

India Microfinance Industry Outlook FY2027:

Gradual Recovery amid Structural Risks

Portfolio stabilisation and early signs of recovery

The microfinance portfolio has started showing signs of stabilisation after a prolonged period of contraction. CRIF High Mark data indicate that the industry's Gross Loan Portfolio (GLP) declined from ₹3.81 lakh crore in March 2025 to ₹3.21 lakh crore in December 2025 before rebounding to ₹3.31 lakh crore in March 2026 and further to ₹3.33 lakh crore in June 2026.¹ The March 2026 increase of 3.2% QoQ marked the first sequential expansion after several quarters of contraction, while the portfolio grew a further 0.6% QoQ in June 2026. The pace of annual contraction also moderated, from 13.2% in March 2026 to 7.3% in June 2026.² A Granular analysis suggests that the sharp portfolio correction witnessed through 2025 may be approaching a bottom, although the industry portfolio remains below its year-earlier level.

Table 1: Key indicators of portfolio stabilisation

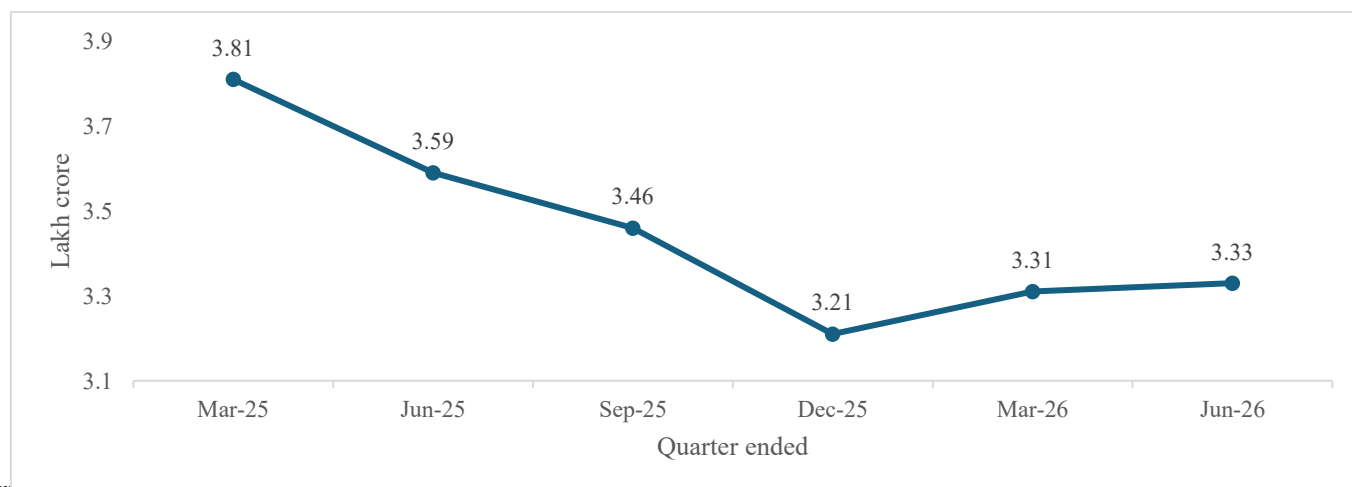
Indicator	Jun-25	Dec-25	Mar-26	Jun-26
GLP (₹ lakh crore)	3.59	3.21	3.31	3.33
QoQ GLP growth	—	-7.2%	3.2%	0.6%
YoY GLP growth	-17.0%	-18.0%	-13.2%	-7.3%
Active loans (crore)	13.2	11.2	10.7	10.3
Live borrowers (crore)	8.0	7.1	6.9	6.6
Average ticket size of new loans (₹)	53,800	60,000	61,500	62,000
PAR 1-180	5.5%	4.4%	2.6%	2.3%

Source: CRIF High Mark, MicroLend - May 2026 (data as of March 2026) and MicroLend - August 2026 (data as of June 2026). The March 2026 edition is based on data covering around 90% of the industry.

Consider in a proper historical and comparative perspective, the recent movement in portfolio indicators suggests that the sector is transitioning from a phase of balance-sheet contraction towards gradual stabilisation. However, the recovery is still evolving, as portfolio growth remains modest and the borrower and loan base continues to contract. The quarterly movement in GLP shows that the contraction has eased since December 2025.

Gross Loan Portfolio declined through December 2025 before recording sequential growth in March and June 2026.

