whether in India or abroad, to act as lead managers in respect of project assignments by undertaking follow up, supervision and coordination work at the instance, behest or on behalf of banks, financial institutions, companies, bodies corporate and to monitor the same to the participants, to act as an adviser In the management of undertakings, business enterprises, offices, trade, occupations and professions by introducing modem methods and techniques and systems and render all assistance as may be necessary Including by acting as agents for recruitment of personnel, technical, skilled, unskilled, supervisory, managerial or otherwise, and to act as an adviser in the selection of technical process, sources or plant and machinery and other utilities for business entrepreneurs.*

6. *To act as an Asset Manager of any trust or fund including any mutual fund, growth fund, hedge fund, infrastructure fund, income or capital funds, tax or exempted funds, provident funds, gratuity funds, pension funds, superannuation funds, charitable funds or consortia and/or all other funds and/or to provide advisory and/or consultancy services for investments and financial services, financial services, consultancy, exchange of research information and analysis on a commercial basis, render corporate advisory services and/or manage a portfolio of securities and/or to pursue such other activities as may be necessary for attainment of these purposes subject to SEBI and other regulators approvals, as may be required from time to time.*

7. *To provide custodial and depository services and to do all such things as may be required for this purpose.*

8. *To sponsor such eligible companies as may be thought fit on the Over the Counter Exchange of India or any other Exchanges whether in or outside India, to initially place securities, act as market maker and dealer and do all such things as may be necessary, permitted or advisable to do.*

9. *To buy, acquire, sell, dispose-off, exchange, convert, underwrite, subscribe, participate, invest In and hold whether on its own account or on behalf of any person, body corporate, company, society, firm or association of persons whether incorporated or not, shares, stocks, debentures, debenture stocks, units, bonds, warrants, participation certificates or participation units, other money market or capital market instruments, obligations and securities issued or guaranteed by any Government, State, Dominion, Sovereign Body, Commission, Public Body or Authority, Supreme, Local or Municipal or Company or Body, whether incorporated or not or by any person or association.*

10. *To acquire, shares, stocks, debentures, debenture-stocks, units, bonds, warrants, participation certificates or participation units, other money market or capital market instruments, obligations and securities by original subscription, participation in syndicates, tender, purchase, exchange or otherwise and to subscribe or acquire the same either conditionally or otherwise, and to guarantee the subscription thereof for a commission or otherwise and to exercise and enforce all rights and powers conferred by or incidental to the ownership thereof.*

11. To act as Portfolio Managers in all respects, accept savings from investors and investing same in securities for mutual interest of investors, set up a research centre for securities, collect data from companies, stock exchanges, merchant banks, business consultants or from other sources and process, stored and analysing data for its own and/or for client services.

12. To undertake, to solicit or procure insurance business as a Corporate Agent or Composite Corporate Agent for distribution of Life Insurance and/or any other General Insurance Products, to act as Insurance Broker, Composite Brokers Direct Broker or any other form of broker by whatever name called in connection with any of the business or activity of the company, to enter into referral arrangement with Life Insurance Companies and/ or General Insurance Companies.

13. To carry on the business of a loan and finance company and to lend and advance money or give credit to such persons or companies either unsecured or secured and on such terms as it may seem expedient and in particular against the security of listed and unlisted securities, bonds, policies, fixed deposits, certificates, gold, bullion, vehicles, book debts, receivables, property whether moveable or immovable or any other asset, right, title, interest etc. for the purchase of gold, bullion, consumer durable products, paintings, sculptures or any other item or thing having artistic or aesthetic value or for any other purpose as the Company may deem fit and to guarantee the performance of any contract or obligation and the payment of money to any such person or companies and generally to give guarantee and indemnities. To carry on any or all of these businesses either in individual capacity or in co-participation with other agencies or bodies.

14. To act as a securitization and reconstruction company and to carry on the business of securitization and/or asset reconstruction and for that purpose to purchase, acquire, invest, transfer, sell, dispose of or trade in participation certificates, participation units, securitized debts, assets backed securities or mortgage backed securities or debts whether representing financial assets, receivables, debts, whether secured by mortgage of movables or hypothecation or charge on movables or otherwise, whether existent, accruing, conditional, contingent, future, performing or non-performing, impaired or unimpaired or otherwise; to purchase, acquire, invest, transfer, sell, dispose of or trade in or issue to public or private investors securities or instruments or certificates issued thereof on a discretionary basis or nondiscretionary basis on behalf of any person or persons (whether individual, firm, companies, bodies corporate, Government, State, Sovereign, public body or authority, supreme, local or trusts, pensions funds, offshore funds, public body or authority, supreme, local or trust, pension funds, offshore funds, charities or other associations or entities whether in private or public sector.

15. To carry on and undertake the business of providing or acting as direct selling agents, distributors, advisors, referrer, franchisees, licensees, authorized sales agents, representatives, arrangers and consultants to provide financial, managerial, operational, administrative, advisory, commercial, legal, taxation, electronic data processing, computer and other consultancy services, to prospective investors, depositors, insurance client, customer, client for any type of financial and saving instruments including fixed deposits, postal savings, bonds, debentures, other securities, mutual funds units, equity and preference shares and other type of securities of companies, life and non-life insurance products, all types of structured products designed by the Company or any other company(ies), off-shore products designed by foreign entities, investment banking or portfolio management services, venture capital fund or private equity fund subscriptions or services, any other types of products or properties whether moveable or Immovable, mortgages, personal and commercial loans by way of lending, factoring, leasing, hire purchase or instalment purchase or similar schemes of all types and descriptions and for all purposes, both secured and unsecured, issuing or selling of credit and debit cards, loyalty cards, discount cards, privilege cards, Health Cards and other products of similar type and descriptions, either in partnership or by self, subject to regulatory approvals, as may be required from time to time.

16. To acquire, purchase, take over and/or amalgamate business of companies which, under existing circumstances, from time to time may conveniently or advantageously be combined with the business of the Company, to amalgamate with companies whose business are so acquired, purchased or taken over and/or to enter into agreements with the object of acquisition of such undertakings and/or business."

The main objects as contained in our Memorandum of Association enable our Company to carry on the business presently being carried out and proposed to be carried out.