

RESILIENT RECOVERY

Microfinance Finds Its Footing Again

Building a resilient, responsible and
inclusive microfinance ecosystem

A joint report by TransUnion CIBIL and Sa-Dhan

OCTOBER 2026



Foreword by TransUnion CIBIL

Joint Liability Group (JLG) lending is vital to India's economic growth at the most diverse and expanded part of the pyramid of our country population. It is essential for driving financial inclusion by extending formal credit to underserved and unserved communities. Beyond access to credit, JLG lending fosters opportunity, resilience, and local development by empowering women micro-entrepreneurs and the communities at large. The sector has for long acted as a bridge between formal finance and the informal economy – facilitating access to millions of informal micro women entrepreneurs in their aspiration for growth and development.

Over the past decade, India's microfinance sector has evolved considerably, adapting to regulatory reforms, digital innovation and changing borrower needs. In 2024, the sector faced a slowdown driven by borrower over-indebtedness, rising non-performing assets (NPAs), and other macroeconomic challenges. While steps were taken to address these headwinds and course corrections are seen clearly in the headline numbers, there is a new phase starting and we are seeing more data and borrower credit behaviour-based lending coming into action. Lenders, policymakers and development institutions must continue to deepen their understanding of the microfinance landscape by monitoring credit behavior, repayment patterns and market trends.



At TransUnion CIBIL, we remain committed to supporting the sector's long-term development by enabling data-backed insights and analytics that empower informed decision-making. Through our research and partnerships, we aim to foster a resilient and inclusive credit ecosystem, one that upholds the principles of financial inclusion while safeguarding systemic stability. This joint report reflects that commitment by providing a comprehensive assessment of the current state and health of India's microfinance lending landscape, offering valuable perspectives to help stakeholders navigate change, manage risk, and drive inclusive, sustainable growth across India.

BHAVESH JAIN

MD & CEO, TransUnion CIBIL

Foreword by Sa-Dhan

India's microfinance sector continues to be an important pillar of the country's financial inclusion journey, enabling millions of low-income households, particularly women and underserved communities, to access formal financial services and credit. Over the years, the sector has evolved significantly, expanding its reach while continuously strengthening its focus on responsible lending, customer protection, credit discipline, institutional resilience and data-driven decision-making. This evolution reflects the sector's commitment to ensuring that the benefits of financial inclusion are sustained through a balanced approach to growth, innovation and responsible finance.

It is therefore my pleasure to present the Sa-Dhan–TransUnion CIBIL Resilient Recovery, microfinance report based on data as of June 2026. Following the first edition published in 2025, this report represents our continued endeavour to provide stakeholders with a comprehensive, data-driven perspective on the changing dynamics of the microfinance sector.

The year ended March 2026 has been a period of significant recalibration for the industry. After several quarters of portfolio contraction, the sector has begun to show early signs of stabilisation. Industry data indicates that the microfinance portfolio stood at approximately ₹3.3 lakh crore as of March 2026, with portfolio growth returning in the fourth quarter. Disbursements during January–March 2026 also recovered to around ₹78,000 crore, signalling renewed credit activity following a prolonged period of cautious lending. At the same time, annual disbursement volumes remained below the previous year, reflecting a more measured approach to credit expansion.



Perhaps more importantly, the improvement in portfolio quality provides encouraging evidence of the sector's ongoing correction. The 30+ days past due delinquency rate fell sharply to around 2.3% in March 2026, down from 6.6% in March 2025. This substantial improvement points towards stronger underwriting, enhanced collection efforts, greater credit discipline and a gradual strengthening of borrower repayment behaviour.

The data also reflects an important change in the nature of credit growth. The industry is moving away from a phase characterised by rapid expansion towards a model where growth quality, borrower indebtedness, and credit sustainability receive greater attention. The implementation of guardrails has reduced originations among borrowers with multiple lender relationships and higher outstanding indebtedness. This is an important development, particularly given the lessons emerging from the stress witnessed across parts of the sector in recent years.

Foreword by Sa-Dhan

At the borrower level, this transition is equally significant. The moderation in multiple lending and improvements in delinquency indicate that lenders are increasingly using credit bureau information and borrower-level data to make more informed lending decisions. Going forward, the quality, timeliness and comprehensiveness of credit information will remain fundamental to ensuring that credit reaches the right households in an appropriate and sustainable manner.

At the same time, the sector's fundamentals remain strong. Microfinance continues to serve a large and geographically dispersed customer base, while its role in enabling livelihood creation, consumption smoothing and access to formal financial services remains important. The continued graduation of microfinance customers into other formal credit products also presents an opportunity for lenders to deepen financial inclusion beyond traditional microcredit, while ensuring that such diversification remains appropriate to borrowers' repayment capacity. Recent sector data points to increasing overlap between MFI borrowers and retail credit, underscoring this evolving relationship between microfinance and the wider formal financial ecosystem.

The next phase of the sector's journey will therefore require a careful balance between credit growth and credit discipline. Sustaining the improvement in asset quality while meeting genuine credit demand will require continued attention to household income assessment, responsible indebtedness, credit bureau reporting, customer protection and institutional resilience.

For Sa-Dhan, responsible growth has always been central to the development of a sustainable microfinance ecosystem. As the Self-Regulatory Organisation for the sector, we remain committed to strengthening responsible lending practices, borrower protection, transparency and adherence to appropriate market conduct. We believe that robust data and credible analysis are indispensable to this effort.

The Sa-Dhan–TransUnion CIBIL Resilient Recovery report as of June 2026 seeks to contribute to this process by bringing together insights on portfolio trends, credit supply, borrower indebtedness, asset quality, lender behaviour and regional developments. We hope that the report will serve as a useful reference for regulators, policymakers, lenders, investors, researchers and other stakeholders in understanding both the progress made and the challenges that remain.

I would like to congratulate the teams at Sa-Dhan and TransUnion CIBIL for their continued collaboration and commitment to strengthening transparency and evidence-based dialogue within the microfinance sector. I am confident that the insights presented in this edition will contribute meaningfully to the sector's journey towards responsible, resilient and inclusive growth.

Jiji Mammen

ED & CEO, Sa-Dhan

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This research report is based on data submitted to TransUnion CIBIL by credit institutions for loans given to Individuals, JLG Groups and JLG Individuals over the last 7 years in the microfinance industry.

EXECUTIVE SUMMARY



Executive Summary

The microfinance portfolio stands at INR 3.3 Lakh Crore as of June 2026 coming out of a challenging period with higher default rates and new guidelines were put into place to ensure risk of leveraging is controlled via industry accepted practices. In the latest quarter ending June 2026, the origination volumes have dropped compared to previous year though still reviving and not contracting. The industry is still looking to make its way back up to the volumes observed in 2024.

Given this revival, it is imperative that the industry continues to monitor and build the portfolio responsibly and ensure stability. In recent quarters, lenders have actively implemented the new guardrails, leading to a continued reduction in the share of originations by borrowers with more than two active lenders, as well as those originating loans with exposure exceeding ₹1 lakh. Such measures continue to help curb borrower indebtedness, and this is also reflected in better vintage defaults and portfolio delinquencies.

While overcoming the challenges faced by the sector, the portfolio has seen a 6% decline year on year which has also led to a decline in credit-active microfinance borrowers over the past year. Using data and analytics can help in bringing back these erstwhile borrowers into the credit fold. There also remains a significant headroom for expansion which will help further the cause of financial inclusion.

On the asset quality front, delinquency rates measured up to 179 days past due (DPD) across 30+, 60+, and 90+ DPD buckets have declined quarter on quarter as of June 2026. From an absolute balance perspective as well, there has been a decline across 30+ and 90+ DPD buckets during the same period indicating improved portfolio performance. The new portfolio added from sourcing done in the recent quarters with improved policies and guardrails should continue to improve the portfolio health. While the bucket stocks have improved, the last 12 months have witnessed a higher flow into the 180+ DPD buckets.

NBFC-MFIs, with strong borrower engagement and last-mile connectivity, are well-positioned to expand into need-based lending for their borrowers. Currently, about 18% of borrowers already use non-microfinance products, and as aspirations rise, so will their financial needs. Having supported borrowers at the start of their credit journey, NBFC-MFIs now have an opportunity to broaden their offerings and meet evolving requirements, reinforcing their role in driving inclusive growth.