Chart 1: Microfinance portfolio shows early signs of stabilisation



Source: CRIF High Mark, MicroLend (May and August 2026 editions).

The stabilisation is, however, not yet volume led. Active loans declined from 13.2 crore in June 2025 to 10.3 crore in June 2026, while the live customer base declined from 8.0 crore to 6.6 crore over the same period. At the same time, average exposure per outstanding loan increased to around ₹32,400 in June 2026, up 5.2% QoQ and 19.1% YoY. The March 2026

report also showed the average ticket size of newly originated loans rising to ₹61,500, up 18.3% YoY. The combination of a declining borrower base and higher average exposure indicates that portfolio stabilisation is being supported more by larger loans and repeat borrowers than by an expansion in borrower numbers.

The improvement in originations substantiates the gradual turnaround. Disbursement value increased to ₹77,555 crore in Q4 FY26, up 25.8% QoQ, while the number of loans disbursed increased 22.8% to 126.1 lakh. The increase in disbursement value was accompanied by a shift towards larger-ticket loans, with lending above ₹50,000 accounting for the bulk of the increase. The ₹80,000-₹1 lakh and ₹1 lakh-plus segments accounted for 19.2% and 12.2%, respectively, of Q4 FY26 origination value. Further, 57% of Q4 FY26 originations were extended to existing borrowers with the same lender, indicating that lenders are relying substantially on repeat borrowers as the portfolio rebuilds.

The June 2026 data show that the recovery in originations continued a year-on-year basis, although disbursement activity moderated sequentially. Q1 FY27 disbursements stood at ₹61,172 crore, down 19.9% QoQ but up 18.6% YoY. The sequential decline was less pronounced than the 23.5% contraction recorded in Q1 FY26, while the average ticket size remained around ₹62,000. The QoQ decline was less pronounced than the 23.5% contraction recorded in Q1 FY26, while the average ticket size remained around ₹62,000. The ₹1 lakh-plus segment also remained significantly above its year-earlier level, indicating that the shift towards larger-ticket lending has continued into FY27.

Asset quality improves alongside borrower deleveraging

The improvement in portfolio performance has been accompanied by a broad-based moderation in delinquency levels. CRIF High Mark data show that PAR 1-180 declined to 2.6% in March 2026 from 4.4% in December 2025 and 7.6% in March 2025. Early-stage delinquency also remained contained, with PAR 1-30 and PAR 31-90 declining to 0.6% and 0.8%, respectively, in March 2026. PAR 91-180 fell to 1.2% from 3.4% a year earlier, indicating improvement across both early- and later-stage delinquency buckets.

The improvement in asset quality has continued into June 2026. CRIF High Mark's June 2026 data show PAR 31-180 declining to 1.6% from 2.0% in March 2026, while PAR 91-180 improved further to 0.8% from 1.2%. This improvement is occurring alongside the stabilisation in GLP, indicating that The recent improvement in the industry has so far not been accompanied by a deterioration in portfolio quality.

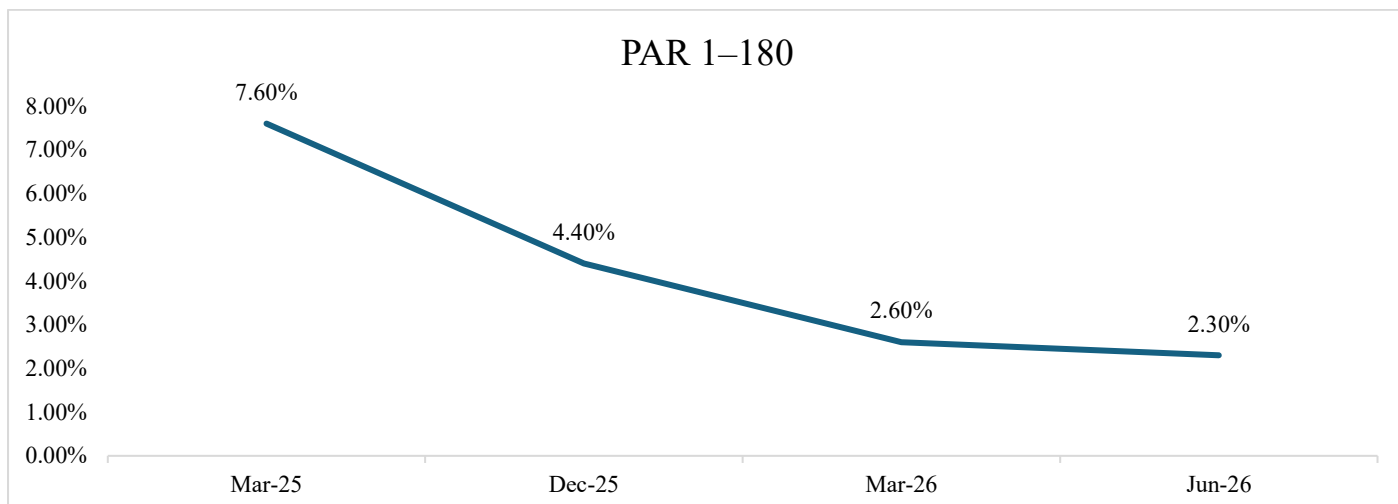
Table 2: Improvement in portfolio quality

