FIAFA DIGEST

(Voice of Asset Financiers)

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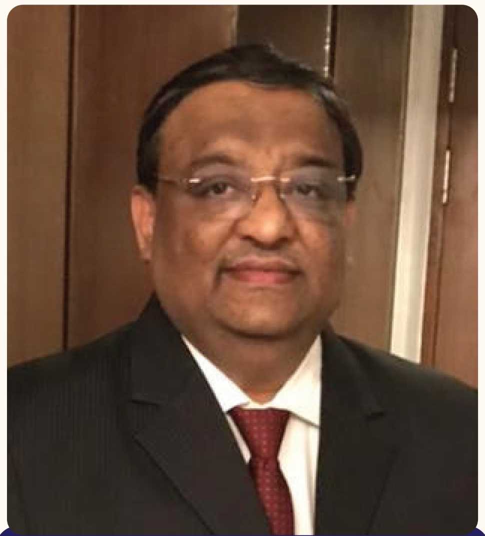
FEDERATION OF INDIAN ASSET FINANCIERS ASSOCIATIONS

Dear Members,

It is with deep sorrow that we record the demise of our Immediate Past President, Shri Poornachandra Rao, a stalwart of the hire purchase and asset finance industry. Shri Rao served the Federation as President with great dedication and remained actively associated with the Governing Council for over four decades, attending meetings with remarkable discipline and commitment. His guidance, wisdom, and unwavering support were invaluable to FIAFA and the industry at large. I had the privilege of attending his funeral at Vijayawada, and on behalf of the Federation, I convey our heartfelt condolences to his family and pray for his soul to rest in peace.



DINESH KOTHARI
President - FIAFA

On the regulatory front, FIAFA has been vigorously pursuing all possible avenues to oppose the proposed increase in Net Owned Funds (NOF) for small NBFCs. We have filed a writ petition before the Hon'ble Madras High Court, submitted detailed representations to the Hon'ble Governor of the Reserve Bank of India, and personally met with the Deputy Governor and senior RBI officials to present the ground realities and the disproportionate impact on small and mid-sized financiers. Despite these sustained efforts, relief has not yet been granted.

To chart the next course of action, the RBI Coordination Committee of FIAFA, led by Shri T. R. Achha, has consulted senior legal experts and convened a meeting on 11 February 2026 to deliberate on the NOF issue, the need for a separate regulator for NBFCs, and the challenges posed by multiple returns and stringent compliance requirements for small entities. Active participation of all members is crucial as we move forward with a unified and strategic approach to safeguard the interests of the industry and its stakeholders.

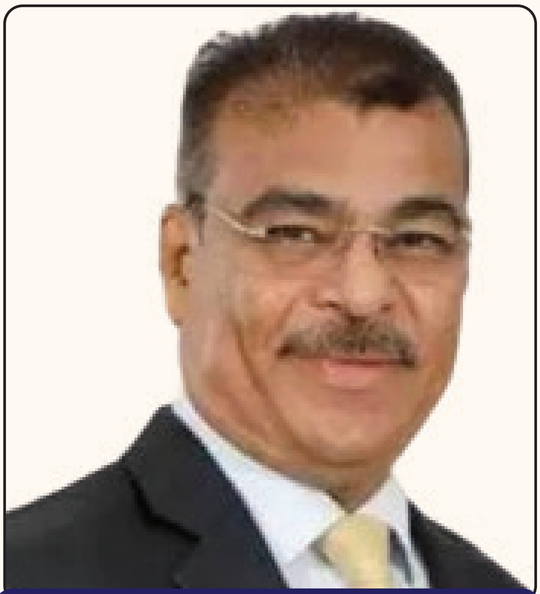
With warm regards,

Dinesh Kothari
From the Desk of President

Golden Jubilee Celebration 1972-2022

Asset Financing in India: Consolidating Gains, Building the Next Growth Cycle

India's asset financing space has entered the era of structural dominance, transcending the narrative of post-pandemic recovery. The momentum now reflects structural shifts in consumption, rural formalisation, and corporate asset creation — and as we look toward the next decade, I can state that asset financing is one of the primary architects of a credit-led economic uplift.