ECOSYSTEM OVERVIEW



Ecosystem Overview

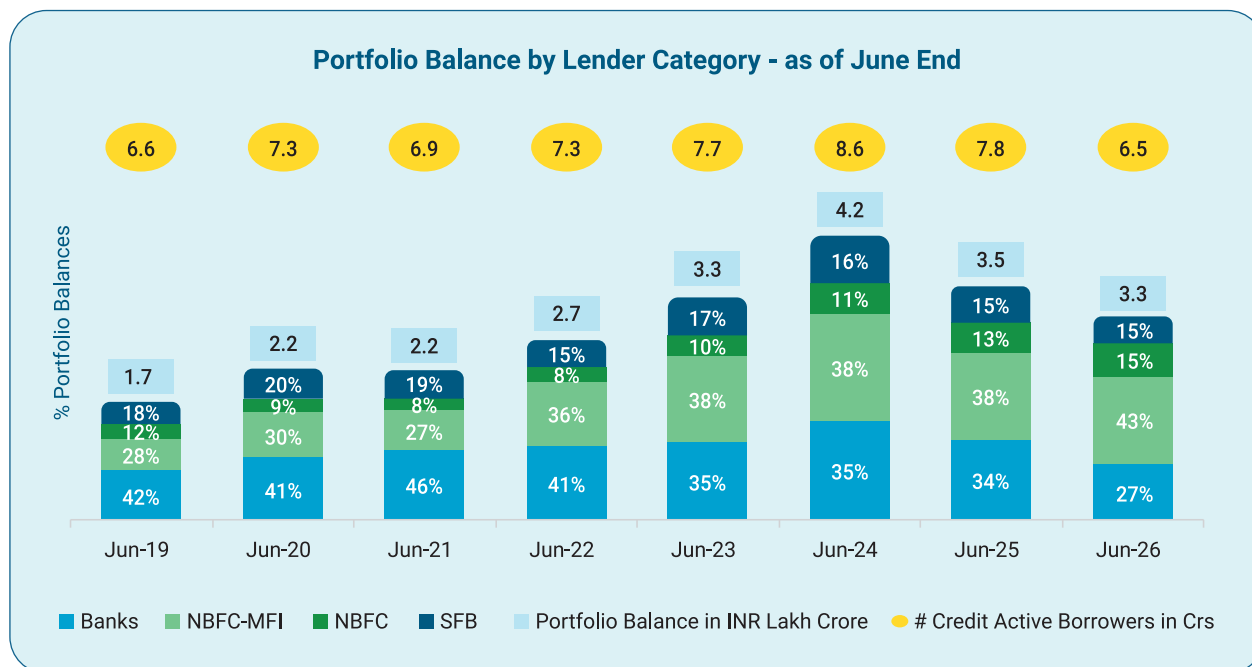
Section Highlights

Over the past seven years, India's microfinance ecosystem has evolved significantly, shaped by macroeconomic shifts such as the COVID-19 pandemic and regulatory guidance issued by Reserve Bank of India. While the industry experienced periods of growth with the peak observed in March 2024, FY25 onwards marked a slowdown driven by rising borrower over-indebtedness, an increase in non-performing assets (NPAs), and broader economic pressures. In response, Self-Regulatory Organisations (SROs) introduced more stringent underwriting guardrails aimed at curbing borrower indebtedness and enhancing asset quality. Over the last year and a half, we have seen adherence and furthering of the better practices by the lenders in this space, owing to which we have seen strong bounce-back in the asset quality, be it the portfolio delinquency or vintage defaults which have reduced down to an all-time low.

Shifts in lender composition have also been notable. Banks, which held the largest share of the portfolio at 42% in June 2019, saw their share decline to 27% by June 2026. This trend coincides with the growing presence of Non-Banking Financial Companies (NBFCs), whose share rose from 8% in June 2022 to 15% in June 2026. NBFC-Microfinance Institutions (NBFC-MFIs) also expanded their footprint, increasing their share from 28% in June 2019 to 43% in June 2026, making them the largest contributors to portfolio balances.

From a geography standpoint, the top states of Tamil Nadu, West Bengal, Bihar, Karnataka, Maharashtra, and Uttar Pradesh have consistently contributed the highest share of borrowers to the overall ecosystem in the past 7 years with Bihar seeing the highest growth. Among the top states (with at least 4% share of total credit active borrowers) - Bihar, West Bengal, Madhya Pradesh, and Rajasthan continued to record the highest growth in overall credit-active population highlighting a rising engagement within these regions. Enhancing credit awareness among these borrowers will be key to fostering responsible financial behavior and strengthening the microfinance ecosystem.

While reduced year on year, sequentially there is now growth in JLG portfolio

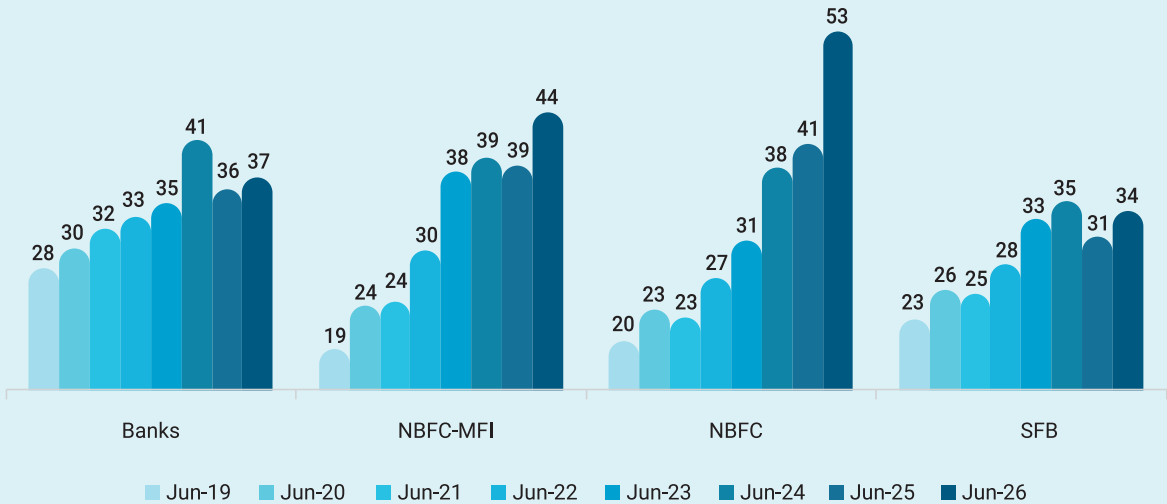


As of June 2026, portfolio balance was INR 3.3 lakh crore; NBFCs gained 2% share year-on-year, while NBFC-MFI gained 5% share. Credit active borrowers at an overall level declined 17% year over year as of June 2026.

Banks Includes PSU, PVT, Co-ops & RRBs, NBFC-MFI includes NBFC-MFI & MFI

Increasing credit requirements are being met by JLG loans showcased in increasing Average Balance per borrower

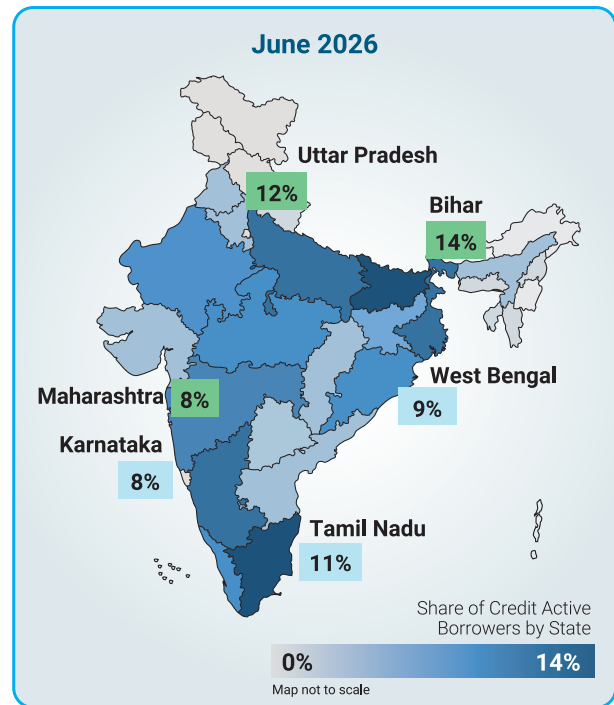
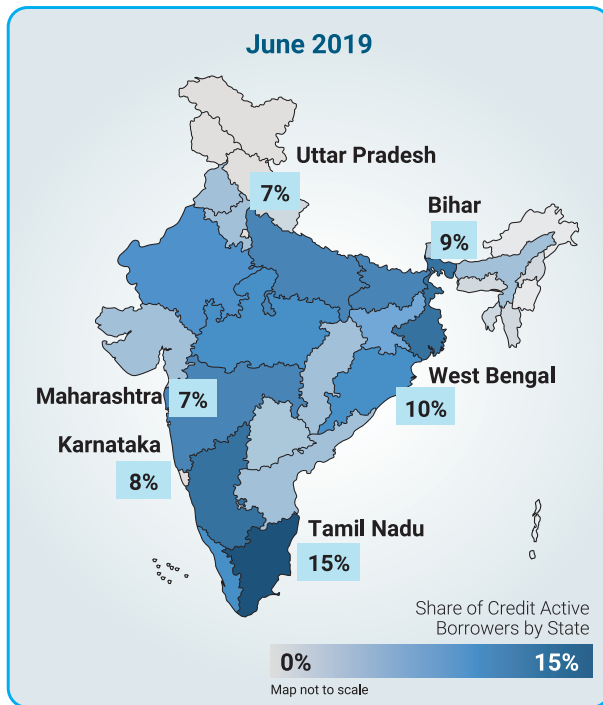
Average Portfolio Balance per Borrower by Lender Category in INR '000 - as of June End



The average portfolio balance per borrower which was in the range of INR 20,000 to INR 28,000 as of June 2019 has increased to INR 34,000 to INR 53,000 as of June 2026 with NBFCs increasing the most from INR 20,000 to INR 53,000.