Asset quality indicator	Mar-25	Dec-25	Mar-26	Jun-26
PAR 1-30	1.4%	1.0%	0.6%	0.7%
PAR 31-90	2.7%	1.4%	0.8%	0.8%
PAR 91-180	3.4%	2.0%	1.2%	0.8%
PAR 1-180	7.6%	4.4%	2.6%	2.3%
PAR 180+ incl. write-offs	9.1%	17.3%	16.3%	—

Source: CRIF High Mark, MicroLend - May 2026 (data as of March 2026) and MicroLend - August 2026 (data as of June 2026).

The decline in delinquency has been broad-based across the major ageing buckets, with the sharpest improvement visible in the 91-180-day category. The trajectory of PAR 1-180 indicates that portfolio quality has improved alongside the recent stabilisation in GLP.

Chart 2: PAR 1-180 declines steadily



Source: CRIF High Mark, MicroLend - May 2026 (data as of March 2026) and MicroLend - August 2026 (data as of June 2026).

Borrower leverage has also moderated, providing an additional indication of improving portfolio quality. The share of portfolio exposure to borrowers with two or fewer lender associations increased from 73.1% in March 2025 to 78.8% in December 2025 and 80.3% in March 2026. Exposure to borrowers with four or more lender associations declined from 12.2% to 4.8% over the same period. By June 2026, the share of borrowers associated with two, or fewer lenders had increased further to 80.9%, while the proportion associated with five or more lenders remained close to 1%.

Table 3: Borrower leverage is gradually improving

Lender association	Mar-25	Dec-25	Mar-26	Jun-26	Trend
≤2 lenders	73.1%	78.8%	80.3%	80.9%	Increasing
3 lenders	14.7%	15.0%	14.9%	14.7%	Broadly stable
4 lenders	7.3%	4.3%	3.6%	3.3%	Declining
≥5 lenders	4.9%	1.9%	1.2%	1.1%	Declining

Source: CRIF High Mark, MicroLend - May 2026 (data as of March 2026) and MicroLend - August 2026 (data as of June 2026).

The March 2026 CRIF report showed that exposure to borrowers with two or fewer lender associations increased to 80.3%, while the five-or-more-lender category declined to 1.2%. The June 2026 update showed a further increase in the share associated with two or fewer lenders to 80.9%.

This improvement in borrower leverage enhances sustainable recovery. The reduction in multiple-lender exposure, together with tighter underwriting and improved collection performance, provides greater room for lenders to rebuild the portfolio while maintaining credit discipline. However, the continued concentration of risk among borrowers with higher lender associations means that borrower indebtedness needs constant monitoring.

Growth increasingly driven by larger-ticket lending and NBFC-MFIs

The emerging recovery in the microfinance sector is increasingly being supported by a shift towards larger-ticket lending and a greater contribution from NBFC-MFIs. CRIF High Mark data show that the average ticket size increased from ₹53,800 in Q1 FY26 to ₹61,500 in Q4 FY26, while the share of loans above ₹50,000 in origination value continued to increase. In Q4 FY26, the ₹50,000-₹80,000 segment accounted for 41.8% of origination value, while the ₹80,000-₹1 lakh and ₹1 lakh-plus segments contributed 19.2% and 12.2%, respectively. This indicates that the revival in lending is increasingly being supported by higher-value loans rather than a broad-based expansion in loan volumes.