MR. UMESH GOVIND REVANKAR
Executive Vice Chairman
Shriram Finance Ltd

Particularly in the vehicle finance segment, we are witnessing the institutionalization of the pre-owned market. By 2027, pre-owned vehicle loans are projected to command over 41% of total vehicle loan stocks, signaling a mature resale ecosystem where assets remain productive throughout their entire lifecycle. Similarly, the sharp expansion in gold loans represents a sophisticated use of household assets as high-velocity, low-risk capital, anchoring both individual stability and entrepreneurial agility.

The resilience of our economy is perhaps most visible in the heartland. Credit flow toward tractors, farm equipment, irrigation systems, and allied assets is projected to cross ₹32.5 lakh crore in FY26 — representing a 13% year-on-year surge — mirroring deeper rural credit penetration and ongoing mechanisation, both of which expand the addressable base for asset-backed lending. As NBFCs, our ability to deliver last-mile financing allows us to reach the underbanked with customer understanding and underwriting precision, turning data trails and digital footprints into productive capital.

Beyond retail, the broader commercial landscape is equally compelling. Commercial sector credit is growing at roughly 15% year-on-year, reflecting renewed appetite for business expansion and asset acquisition. Industrial and acquisition financing are benefiting from regulatory flexibility allowing banks higher exposure to such lending, supporting corporate capacity addition across construction equipment, commercial vehicles, and industrial machinery. NBFCs remain a critical channel in this story — projected to sustain AUM growth of nearly 18–19% through FY26–27, driven by retail demand and improving underwriting frameworks that enhance both scalability and portfolio quality.

This trajectory is being fortified by a visionary regulatory architecture. The RBI's Scale-Based Regulations and the updated Co-Lending Arrangement (CLA) directions effective January 2026 have turned transparency and risk-sharing into a competitive advantage — particularly in vehicle and equipment financing. Revised External Commercial Borrowing norms, offering higher borrowing limits and more flexible maturities, give corporates greater access to foreign capital for asset creation. Furthermore, the recalibration of capital adequacy norms — offering lower risk weights for high-quality infrastructure loans from April 2026 — will encourage even deeper NBFC participation in the nation's infrastructure backbone.

Looking ahead, the sector's medium-term outlook is anchored by three unstoppable drivers. First, consumption momentum, supported by GST rationalisation and stable income growth, will continue to drive vehicle and equipment financing. Second, a positive GDP outlook and infrastructure push will sustain demand for commercial vehicles, construction equipment, and industrial machinery. Third, increasing formalisation, aided by stronger data trails and AI-based underwriting and telematics, will enhance risk management and expand credit access to the last mile. We are evolving from being "cheque-writers" to becoming operational partners who ensure asset health and productivity at the very grassroots.

PRESENT AND FURTURE SCENERIO OF FINANCING BUSINESS

BY A.C. CHHAJER

Asset Financing Industry is a Growth Engine to the Indian Economy which accelerate the economic growth by providing timely financial support to various sectors of Indian Economy such as commercial vehicles and transport vehicles which moves the economy.

In India the Asset financing Industry is quite old and now it has grown to larger extent due to rapid industrialization which requires goods to be transported and larger passenger movement. It has also diversified into Home finance and Gold loan Finance. At the moment, we will be dealing with all types & commercial Vehicles used for Goods Transport and Passenger Vehicles such as Bus, Passenger cars, Two wheelers, and Three wheelers etc.

SHRI AMARCHAND CHHAJER
Past Secretary General, FIAFA

Recently EV (Electrical Vehicles) are taking place of Petrol and Diesel Vehicles of all Types.

PRESENT SCENERIO

Present Asset Financing of Vehicles and Volumes of Business as on 31.03.2026 is Estimated us under
NBFCs controls estimated 41% share of Assets Finance Business which is divided as under
Commercial vehicles (lorry etc) has 53% share of total Business.
Passenger Vehicle 47% share of total Business

Banks also have a Large stake in this sector. SBI has share of 20.2% of Bank Loans to Vehicles by the Banking sector. New vehicle finance is about 51.72% of total business as on 31.03.2025. Some NBFCs are specialize in consumer durables also such as Bajaj Finance. Major Top NBFCs is this sector are as under:

Top 10 NBFCs by business volume (AUM) as on 31.03.2025

1. Power Finance Corporation (PFC) Rs.11.7 Lakhs Cores
2. Rural Electrical Corporation (REC) Rs. 5.5 Lakhs Cores
3. Bajaj Finance Ltd Rs. 4.16 Lakhs Cores
4. LIC Housing Finance Ltd Rs. 3.07 Lakhs Cores
5. Sriram Finance Ltd Rs. 2.81 Lakhs Cores
6. Tata Capital Ltd Rs. 2.43 Lakhs Cores
7. Cholamandala Investments and Finance Ltd Rs. 1.76 Lakhs Cores
8. Muthoot Finance Ltd Rs. 1.11 Lakhs Cores
9. Mahindra & Mahindra Finance Ltd Rs. 1.05 Lakhs Cores
10. HDF (HDFC Bank Ltd) Rs. 0.90 Lakhs Cores

Asset Financing by Individual Entities is going tough day by day. State Governments are Enacting various laws, which make it difficult to perform. They are liable to take Money lending License in various States together with severe penalties and procedures which are practically difficult to comply. Cap on Interest Charges, harsh penalties, Provisions of tough Procedures to take possession of pledged assets have made a nightmare to this sector.

Individual Asset Financiers cannot exist in the current turmoil due to Low Volume, interest rate cap and collection problem in most of the states in India. Heavy legal compliance make their business unremunerative and a loss making risk on the head of each Individual due to Legal hurdles. Good customers go to Large Banks or NBFCs etc., leaving balance customers to the Individual financers. It requires reconsideration by Individual financiers to carry on this business. Due to low scale of Business, their overhead Charges cannot be absorbed without incurring losses.

It is pity that small financiers who provide employment to lakhs of people by giving Loans for vehicle finance are suffering which will ultimately increase unemployment.

There is no data available for this sector.

In Summary:

1. NBFCs are also not happy now due to RBI circular which requires every NBFCs to reach NOF

of Rs.10 crores by March 2027. No body Knows how many NBFCs will achieve this target and what will happen to remaining NBFC as on 31.03.2027.

2. Individual Assets Financing entities hands have been tied by new State Legislation which contain harsh provision ignoring the realities of actual business and make them to do more paper work than actual business work.

3. The financing business particularly vehicle financing is undergoing a profound transformation moving from traditional manual as dealer driven model towards an AI driven digital or eco-conscious eco-system.

4. NBFCs are significantly increasing their focus on used vehicle financing. The share of used vehicle is about 48% as on 31.03.2026 (estimate).

5. The lenders adopting digital lending platform for quicker applications as instant approvals by significantly reducing the waiting period.

6. EV market is expanding rapidly by about 41.66% every year. But it has higher risk attached due to uncertainty in Battery life or resale value.

7. New vehicle business ROI is Lower compared to used vehicles business which offer higher profit.

8. Technology Adoption: AI or Machine learning are being integrated for faster, more accurate credit risk assessment.

FUTURE TRENDS & FUTURE SCENARIO (2026–2030)

The future of vehicle financing will be characterized by AI-native, customer-centric and sustainable mobility solutions, with a shift from pure asset ownership to “usage-based” financing.

Acceleration of EV financing:
By 2030, Specialized EV financing will become mainstream, incorporating battery-as-a-service (BaaS) models to reduce upfront costs.

Embedded Finance & Digital Ecosystems:
Financing will become embedded directly into the auto sales process (both online and offline), creating a seamless customer journey. Lenders and dealers will work through integrated digital platforms to provide instant, tailored offers.

AI-Driven Risk Assessment & Servicing:
AI will move from simple credit scoring to predicting delinquency, automating collections, and providing personalized loan offers based on behavioural data rather than just traditional credit scores.

Mobility-as-a-Service (MaaS) Models:
The market will transition from traditional loans to subscription-based models, leasing and pay-as-you-drive loans, aligning with the “shared mobility” trend.

Growth in Data-Driven Valuation: As the market for used EVs grows, AI will be critical in predicting residual values and managing asset quality.

CHALLENGES AHEAD

High Upfront Costs & Risk:
While EVs are the future, their higher upfront cost and uncertainty regarding battery degradation pose risks for lenders, requiring innovative risk management.

Regulatory & Economic Uncertainty:
Stricter environmental regulations and shifting economic conditions require financiers to be agile to avoid asset quality issues.

Cyber Security & Data Management:
As the industry digitizes, managing massive amounts of consumer data securely is paramount.

We express our deep sorrow on the passing of Shri Purnachandra Rao, Past President of FIHPA. His contributions, leadership, and unwavering commitment to the industry will always be remembered with respect and gratitude.

President Shri Dinesh Kothari attended the funeral in Vijayawada to pay homage to the departed soul. We pray for eternal peace for Shri Rao and strength to his family in this moment of grief.