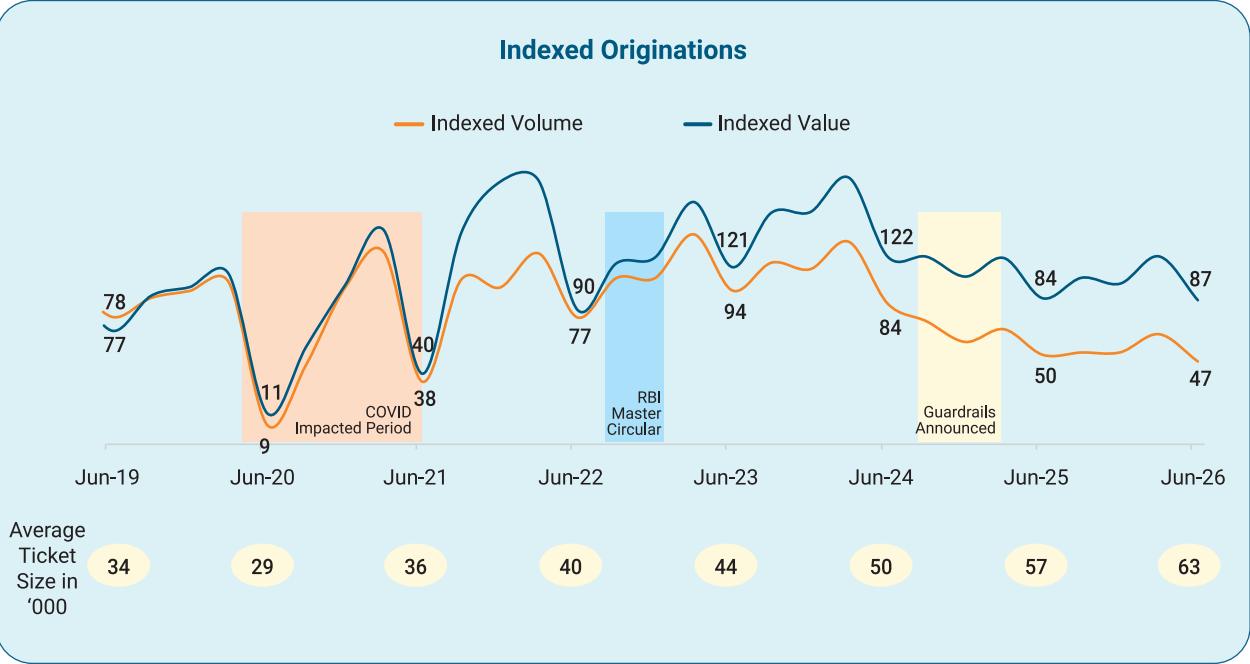
Banks Includes PSU, PVT, Co-ops & RRBs, NBFC-MFI includes NBFC-MFI & MFI

North and West regions continue to be greenshoots of JLG growth



Over the last 7 years, the share of credit active borrowers has shifted from southern states like Tamil Nadu to northern states like Bihar and Uttar Pradesh

Credit Supply Overview



Originations have steadily risen from June 2019 following a cyclical pattern till June 2024, post which the sector saw a slowdown. With the introduction of guardrails and decline in credit supply, it is imperative to understand borrower attributes in credit supply over the last 3 years and its implication on the portfolio and its quality. Such insights could further assist in building a resilient, responsible, and inclusive microfinance sector.

Index: Mar '19 = 100; COVID impacted period from Mar '20 to Jun '21; RBI Master Circular effective Oct '22; Guardrails Announced by SROs in Dec 2024

BUILDING A RESILIENT SECTOR



CREDIT SUPPLY

Trends in Originations



Credit Supply - Trends in Originations

Section Highlights

Over the past three years, the supply of credit in the microfinance sector has experienced a cyclical slowdown, primarily driven by indebtedness amongst microfinance borrowers, rising NPAs and broader external economic pressures.

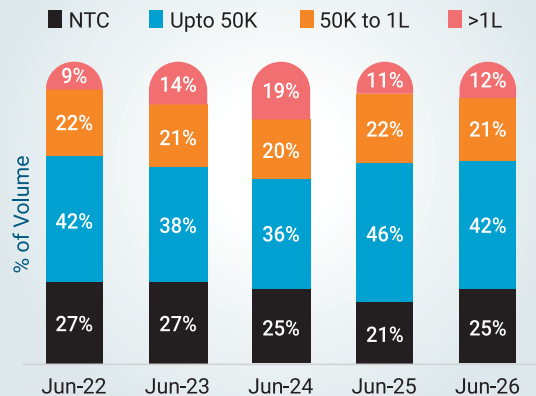
While the recent slowdown has impacted all segments of microfinance lending, notable shifts have emerged in certain borrower profiles as lenders adapt to the new guardrail conditions. New-to-Credit (NTC) originations have remained stable at 25% in the quarter ending June 2026 compared to 27% in the quarter ended June 2019, though we did notice a high drop last year at 21% for quarter ended June 2025 with caution in market towards NTC borrowers. Lenders are increasingly underwriting originations from within their existing and active borrower base, as can be seen with the rise in originations to the 'active with lender' segment of borrowers. This segment also demonstrates a significant trend: borrowers receiving next-cycle loans from their current lender are nearly 8 times more likely to have three or more active loans compared to other borrower segments. Moreover, the proportion of borrowers with ≥ 3 active lenders is steadily reducing in recent past showing the importance of the guardrail conditions. Though additional review and validation at borrower level is a must to ensure better underwriting and understanding of the borrowers.

From a geographical standpoint, origination volume over the last three years has shifted to northern states such as Bihar, which now accounts for 17% of total originations (a 3% increase since June 2022), and Uttar Pradesh, with a 14% share (also up by 4% in the same period). As the share of northern states increased, southern states have seen a relative decline. Tamil Nadu has lost 5% of its share, while Karnataka has seen a 2% drop. However, signs of revival are visible in Telangana and Andhra Pradesh, where origination shares have increased, reaching 1% and 2%, respectively.

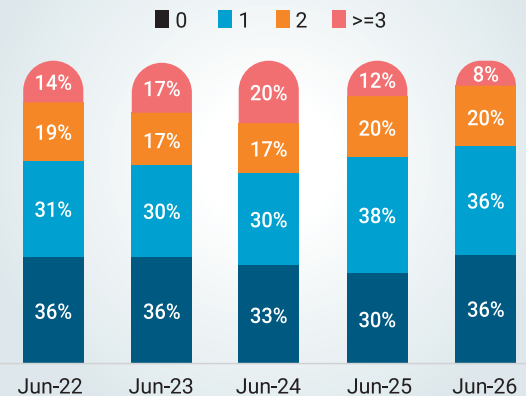
With these shifts in lending, early-stage delinquencies, measured as ever 30+ in 6 months on book, signaled signs of recovery reducing to just 0.8% for originations in quarter ending December 2025 from 3.2% for quarter ended December 2024.

Effective guardrails while have pulled the originations down though markedly improved the quality of portfolio built

Origination by Outstanding Balance
(3M Ended Period)



Origination by Number of Lenders
(3M Ended Period)



Disbursements to borrowers with outstanding between INR 50,000 to INR 1 Lakh have remained stable; we also note reduction in lending share to borrowers with 3 or more lenders first time in the 3 months ended June 2026 on continued basis.

Sa-Dhan's Implications for Lenders:

Sa-Dhan, as an SRO for MFIs, has played a vital role in ensuring responsible lending and client protection over the last ten years through various instruments, including a code of conduct that has been accepted and adopted by all micro lending institutions. Recently, after the COVID pandemic, it was found that the household indebtedness has increased significantly in comparison to the pace of restoration of repayment capacity. In response, Sa-Dhan laid down additional regulatory guardrails. These guardrails were based on the evolving market realities and had significant implications for NBFC-MFIs in their operations and outreach. Moreover, as a bridge between regulators and the industry, SROs play a crucial role in ensuring that members adhere to the regulatory framework while maintaining operational sustainability.