NBFC-MFIs have emerged as the principal contributors to the recent increase in portfolio outstanding. Their portfolio increased 8.3% QoQ to ₹1.45 lakh crore in March 2026, compared with 2.2% growth for banks and 1.3% for NBFCs, while SFBs recorded a decline. Consequently, the share of NBFC-MFIs in industry portfolio outstanding increased from 38.9% in

March 2025 to 43.7% in March 2026. NBFC-MFIs also accounted for 45.2% of origination value in Q4 FY26, making them the largest contributor to new lending during the quarter.

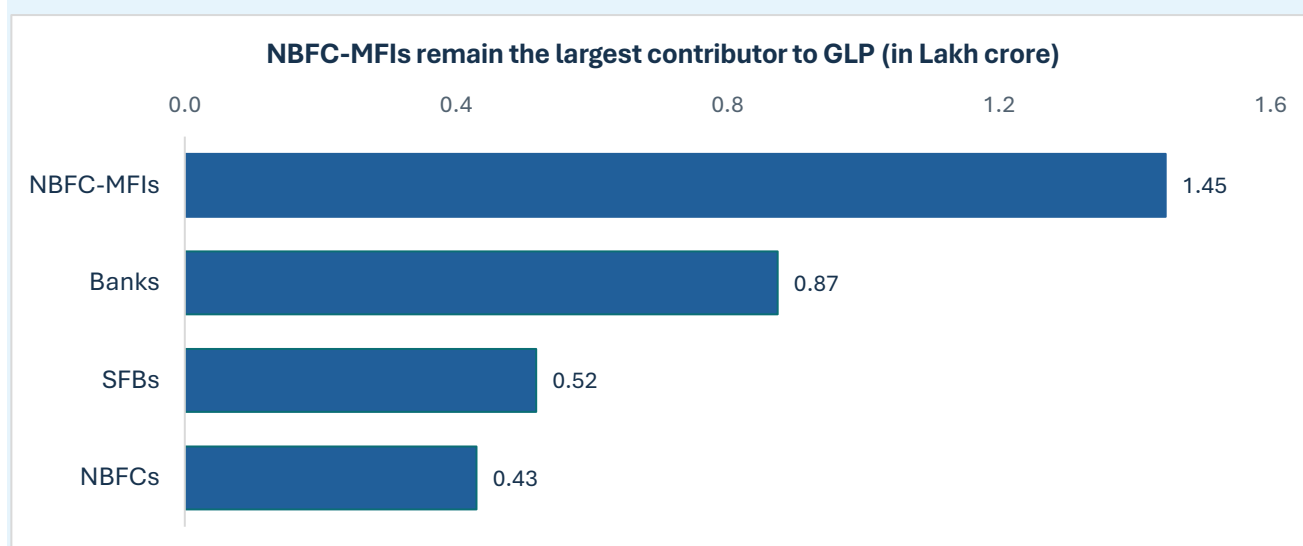
Table 4: Lender-wise portfolio dynamics

Lender category	GLP (₹ lakh crore)	Mar-26	QoQ growth	YoY growth	Share of GLP
NBFC-MFIs	1.45		8.3%	-2.6%	43.7%
Banks	0.87		2.2%	-29.8%	26.4%
SFBs	0.52		-7.2%	-13.5%	15.6%
NBFCs	0.43		1.3%	-4.6%	13.0%
Total	3.31		3.2%	-13.2%	100.0%

Source: CRIF High Mark, MicroLend - May 2026 (data as of March 2026).

The recovery is also changing the composition of lenders, with NBFC-MFIs accounting for a larger share of portfolio outstanding. While the overall industry portfolio remains below its year-earlier level, NBFC-MFIs have expanded their contribution to both portfolio outstanding and new originations.

Chart 3: Lender-wise contribution to GLP



Note: Four lender categories shown represent 98.7% of total GLP, the remaining to be considered as under the 'others' category. Source: CRIF High Mark MicroLend, March 2026.

Table 5: Origination shifts towards higher-ticket loans

(Share of origination value, %)

Ticket size	Q4 FY25	Q4 FY26	Change (pp)
≤₹30K	5.8%	3.2%	-2.6
₹30K-₹50K	39.5%	23.6%	-15.9
₹50K-₹80K	36.0%	41.8%	5.8
₹80K-₹1 lakh	11.0%	19.2%	8.2
₹1 lakh+	7.7%	12.2%	4.5

Source: CRIF High Mark MicroLend, March 2026.