SHRI PURNACHANDRA RAO
(Late)Past President - FIAFA

Weekly NBFC & AFC Digest (Feb 2026)

Executive Summary: This week's digest highlights several fresh regulatory and market developments for NBFCs/AFCs. The RBI's Feb 6 policy statement proposed landmark changes – notably exempting "Type I" investment NBFCs (no public funds, no customer interface, assets ≤₹1,000cr) from mandatory registration and removing prior-approval requirements for large gold-loan NBFCs to open new branches[1]. Final RBI directions (Jan 2026) tightened related-party lending norms and mandated new disclosures for NBFCs[2][3]. A new RBI "Internal Ombudsman" framework (Jan 2026) requires large NBFCs to strengthen grievance redressal[4][5]. Sectoral impacts include revised risk-weights for infrastructure loans[6] and draft rules on recovery agents and third-party sales aimed at borrower protection[7][8]. In markets, the repo rate remains at 5.25%[9], 10Y G-Sec yields sit near 6.6–6.7%[10], and RBI liquidity operations (e.g. a ₹1T VRRR in Jan) have kept conditions ample[11]. NBFC credit growth continues to outpace banks, reflecting strong demand (FY25 NBFC balance-sheet growth ~18.9%[12]). Compliance watch shows stricter enforcement: e.g. RBI cancelled 35 NBFC registrations and levied penalties on lenders for regulatory breaches[13][14]. The Budget 2026 proposals and recent tax rulings have had limited NBFC-specific impact. The full digest below covers these themes in detail, with action-oriented analysis for NBFC management.

1. RBI Regulatory Updates

Type-I NBFC Exemption (Proposed): In its Feb 6 policy statement, the RBI proposed exempting small "Type I" NBFCs (no public funds & no retail lending) with assets ≤₹1,000cr from mandatory registration[1]. These draft measures (pending formal notification) would de-regulate such non-systemic firms, reducing compliance costs. NBFCs that meet these criteria should evaluate whether reorganizing as pure investment companies could opt out of RBI oversight. Impact: Eligible small NBFCs may restructure liabilities or business mix to benefit from this proposed relief. All others should prepare to justify regulatory significance.

Branch Expansion Deregulation: The RBI also announced it will remove the prior-approval ceiling on branches for large gold-loan NBFC-ICCs[15]. Previously, NBFC gold financiers needed RBI nod beyond 1,000 branches. This change (pending) will speed branch-led expansion for gold loan financiers. Impact: Gold-loan NBFCs can more quickly scale distribution in rural/semi-urban markets without RBI approvals, improving competitive position vs banks.

Related-Party Lending (Final Directions): On Jan 5, RBI issued Amendment Directions on Lending to Related Parties (effective Apr 1, 2026)[16][2]. Key points for NBFCs: (a) Scope: Applies to all NBFCs (incl. HFCs) lending to related parties[17]; Type-I NBFCs and CICs are excluded from applicability[17]. (b) New Definitions & Thresholds: The RBI aligned related party definitions with

Companies Act standards and raised materiality thresholds. For example, Upper/Top Layer NBFCs must report/seek board approval for any related-party exposure above ₹10 crore (Middle layer: ₹5cr; Base: ₹1cr)[18]. (c) Existing Contracts: Non-compliant transactions can remain until renewal but cannot be rolled-over unless they meet the new norms[19][20]. (d) Financial Disclosures: NBFCs must add a new line item in their financial statements disclosing related- party exposures (loans, contracts, limits, etc.)[3].

[16][17] Action: NBFC boards should update credit and disclosure policies for related-party exposures. Ensure IT/systems can track outstanding related-party loans. Compliance teams must prepare new schedules for FY26-27 financials.

Internal Ombudsman Directions: RBI released NBFC – Internal Ombudsman Directions, 2026 on Jan 14, effective immediately (with some clauses by June 30)[4][5]. NBFCs (excluding HFCs, CICs, IDF-NBFCs, etc.) must appoint an Internal Ombudsman if they meet size criteria: NBFC-D with ≥10 branches, or NBFC-ND (assets ≥₹5,000cr + public interface) as of 31-Mar-2025[5]. These directions mandate an elevated grievance redress mechanism. Impact: Affected NBFCs must integrate an Ombudsman (senior executive) into governance and set up complaint tracking/reporting by 30-Jun-2026. Smaller NBFCs should verify if growth triggers applicability later. Compliance teams need to update customer grievance policies and inform staff.