New to Book sourcing has again increased showing lender confidence on the adherence to new guardrails

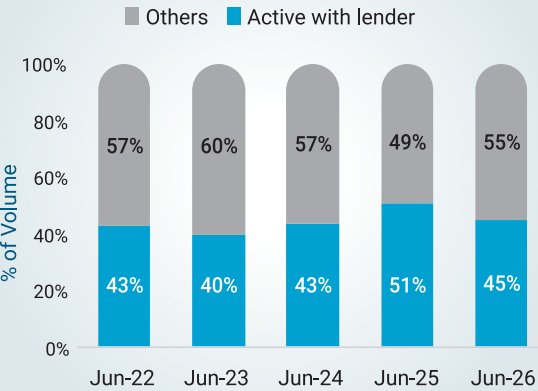
Active with lender -

Borrowers taking a new loan with lender where they have a loan running

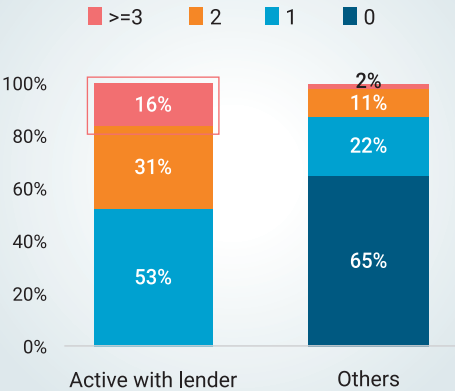
Others -

All other borrower segments like NTC, New to Lender, etc. have been grouped into Others

Origination by Borrower Type (3M Ended Period)



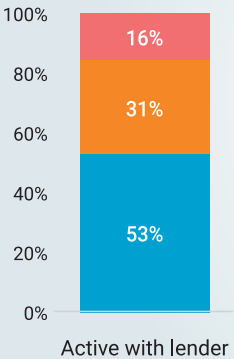
Origination by Borrower Type and Number of Lenders (3M Ended Period Jun '26)



Lenders have gradually increased originations in their existing live base over the last 3 years; this segment has ~8x more >=3 live lenders while giving next cycle loan to borrower. **This could be reviewed for policy consideration on next cycle loans.**

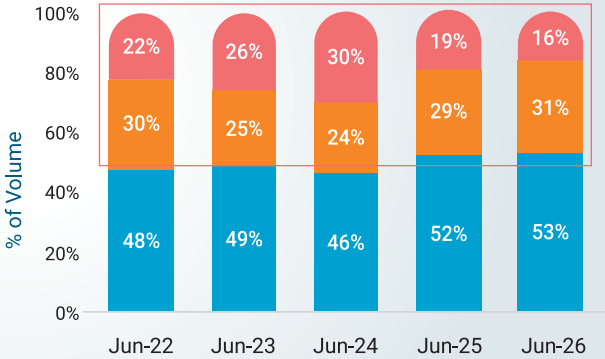
While reducing the number of lender norm needs to be adhered better for next cycle customers from existing base

Origination by Borrower Type and Number of Lenders
(3M Ended Period Jun '26)



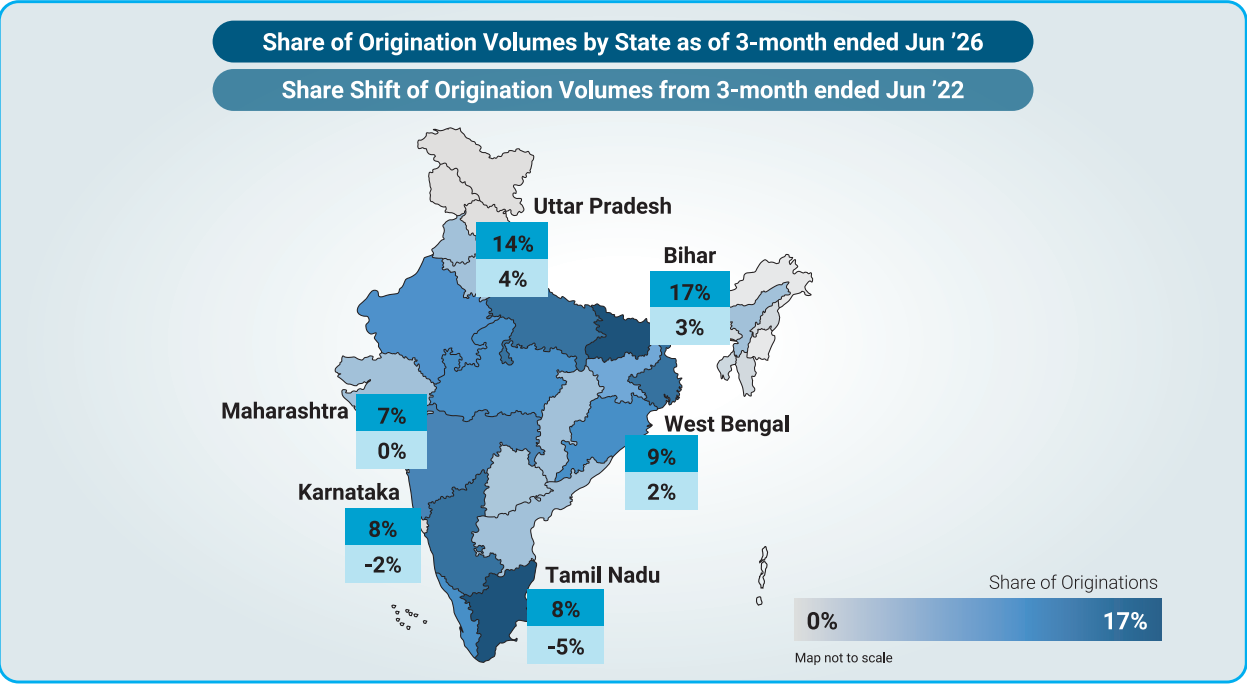
Live with Lender Originations by Number of Lenders
(3M Ended Period)

>=3 2 1



Additionally, the proportion of population with >=3 live lenders has been increasing in the borrower segment of focus for lenders.

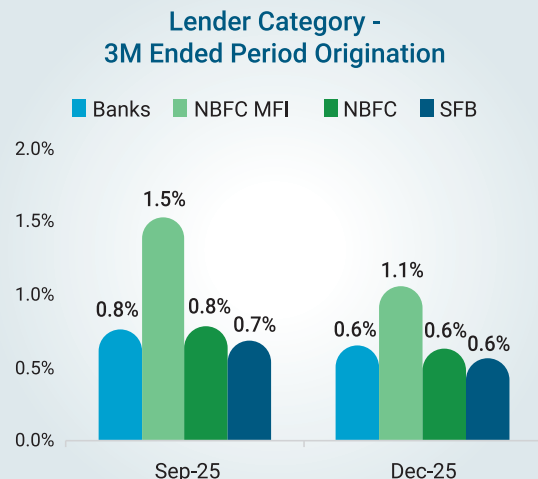
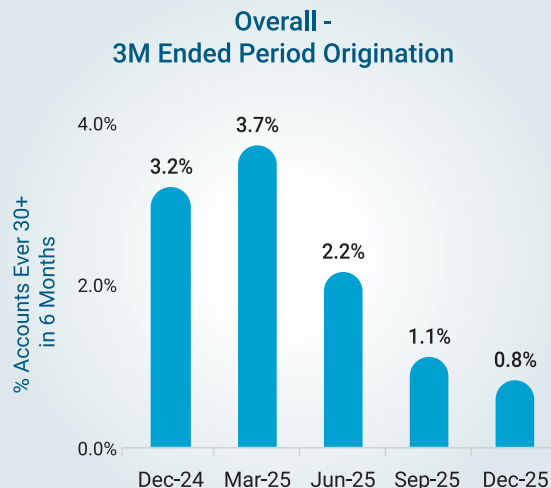
North states have continued to contribute to the new originations with base expansion



Impact States	Telangana	Andhra Pradesh	Assam	Odisha	Rajasthan	Kerala
Share of Origination Volumes as of 3-month ended Jun'26	1%	2%	3%	5%	4%	2%
Share Shift of Origination Volumes from 3-month ended Jun'22	0.60%	1.00%	2.50%	-1.70%	-0.40%	-1.10%

As of 3-month ended June 2026, the Top 6 states make up 63% of overall originations by volume

Vintage defaults are at their lowest over a long time and clearly show positive adherence to the guardrails

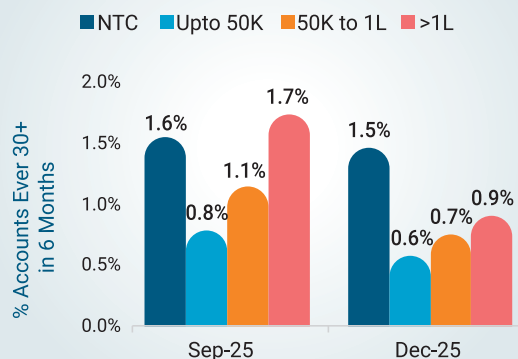


Early delinquencies, measured as Ever 30+ in 6MOB, improved to 0.8% in originations for the quarter ended December 2025, signaling initial signs of recovery for all lender cohorts, although slightly higher for NBFC MFIs.