The shift towards larger-ticket lending also appears to be accompanied by greater reliance on existing borrowers. Around 57% of Q4 FY26 originations were extended to existing borrowers as their next loan cycle with the same lender, broadly unchanged from the previous year. This suggests that lenders are currently rebuilding portfolios through established borrower relationships while maintaining tighter credit selection. The trend towards larger tickets and repeat borrowers could support

portfolio growth, although the continued decline in active borrowers indicates that the sector remains in a consolidation phase rather than returning to broad-based volume expansion.

Regional recovery remains uneven across key markets

However, the macro picture was mixed in as much as the regional performance of the microfinance sector indicates that the recovery is progressing at different speeds across major markets – one size does not fit all. The top 10 states continue to account for around 83% of the industry's GLP, making their portfolio trends important for the overall trajectory of the sector. In March 2026, nine of the top 10 states recorded sequential portfolio growth, led by Bihar, where GLP increased 8.9%, followed by Jharkhand at 8.7% and Uttar Pradesh at 7.8%.³ Tamil Nadu was the only major state to report a sequential decline during the quarter.

The improvement in portfolio momentum continued into June 2026, although at a slower pace. Industry GLP increased by 0.6% QoQ to ₹3.33 lakh crore, with Bihar, Uttar Pradesh, Karnataka, Madhya Pradesh, Odisha, Rajasthan and Jharkhand continuing to record positive sequential growth. Jharkhand recorded the strongest QoQ increase at 3.5%, followed by Odisha at 2.1% and Karnataka at 1.9%. Tamil Nadu, West Bengal and Maharashtra recorded marginal sequential contractions.

Table 6: Regional Portfolio Trends Across Key States

State	GLP Mar-26 (₹ K Cr)	QoQ growth Mar-26	YoY growth Mar-26	GLP Jun-26 (₹ K Cr)	QoQ growth Jun-26	YoY growth Jun-26
Bihar	53.1	8.9%	-8.0%	53.3	0.4%	-2.7%
Uttar Pradesh	39.8	7.8%	-4.8%	40.1	0.7%	0.9%
Tamil Nadu	38.9	-2.3%	-16.9%	38.9	-0.1%	-11.0%
Karnataka	28.6	1.1%	-19.0%	29.2	1.9%	-10.5%
West Bengal	28.3	1.4%	-22.8%	28.2	-0.4%	-20.7%
Maharashtra	24.7	2.3%	-16.4%	24.6	-0.3%	-9.7%
Madhya Pradesh	19.5	5.1%	-9.8%	19.8	1.5%	-2.2%
Odisha	17.3	3.0%	-16.6%	17.6	2.1%	-6.4%
Rajasthan	13.2	5.7%	-11.9%	13.3	1.3%	-3.7%
Jharkhand	10.7	8.7%	-3.7%	11.1	3.5%	3.9%
Pan India	331.0	3.2%	-13.2%	333.0	0.6%	-7.3%

Source: CRIF High Mark, MicroLend - March 2026 data and MicroLend - June 2026 data.

The annual trend also points towards a gradual moderation in the extent of portfolio contraction across most major markets. Uttar Pradesh and Jharkhand moved into positive YoY growth in June 2026, at 0.9% and 3.9%, respectively, while Bihar's annual contraction narrowed from 8.0% in March to 2.7% in June. Madhya Pradesh, Rajasthan, Karnataka, Odisha and Maharashtra also recorded smaller annual declines compared with March 2026. This indicates that the improvement is extending beyond sequential portfolio growth, although the pace of normalisation remains differentiated across states.

Recovery remains uneven across states. Bihar, Uttar Pradesh and Jharkhand are showing relatively stronger portfolio momentum, while West Bengal and Tamil Nadu continue to record sizeable annual contractions. West Bengal's GLP declined 20.7% YoY in June 2026, alongside PAR 31-180 of 2.0%, above the pan-India level of 1.6%. In contrast, Karnataka recorded a significant improvement in PAR 31-180, from 12.5% in June 2025 to 1.3% in June 2026.

The concentration of the portfolio across a limited number of states causes concern. While sequential growth across most major markets indicates that the portfolio correction is gradually easing, the divergence in annual growth and portfolio quality suggests that the recovery is not yet uniform across geographies. A sustained recovery will require portfolio growth to broaden across major states without reversing the recent improvement in asset quality.