Risk-Weights for Infrastructure Loans: RBI issued amendments (Jan 1, 2026) to **Prudential Norms on Capital and Concentration Risk** for infrastructure exposures[6]. These align risk-weights more closely with project risk. While specifics weren't published here, the intent is to promote lending to operating infrastructure projects. Impact: Asset-financing NBFCs targeting infra/infra-related credits may see slightly lower capital charges, improving ROE on such loans. Credit and ALCO teams should recalculate capital requirements for infra portfolios once the detailed tables are released.

Other Drafts & Final Issuances: RBI has announced or released several related proposals: comprehensive rules to curb mis-selling of third-party financial products by banks/NBFCs[7], and harmonised guidelines on recovery agent conduct[21][22]. These are in draft for comment. NBFCs distributing products should brace for tighter marketing rules (digital lending apps, branches) and more stringency in recovery agent practices (see Section 5).

2. Asset Financing Companies – Sector Impact

Vehicle & Equipment Finance Outlook: Recent industry data shows continued momentum in vehicle sales – e.g., Jan 2026 retail sales were up ~17% YoY (two-wheelers +20%, passenger vehicles +7%)[23]. Strong auto demand bodes well for vehicle-financing NBFCs. Construction-equipment (CE) and commercial vehicle demand should benefit from the government's ongoing infrastructure push.

Impact: AFCs can expect sustained lending demand; however, they should monitor shifting borrower credit profiles in a possibly higher-rate environment.

Residual Value & Used-Asset Risk: Rising new-vehicle sales also risk pressure on used-vehicle inventories (holding negative carry). With repo/debt stable, used vehicle prices may correct. AFCs should stress-test portfolios for potential higher residual value risk. Continue prudent repossession and remarketing practices.

Interest-Rate Sensitivity & Funding Trends: With repo steady at 5.25%[9], AFCs' borrowing costs have stabilized after last year's cuts. However, corporate bond yields (especially for lower-rated issuers) have ticked up slightly. Funding through securitisation/market bonds remains accessible for top-tier NBFCs; smaller AFCs face modestly wider spreads. Action: AFC treasury teams should lock in funding early if anticipating any tightening. Repricing loan books and asset-liability management (ALM) planning is key as fixed-rate inventory converts.

Securitisation & Refinance: The government's budget and RBI focus on refinancing schemes (e.g. for EVs, MSMEs) could offer new avenues. Monitor RBI/NHB announcements on refinance windows (especially for rural & equipment finance). Use of pool finance and NHB refinance for farm/equipment loans remains crucial to maintain spreads.

Sector Outlook: Overall, the asset finance sector appears poised for growth in 2026 given robust underlying demand and policy support (e.g. production-linked incentive schemes for auto). However, AFCs must remain watchful on margin pressure (if banks regain traction) and asset quality (cycle risk in CVs/CE during rate normalisation). Charts (textual): For instance, a summary table could be:

Indicator	Recent Trend
Auto Sales (Jan 2026)	2W +20% YoY; PV +7% YoY[23]
Infra Budget Outlay (FY26)	↑ At ₹11.1 Lakh Cr (23% of budget)
Policy Repo Rate	5.25% (Feb'26, unchanged)[9]
10Y G-Sec Yield	~6.7% (Feb'26)[10]
NBFC Asset Growth	+18.9% (FY25)[12]

Each AFC should align strategic plans with these market signals.

3. Income-Tax & Direct Tax Updates

Budget 2026 Proposals: The recent Union Budget (Feb 1, 2026) brought some tax changes (higher rebate limit, surcharge cuts, LTCG cap at 20%, etc.) that largely affect individual/FDI investors. There were no NBFC-specific tax benefits announced. NBFCs and AFCs should note the increase in threshold for audit under new rules (business turnover threshold revised upward), but core corporate tax rates remain unchanged.

Provisioning / ECL Tax Treatment: NBFCs following Ind-AS (ECL provisioning) will continue reconciling RBI's default guarantee (DLG) adjustments with tax provisions. The RBI's recent enforcement on DLG (see Section 5) suggests tax authorities will scrutinise aggressive provisioning claims. Ensure that tax provisioning (e.g. for NPAs/ECL) aligns with RBI norms; extra tax disallowance issues may arise otherwise.