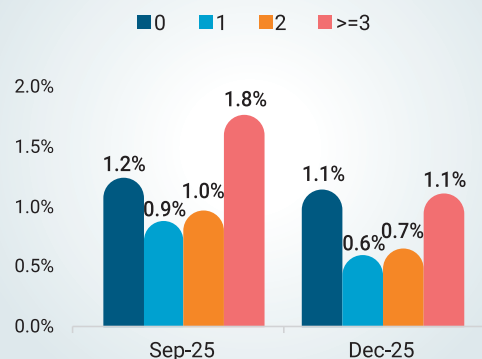
Banks Includes PSU, PVT, Co-ops & RRBs, NBFC-MFI includes NBFC-MFI & MFI

NTCs have higher vintage defaults, though higher outstanding balance also correlates with higher default rates

Outstanding Balance -
3M Ended Period Origination



Number of Lenders -
3M Ended Period Origination



The most notable improvement, from an outstanding balance perspective, was observed amongst borrowers with >₹1 lakh exposure at the time of origination. Additionally, originations by borrowers with more than two active lenders also showed the greatest improvement.

Vintage delinquency is calculated as % of accounts ever 30+ DPD in 6 months from origination. E.g. Origination of Oct-Dec period was measured in Apr-Jun of next year

PORTFOLIO & PERFORMANCE

Monitoring and Managing



Portfolio & Performance – Monitoring and Managing

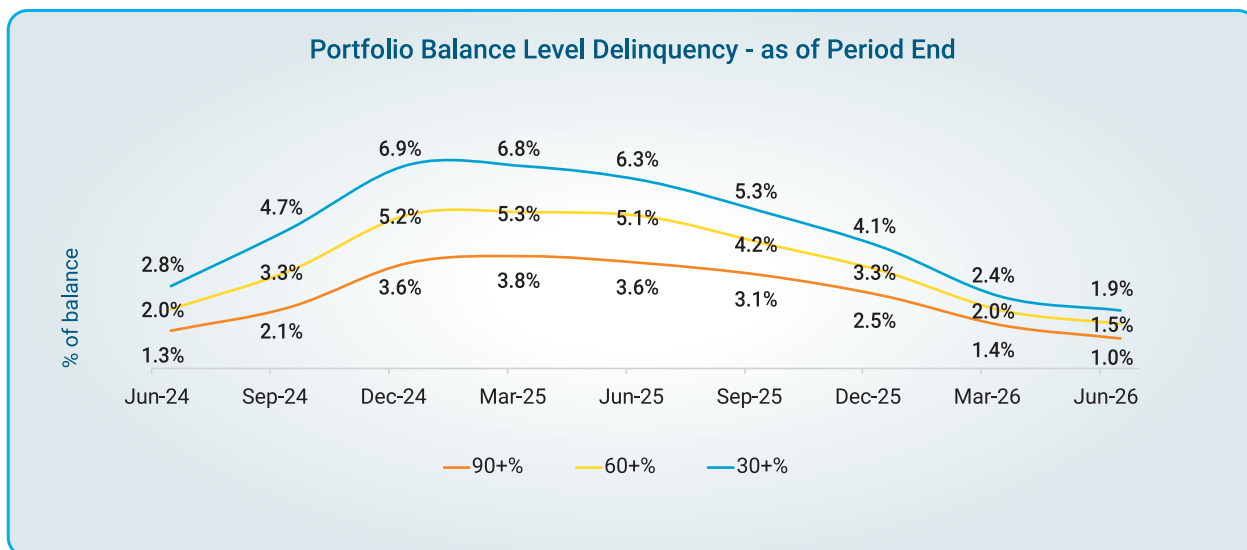
Section Highlights

The impact of guardrail conditions has over time shown the strong positive effect on industry portfolio quality. Delinquency rates measured up to 179 DPD—across 30, 60, and 90 days past due (DPD)—have shown consistent quarter-on-quarter improvement. Notably, 90+ DPD rate declined from 3.6% in June 2025 to 1.0% in June 2026.

Portfolio balances have declined across all delinquency buckets as of June 2026, supported by a steady reduction in roll-forward rates since September 2024. This suggests improved containment of risk migration, yet these rates remain above average roll forward rates noted in June 2023 when sector performance was stronger. While progress is evident, the sector has not fully regained pre-stress stability.

At the same time, credit-active borrowers have declined by 17% year-over-year at an overall level, with most geographies seeing a contraction on a year-on-year basis.

Worst seems to be behind with significant improvement in portfolio quality

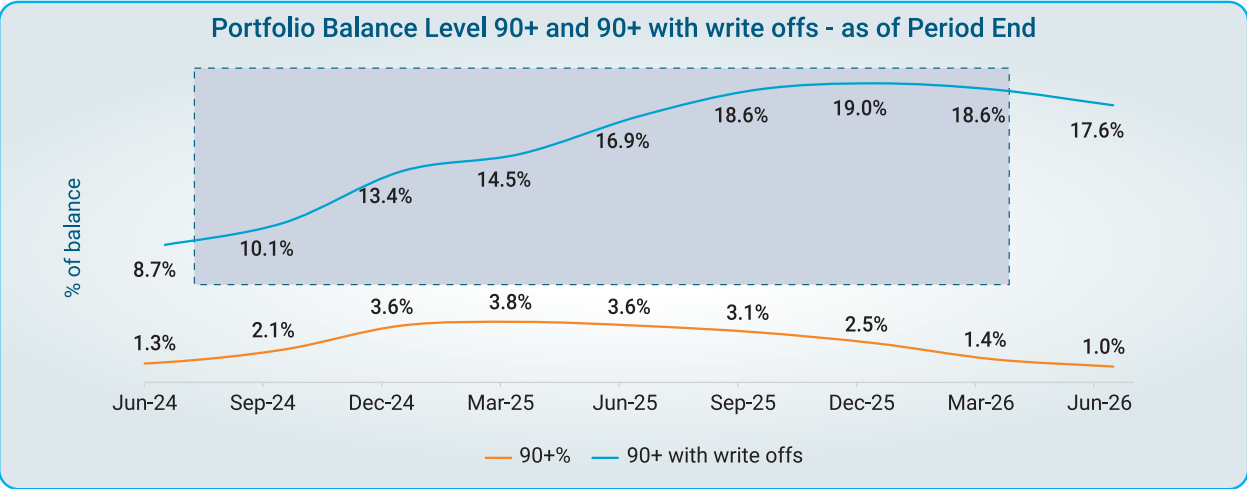


Standard metrics of portfolio performance 90+% improved by 260 basis points between June 2025 and June 2026, showing signs of recovery; but the 90+% including write off has continued to deteriorate on longer basis though with recent improvement with base expansion.

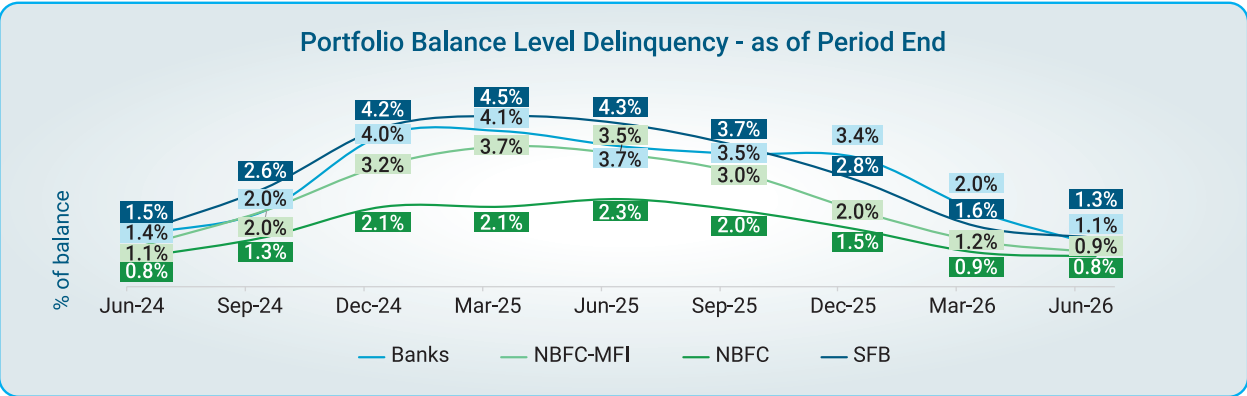
Sa-Dhan's Implications for Lenders:

The adoption of enhanced underwriting standards and self-discipline by MFIs has helped improve asset quality. This is evidenced by the consistent improvement in delinquency levels, with the PAR 30-179 days past due declining by 4.4 percentage points and the PAR 90-179 days past due falling by 2.6 percentage points since June 2025. This signals fewer early/mid-stage delinquencies according to the latest data (June 2026).