Structural risks

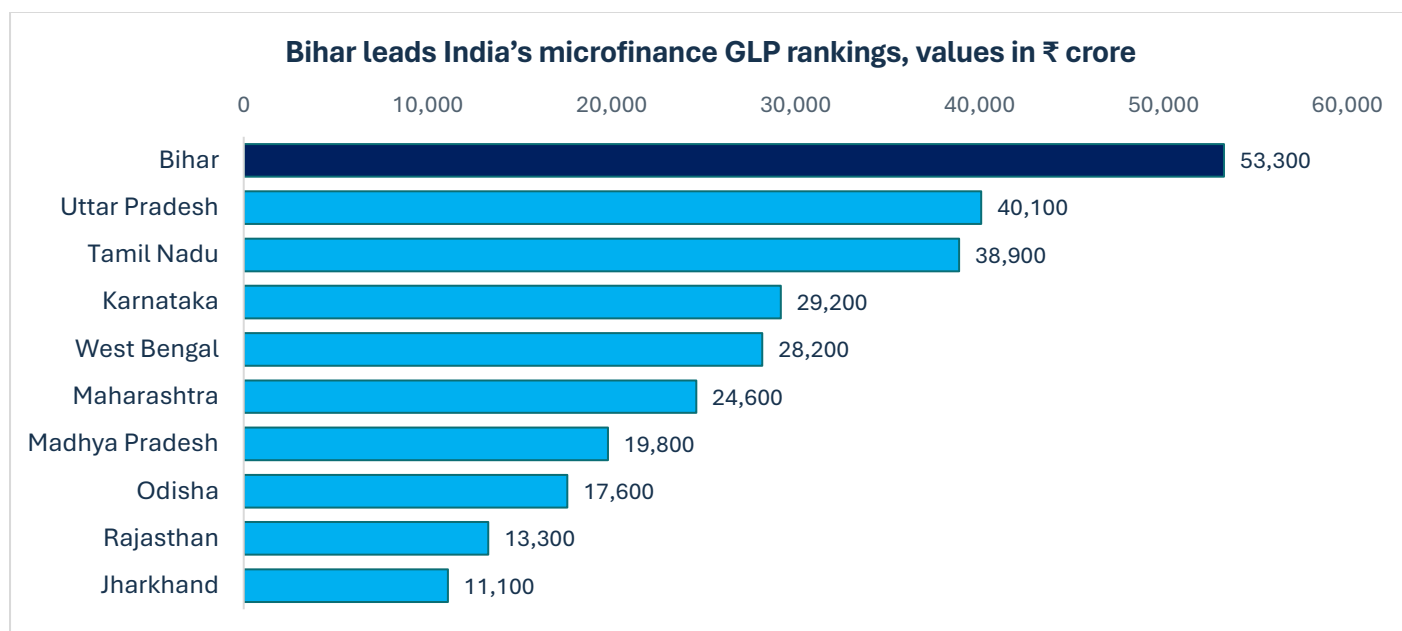
Despite the improvement in portfolio quality and the return of sequential GLP growth, the sector continues to face several structural constraints. The borrower base remains smaller, portfolio concentration across states is high, lending is shifting towards larger-ticket loans and funding conditions remain important for NBFC-MFIs. Regulatory requirements and borrower

indebtedness will also influence the pace of portfolio expansion. The key structural risk is, therefore, basically about the sector's ability.

Geographic concentration remains a key vulnerability

The microfinance portfolio remains concentrated across a relatively small number of states, with the top 10 states accounting for around 83% of industry GLP. While several of these markets have started recording sequential portfolio growth, annual contraction remains significant in some major states. This concentration creates greater sensitivity to state-specific economic disruptions, regulatory interventions, collection issues and localised borrower stress. The divergent portfolio and asset-quality trends across states also indicate that sector-wide improvement may not translate uniformly across geographies.