TDS/TCS Rules: From Apr'25, TDS on rent, commission, dividends, etc., has tightened but these are general corporate updates. NBFCs should ensure compliance with any new TDS/TCS circulars (e.g. on cash transactions, pan mandatory levels).

Tax Audit and Reporting: The Finance Act revisions on thresholds (e.g. carry-forward of losses now limited for debt fund holders) have no direct NBFC impact except for treasury investments. NBFCs should ensure tax audit schedules (Form 3CD) reflect the new related-party disclosures requirement (matching RBI's new directions) once finalised.

Significant Rulings: There were a few high-court/SC decisions (on issues like PF/ESI deductibility, infrastructure project deductions, etc.) in Jan 2026. These generally concern construction/service companies. NBFCs should monitor any SC rulings on 'income from financial services' classifications, but no major NBFC tax cases surfaced recently. If anything, ongoing disputes on income recognition (e.g. on financing fees or penal charges) remain at forums.

Practical Implication: NBFC tax teams should cross-check that any increases in provisioning or write-offs (driven by RBI's regulatory changes) are backed by accepted tax positions. They should also update accounting policies (e.g. on amortisation of revenue from contracts) if budget announcements or CBDT circulars touched those topics. In sum, the tax landscape has shifted marginally, but routine compliance (TDS, audits) sees the main impacts.

4. Financial Markets & Macro Environment

Monetary Policy: In February 2026, the RBI maintained the repo rate at 5.25% (neutral stance)[9], citing strong growth (FY26 GDP ~7.4% est.) and benign inflation. The standstill was broadly anticipated given inflation is low (CPI ~3.4% in Dec'25) and core inflation stable. NBFC lending rates and ALM plans should assume a continued pause near-term, but watch for any Fed moves or fiscal shifts that could alter currency/liquidity trends.

Yield Curve: The 10-year G-sec yield has been anchored in the 6.6–6.7% band as of mid-Feb[10]. For example, on Feb 13 it was ~6.68%[10]. Over January, yields inched slightly higher (~+4bp), but remain below year-ago levels by about 8bp[10]. RBI's recent bond buyback (Rs.755bn of 2027 paper) and stable inflation (Jan CPI ~2.75%) have helped stabilize yields[24][10]. For NBFC borrowing, this means term debt continues to price around this range. Risk spreads (e.g. AAA corporates at ~7.0-7.2%) should be monitored, but no sharp rise is evident yet.

Liquidity & Credit Flows: The banking system remains moderately liquid. RBI conducted a ₹1 trillion Variable Rate Repo (5-day) on Jan 2 to infuse liquidity for year-end pressures[11]. Combined with seasonal FX inflows, overnight rates have stayed below the policy corridor. In its Jan Bulletin, RBI noted that both bank and non-bank channels are fueling credit growth[25]. In fact, credit offtake has been strong – commercial bank credit grew ~12% YoY (as of Dec'25) while NBFC credit grew even faster. According to RBI/Fitch, NBFC balance-sheets expanded ~18.9% in FY25[12], reflecting an 11-12% credit growth run-rate recently.

Bank vs NBFC Credit: A BCG report noted NBFC credit growth (~17% YoY in H1FY26) far outpaced banks (~12%)[26]. This trend is a carry-over, as NBFCs (especially gold & microfinance lenders) rode last year's credit cycle. As banks raise deposit and lending rates gradually (MCLR up ~25bp in late 2025), NBFCs may face some margin pressure, but their growth momentum is currently robust.

Liquidity Conditions: Overall liquidity is ample, reflected in soft LAF rates and rising banking sector deposits (~12% YoY). With government cash balances around normal levels and RBI's calibration via OMOs/VRRR, systemic liquidity remains in small surplus. NBFC treasury desks should keep an eye on any idiosyncratic tightness (e.g. due to bulk bond issues) but are unlikely to face severe funding squeezes imminently.

Inflation & Macro: CPI inflation has stayed well within RBI's 2-6% band (Jan CPI 2.75%[24]). The MPC has flagged global uncertainties but domestically growth is the priority. NBFCs should prepare for a growth-friendly environment continuing, which supports credit demand, while keeping an eye on any uptick in rural inflation (food) or geopolitical jitters that could force RBI's hand later in 2026.