Including write offs the delinquencies are now trending down from latest quarter ended June 2026



All lender cohorts show improvement as at June 2026, implying a cohesive way forward to build stronger portfolio

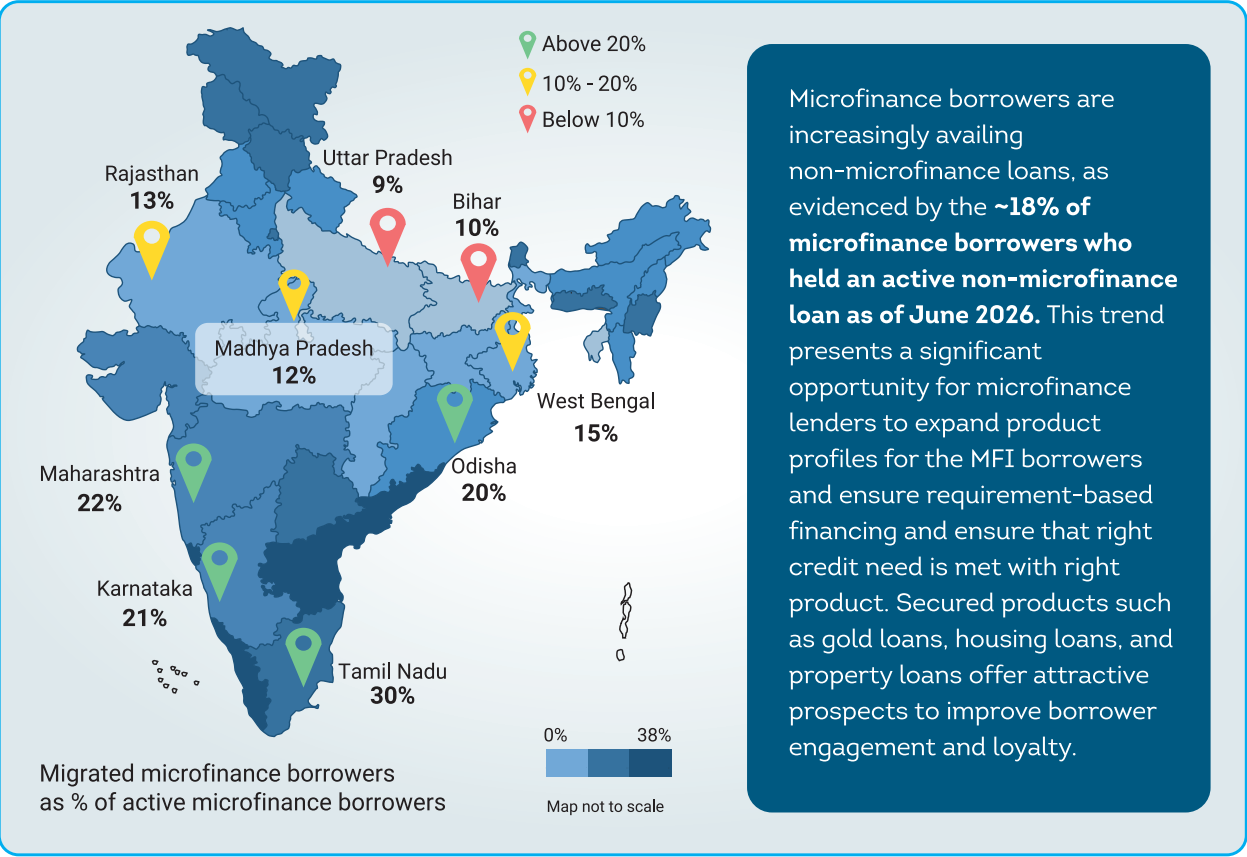


BUILDING BORROWER LIFETIME VALUE

Expanding to Newer Horizons



Microfinance borrowers are actively taking diversified non-microfinance loans across geographies



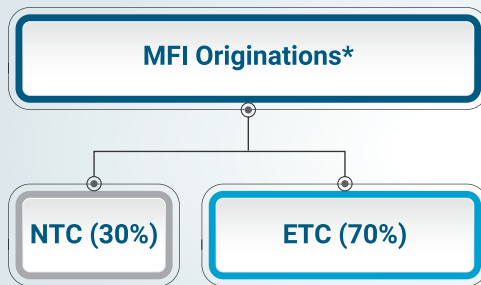
Secured Product Originations for 3M Ended Jun '25 in INR Crore | Ever 90+ in 12 MOB

Gold Loan	Housing Loan	Property Loan	Business Loan	Commercial Vehicle Loan	Two-Wheeler Loan
26,634 1.5%	2,603 1.2%	2,574 3.1%	1,430 3.4%	1,596 2.9%	541 4.8%

Borrower Behaviour based underwriting for JLG lending



Distribution of microfinance originations between NTC and ETC borrowers



NTC: continues as a significant portion of microfinance sourcing

ETC: has an existing microfinance loan

*Above distribution is for 3 months ended June 2025

Study Framework

We analyzed a sample of ETC borrowers who originated microfinance loans to identify differentiated segments of borrowers

We defined an analysis sample by looking at originations from t and their performance over the next 9 months

Borrower opens MFI loan at t



t = April 2025 to July 2025

$t + 12$ months

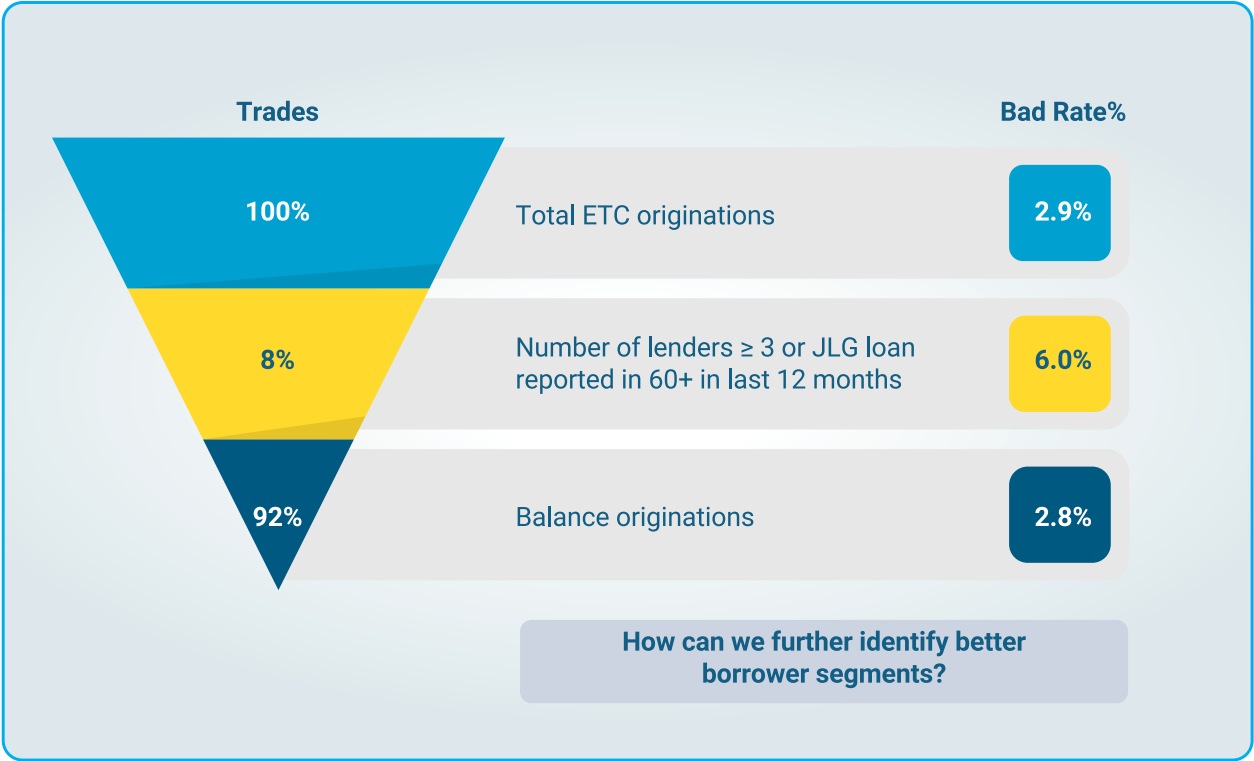
Observation:

We looked at credit underwriting conditions and Borrower Attributes at the time of origination of loan(s)

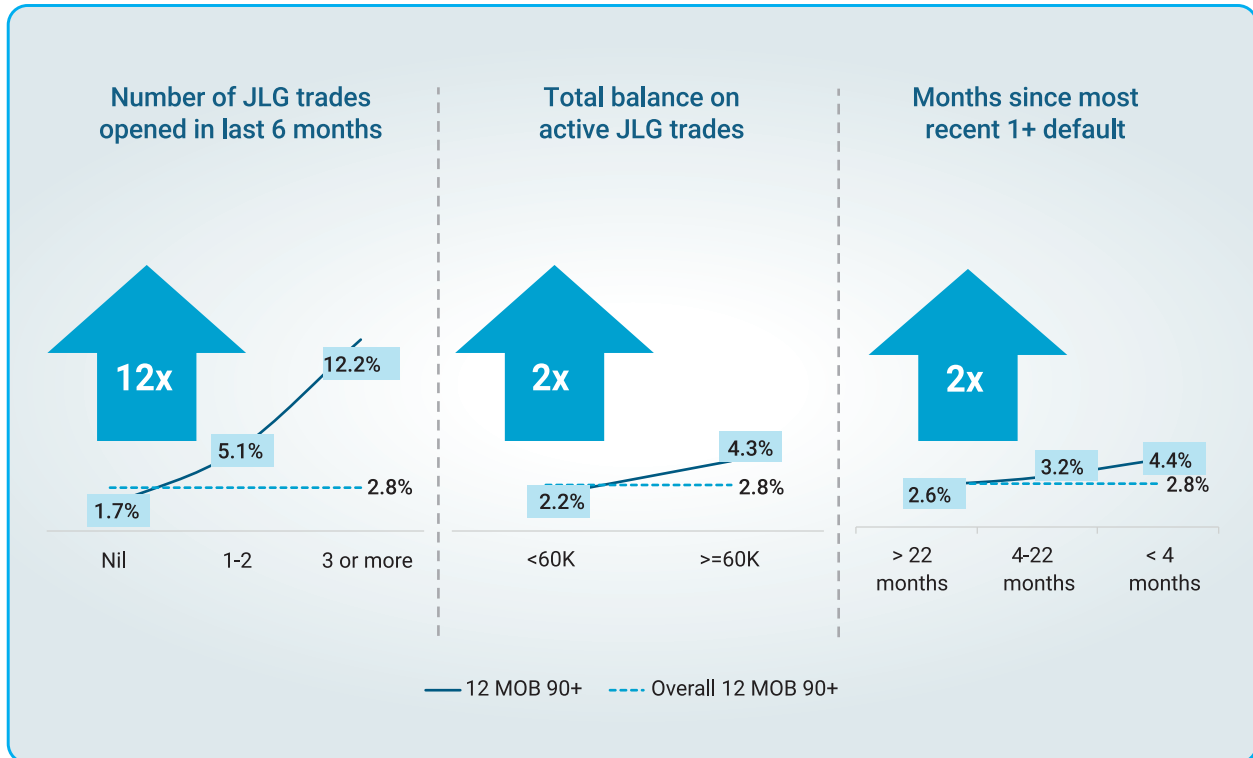
We measured

Bad Definition:
Ever 60+ DPD in 12 months
Bad rate: 2.9%

Even on applying credit underwriting conditions, we note a higher bad rate, which warrants a review of additional borrower attributes to further manage risk



Leveraging trended data to identify customer behaviors helps in sharpening borrower risk segments



Sa-Dhan's Initiatives Standing by the Members

Sa-Dhan's engagement with various stakeholders and support to its members, combined with guardrail stewardship, direct capacity building, and borrower-facing outreach, reflected the priorities as it worked through a recovery year.

Guardrail Governance and Field Oversight. Under its Sampark initiative, Sa-Dhan held structured one-to-one dialogues with top management—MDs, CEOs, COOs, CFOs, and CTOs—of member lending institutions to surface operational, financial, and governance issues directly. This was backed by field assessment visits across 21 states and more than 50 districts, reaching clients and staff to observe branch-level lending, collection and disclosure practices, alongside a proprietary district-level risk model that shortlisted the sector's top 100 higher-risk districts across nine parameters and flagged 53 districts as persistently high-risk over the year's last three quarters — concentrated mainly in Bihar, Karnataka and Rajasthan. An independent impact assessment of the Sankalp 2.0 guardrails conducted across more than 1,200 borrowers in 6 states and 16 MFIs confirmed a significant reduction in multiple lending and borrower over-leverage.

Funding Access: CGSMFI 2.0. Sa-Dhan's sustained advocacy with the Ministry of Finance and the RBI — including representations on a dedicated credit guarantee facility and meetings with the Secretary, DFS and the Secretary, Department of Expenditure led to the Government of India's launch, in March 2026, of the Credit Guarantee Scheme for Microfinance Institutions 2.0 (CGSMFI 2.0). The scheme provided a ₹20,000 crore guarantee corpus through the National Credit Guarantee Trustee Company, with the per-institution ceiling for larger NBFC-MFIs raised to ₹1,000 crore, ₹200 crore for mid-segment MFIs, and ₹100 crore for smaller MFIs, with a 20% AUM cap. In addition, Sa-Dhan followed up with financial institutions like NABARD, SIDBI, and MUDRA, and major banks like SBI, BOI, BOB, PNB, ICICI Bank, Axis Bank, IDFC Bank, etc., for a dedicated credit line to MFIs.

Code of Conduct Virtual Training. Sa-Dhan formalised regular engagement with Compliance Officers from member MFIs starting November 2025, running a sector-wide focus group discussion and more than ten individual sessions to surface ground-level compliance bottlenecks. This was complemented by state-level virtual training on the Industry Code of Conduct for member-institution staff, building consistent, ground-level application of the Code across member NBFC-MFIs' branch and field teams.

Peer Learning Webinars. Sa-Dhan convened the sector's first-ever Risk Officers' and Compliance Officers' meetings, which surfaced issues that fed directly into follow-on peer-learning webinars and thematic conclaves on risk management (Kochi), compliance (Lucknow and Bengaluru) and credit pricing, a published Guide on Corporate Governance, and a Best Practices Booklet. On compliance specifically, Sa-Dhan runs dedicated virtual training programmes on the Industry Code of Conduct for member-institution staff, building a steady cadence of state- and region-level CoC training across the membership.

Customer Awareness Programmes. Sa-Dhan's Customer Awareness Campaign in the Fields carried its client-protection mandate directly to borrowers, running Client Sensitisation sessions across Cuddalore, Kanyakumari and Dharmapuri in Tamil Nadu, Dungarpur and Banswara in Rajasthan, Indore in Madhya Pradesh, and Gorakhpur and Varanasi in Uttar Pradesh, reaching more than 1,000 microfinance clients on loan terms, interest rates and grievance redressal. This sat alongside a strengthened Grievance Redressal Mechanism — including a toll-free, AI-powered multilingual helpline — that resolved over 1,000 client grievances and 15 staff-related grievances during the year.

Sa-Dhan's Perspective

The View from the SRO – A Sector Consolidating Its Gains

As RBI-recognised Self-Regulatory Organisation for the microfinance institutions for the last 11 years, Sa-Dhan sits in a vantage point to understand the underwriting, collections and portfolio data of member institutions spanning NBFC-MFIs, banks, small finance banks and not-for-profit MFIs. That overlooking view – rather than any single lender's book – shapes the reading of this period. It is encouraging to see that a sector that internalised hard lessons through 2024–25 and is now visibly converting that discipline into steadier, better-quality growth across the board.

Portfolio-Wide: An Inflection Sa-Dhan Sees Repeated Across the Sector

The sector is undergoing a meaningful rebalancing as it emerges from the recent period of stress. As of June 2026, the microfinance portfolio stood at approximately ₹3.3 lakh crore, 6% lower than a year earlier, while credit-active borrowers declined by 17%. However, the changing lender composition highlights a key structural shift: banks' share of the portfolio fell from 42% in June 2019 to 27% in June 2026, while NBFC-MFIs rose from 28% to 43%, making them the largest contributors to the sector's portfolio. NBFCs have also increased their share to 15%. This evolving composition reflects a stronger role for specialist microfinance institutions with established borrower relationships and last-mile connectivity.

Asset Quality: The Guardrails' Effect Is Now Showing Up Sector-Wide

As custodian of the guardrail framework, Sa-Dhan tracks delinquency less as a lagging scorecard and more as a live indicator of whether self-regulation is holding across the membership. On that test, the signal is strong: PAR 1–180 days improved to 1.9% as of June 2026 from 6.3% the previous year. The 91–180 day bucket is down to 1%. This is not one segment cleaning up while others lag – the improvement is broad-based across the buckets we monitor.