5. Compliance & Governance Watch

Enforcement Actions: RBI remains vigilant. In early Jan 2026, the RBI cancelled the registrations of 35 NBFCs (primarily for non-compliance or voluntary surrender) and accepted 16 surrenders[13]. Penalties were imposed on several lenders: Jharkhand-based Pinnacle Capital (NBFC) was fined ₹1 lakh for violating Digital Lending Guidelines on default loss guarantees[14], and two Mumbai NBFCs (Sankhya Fin Services & Shaha Finlease) shared a ₹50k penalty for other lapses[27]. These actions signal RBI's continued crackdown on regulatory breaches, especially in digital lending and KYC/AML.

Supervisory Focus: Apart from specific fines, RBI's messaging in 2025 has stressed strong board governance and controls. NBFCs should note RBI's heightened scrutiny on outsourcing controls and group exposures. The new Internal Ombudsman regime (see above) and the draft responsible lending norms indicate an emphasis on customer-facing risk management. Compliance teams must ensure that policies on outsider conduct (e.g. recovery agents, brokers) are up-to-date.

Audit and Risk-Management:

RBI's ongoing inspections will likely focus on IT and cybersecurity (given past observations). NBFCs are also expected to update their Risk Appetite Statements in line with Scale-Based Regulation thresholds. The introduction of "Specified Employees" and mandatory RP lending limits (under the new related-party directions[28][29]) means internal audit should expand scope to include those areas. Boards need to review their credit and market risk frameworks to align with any new concentration or risk-weight directives (e.g., infra exposure norms[6]).

ESG and Governance Trends:

While no new RBI mandates on ESG appeared in the period, global trends push NBFCs to integrate sustainability. NBFCs are encouraged to track climate-related credit risks (e.g. long-tenor infra assets) and have begun disclosing governance practices in annual reports. Ethical lending (especially given India's Consumer Protection laws) and strict anti- harassment norms (see below) are becoming part of the compliance culture.

Recovery Agents & Ethics: RBI has drafted a comprehensive "Responsible Conduct" framework (Board-approved policies, ban on harassment, grievance redress etc.) for banks and NBFCs to adopt by July 2026[30][22]. Although not finalized, NBFCs (especially those with retail loans or NPAs) should pre-emptively review recovery practices and codes of conduct for agents. Board-level oversight of collection practices will soon be mandated.

6. Key Takeaways / Action Checklist

Review SBR Classification: Determine if your NBFC qualifies as "Type I" (no public funds, no customer interface) under the new RBI proposal. If so, evaluate restructuring (e.g. converting any minor retail business into group finance, keeping assets ≤ ₹1,000cr) to potentially exit RBI regulation. Prepare for Related-Party Norms: Revise credit policies to incorporate the new related-party thresholds (₹10cr/5cr/1cr)[18]. Identify existing RPTs and set up monitoring so that any renewal after Apr'26 meets the RBI's amended rules[19]. Update financial reporting systems to capture required RP disclosures[3].

Ombudsman Appointment: If your AFC meets the size/branch test, initiate the process to appoint a competent Internal Ombudsman by June 2026[5]. Align your grievance redressal mechanism with RBI guidelines and educate staff/agents about the new escalation channel.

Adjust Lending Strategy: Leverage the branch expansion deregulation (for gold loans) by planning for faster network growth. Conversely, if funding costs rise due to bank rate hikes, adjust product pricing and focus on secured lending to protect spreads.

Strengthen Compliance Systems: Audit your digital lending practices for adherence to RBI's DLG and fair practice rules (as non-compliance is being penalized[14]). Ensure KYC/AML policies are bulletproof to avoid enforcement. Board committees should be briefed on upcoming RBI drafts (recovery agents, marketing) to incorporate changes early.

Monitor Tax Developments: Keep track of Finance Bill implementation (e.g. any changes in allowable deductions or audit thresholds) that may affect year-end tax planning. Coordinate with finance teams to ensure RBI-mandated provisioning increases (e.g. following Demonetisation loss guarantees) are reconciled with tax provisions.

Market Sensing: Stay agile on funding: lock-in term borrowings if favorable, given yields near recent lows[10]. Watch sector credit trends – strong demand suggests growth targets may be raised, but prepare provisions against any mid-term cyclical slowdown.

Sources: RBI press releases and policy statements[4][25]; RBI/FIDC newsletters; industry analyses (ETBFSI, Vinod Kothari, Moneylife)[1][16][14]; RBI Bulletins and FSR[31][12]; market data[10][23].

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