RBI guidelines and Policy Support: Sa-Dhan's Assessment as SRO

The Sa-Dhan guardrails administers, capping active lender relationships, tightening household indebtedness thresholds and applying income-based eligibility, operate within the RBI's Scale Based Regulation and Master Direction framework, and our own cross-member analysis is the clearest evidence we have that they are working: the share of borrower households with more than five lender relationships has reduced. Those with over ₹1.5 lakh in outstanding exposure, roughly halved between March 2024 and March 2025. Sustaining that outcome, and extending it to the pockets of the membership still catching up, remains central to Sa-Dhan's supervisory agenda.

Government support has reinforced this trajectory. The extension of the Credit Guarantee Scheme for Microfinance Institutions (CGSMFI 2.0) to 31 August 2026, alongside a substantial increase in the per-institution guarantee ceiling for larger NBFC-MFIs from ₹300 crore to ₹1,000 crore, is a welcome funding tailwind. As SRO, Sa-Dhan's role now is to ensure this support reaches across the membership rather than pooling at the top, channelling CGSMFI 2.0's benefits toward smaller and mid-sized MFIs that still face funding constraints, while encouraging measured use of the newly permitted headroom for secured and non-microfinance products, up to 40% of an NBFC-MFI's portfolio, to diversify borrower relationships sector-wide.

Way Forward

Viewed from across the membership rather than through any single institution's results, the sector's trajectory is one Sa-Dhan can describe with genuine confidence: portfolio growth has returned, asset quality is improving on a broad front, the legacy default pool is shrinking, originations are rebounding within guardrail discipline, and policy support is reinforcing rather than substituting for that discipline. Sa-Dhan's task as SRO through the coming quarters is to keep this recovery broad-based across the membership, ensuring smaller and geographically concentrated institutions share in the gains. Hence, the sector converts this stabilisation into a durable, more resilient phase of financial inclusion.

Sa-Dhan's View on SHG Lending

India's microfinance sector runs on two rails. SHG Bank linkage programme and MFI led Joint Liability Group financing. The two models differ in the underwriting practice. MFIs underwrite with full bureau data. SHG-BLP lenders don't have it. SHG-BLP is the older and larger channel by borrower reach. As on 31 March 2026, 145.63 lakh SHGs covering about 16.95 crore rural households held savings of ₹79,669 crore with banks, and 83.24 lakh credit-linked groups carried bank loans outstanding of ₹3,33,077 crore¹. Taken together with the MFI channel's portfolio, the SHG channel accounts for roughly half of all microfinance credit outstanding in the country. Yet in bureau terms it remains a largely missing or reported as undifferentiated block.

Sa-Dhan's view is that this is one of the most consequential data gap in Indian microfinance and that it is a gap in information, not in credit quality.

Why it matters more in 2025-26 than it did before

Two things changed during the year. First, SHG asset quality dipped. After several years of steady improvement, gross NPAs on bank loans to SHGs rose to 2.00% as on 31 March 2026 from 1.74% a year earlier, with every region recording an increase. The stress is unevenly distributed: cooperative banks carry an NPA ratio of 7.01% against 1.93% for commercial banks and 1.22% for RRBs². Banks have separately flagged rising fraud and delinquency in SHGs, attributing it in part to members being active in multiple groups and to loans being diverted to consumption, and have proposed a unique registration number for every SHG and a central SHG registry for cross-verification³.

Second, the MFI channel completed a full stress-and-correction cycle under SRO guardrails, and in doing so demonstrated exactly what granular bureau data makes possible. Under Sa-Dhan's Sankalp 2.0 framework, 91% of surveyed borrowers recalled household-level bureau checks, proportion of borrowers with four or more lenders declined from ~20% to less than 5% at the industry level⁴. None of that correction would have been measurable, let alone enforceable, without member-level bureau data. The SHG channel has had no equivalent instrument. Further, for the "Impact Assessment of Sa-Dhan's Sankalp Guardrails on Micro-lenders and Microfinance Borrowers" study where Sa-Dhan interviewed sixteen member institutions for its Sankalp 2.0 impact assessment, credit bureau data quality emerged as the single most-discussed operational challenge, alongside a 15-30 day data lag and inter-bureau discrepancies. An MFI underwriting a woman cannot see the share of her group's bank loan that she actually services, so her household obligation is understated and a guardrail that caps household microfinance and retail exposure at ₹2,00,000 (Guardrail 2) can be complied with in form while being breached in substance. Equally, a bank lending to an SHG cannot see what its members owe MFIs, NBFCs and gold loan companies individually, so it prices and sizes a group loan without knowing the leverage of the members who will repay it.

1. The Bharat Microfinance 2026

2. The Bharat Microfinance 2026

3. <https://economictimes.indiatimes.com/industry/banking/finance/banking/rising-fraud-and-bad-loans-threaten-self-help-groups-banks-call-for-unique-registration-and-central-registry/articleshow/131470487.cms>

4. https://www.sa-dhan.net/wp-content/uploads/2026/05/Impact-study-Report_Final.pdf

Sa-Dhan's View on SHG Lending

Regulation has long anticipated the fix. RBI mandated the credit institutions financing SHGs to report member-level data to credit information companies as early as January 2016, and the requirement is carried forward in the RBI's Master Direction "Reserve Bank of India (Credit Information Companies) Directions, 2025", which specifies reporting in the Uniform Credit Reporting Format. Compliance, however, has lagged, and supervisory attention has now sharpened: in May 2026 RBI imposed a monetary penalty on a commercial bank specifically for failure to report SHG member-level data to CICs⁵.

Sa-Dhan's position on the SHG Credit Information Report

TransUnion CIBIL's initiatives for the Self-Help Group Credit Information Report (SHG CIR) is a welcome step. We see it as the natural extension of the discipline that transformed the MFI channel. But it will be useful only if all the regulated entities reports the member wise information to the credit bureaus.

In Sa-Dhan's assessment, the SHG CIR can serve following purposes:

- Assess group creditworthiness: Evaluates SHGs using aggregated member-level credit data across lenders.
- Uncover hidden borrower risk: Identifies multi-lender exposure within SHGs
- Strengthen underwriting decisions: Replaces manual, declaration-based assessments with bureau-backed insights.
- Accelerate credit appraisal: Enables faster, more consistent decision-making with structured data enabling business scalability.

Sa-Dhan envision that SHG CIR will be successful only if universal and timely submission by all SHG financiers including cooperative banks and RRBs; PAN/Aadhar based identity resolution; prospective rather than retrospective treatment of legacy group defaults; guardrail alignment; last-mile capacity building; and borrower awareness with DPDP-compliant consent are achieved. But it is a good beginning.

5. <https://etedge-insights.com/industry/bfsi/rbi-monetary-penalty-city-union-bank-may-2026/>

Way Forward

In 2024, the microfinance sector experienced a period of turbulence, marked by rising borrower indebtedness and increasing NPAs. However, with the introduction of guardrails by SROs, the sector has proclaimed its focus towards resilience. This has been strongly showcased in the portfolio quality and the originations that have been built out since then over the last year and a half. Going forward, it will be crucial for lenders to not only adhere to these guardrails but also utilize data and analytics to strengthen borrower engagement and improve their lifetime value. Significant opportunities for market expansion remain. Further, JLG borrowers have changing preferences as reflected in the new products taken by them and these are indicative of need-based credit financing with differentiated underwriting which JLG lenders can adopt and ensure they meet the customer needs and retain good borrowers through expanded products and not only next cycle loans

Expanding access to credit for deserving women micro-entrepreneurs is fundamental to accelerating inclusive growth. With adequate financial support, young women entrepreneurs can aspire to significantly improve productivity and profitability. The future of microfinance lies in building a resilient, portfolio-driven analytical approach that integrates traditional knowledge with modern innovations to establish a responsible and inclusive microfinance sector.

Definitions and Notes

- All credit related data is sourced from TransUnion CIBIL credit database.
- The latest month values are subject to revision as additional data get reported to the TransUnion CIBIL credit bureau.
- Latest month Origination/disbursement values are provisional and subject to revision as additional data gets reported.
- YoY refers to growth rate of a time period in a year over a similar time period in the previous year. As an example, Jan-Mar of current year over Jan-Mar of previous year.
- Banks includes PSU, PVT, Co-ops & RRBs, NBFC-MFI includes NBFC-MFI & MFI.
- NTC (New to Credit) borrowers refer to those borrowers who opened their first ever microfinance loan. An increase in NTC% indicates higher financial inclusion.
- 30+% delinquency rate is measured as percentage of balances from 30 to 179 days past due (DPD) out of balances from 0 to 179 DPD.
- 60+% is measured as percentage of balances from 60 to 179 DPD out of balances from 0 to 179 DPD.
- 90+% is measured as percentage of balances from 90 to 179 DPD out of balances from 0 to 179 DPD.
- 90+% (Inc charge off last 1 year) is measured as percentage of balances from 90 to 179 DPD and charge off balances in the last 1 year out of balances from 0 to 179 DPD.

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