Chart 4: Top 10 States by Microfinance GLP, June 2026



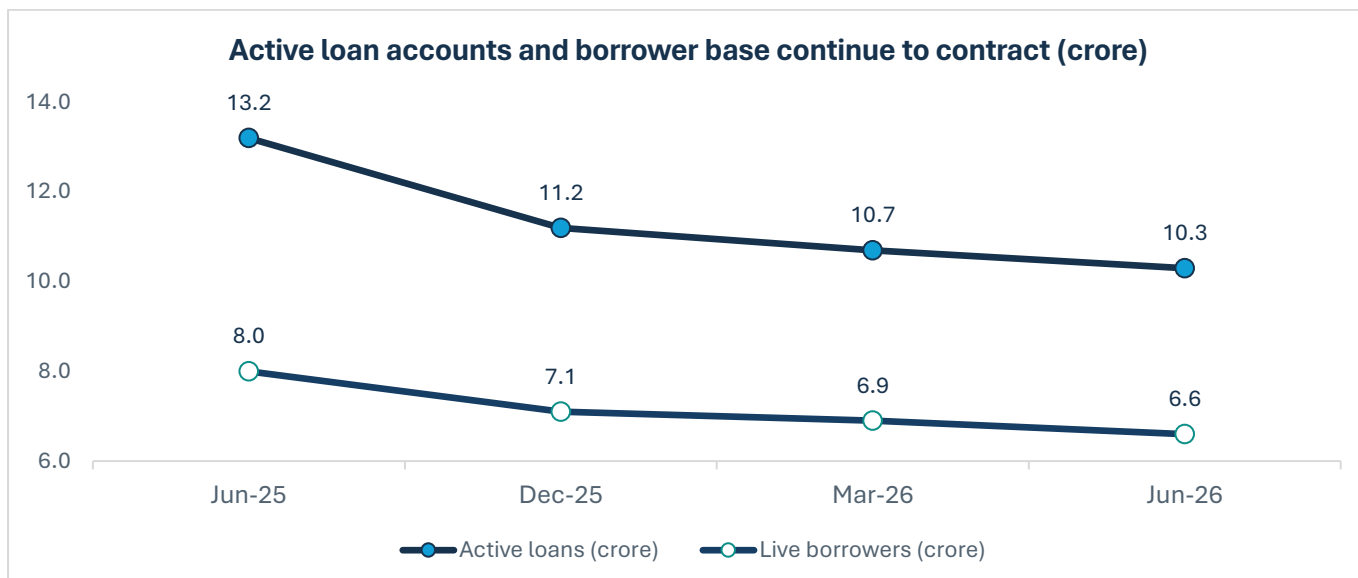
Source: CRIF High Mark MicroLend, June 2026.

Borrower base continues to contract despite portfolio stabilisation

The ongoing decline in active borrowers and loan accounts remains an important structural consideration. CRIF data show active loans declining from 13.2 crore in June 2025 to 10.3 crore in June 2026, while live borrowers declined from 8.0 crore to 6.6 crore over the same period. But average exposure per outstanding loan increased to around ₹32,400 in June 2026. The stabilisation in GLP is occurring alongside a smaller borrower base and higher average exposure.

The key question for FY27 is whether lenders can expand portfolio size without relying excessively on larger loans to existing borrowers.

Chart 5: Active Loans and Live Borrowers



Source: CRIF High Mark, MicroLend (May and August 2026 editions).

Funding conditions remain important for NBFC-MFIs

Funding structurally constrains the sector, particularly for NBFC-MFIs, which account for the largest share of the industry's portfolio. The Bharat Microfinance report points out that debt funding for microlending institutions declined from ₹1.30 lakh crore in FY2023-24 to ₹85,877 crore in FY2024-25, amid tighter credit conditions and increased lender caution.

For NBFC-MFIs, therefore, the pace of portfolio recovery will also depend on the availability and cost of wholesale funding. Higher funding costs can constrain margins and limit the ability of lenders to expand credit at sustainable pricing, while tighter lender risk appetite could affect the pace at which portfolio growth normalises.

Regulatory and state-level interventions add operating complexity

The regulatory environment remains an important structural consideration. The sector has witnessed increased supervisory scrutiny, including enforcement actions related to pricing practices, borrower assessment, credit bureau checks, recovery practices and internal controls. Regulatory interventions in states such as Karnataka and Tamil Nadu have enhanced operating requirements for lenders.

For lenders operating across multiple states, differences in state-level requirements can increase compliance and operational costs and create uncertainty around lending and recovery practices. For lenders, changes in the regulatory framework will remain an important consideration as they expand lending while maintaining underwriting and collection discipline.⁴

Climate and local economic shocks remain difficult to diversify

The sector's concentration in rural and semi-urban markets also leaves portfolios exposed to local economic disruptions. Climate-related events, agricultural income volatility caused by vagaries of monsoon and natural calamities like droughts/flood and localised economic stress can affect household cash flows and repayment capacity. These risks can become more pronounced when portfolio exposure is concentrated geographically, making diversification across states and borrower segments an important component of portfolio risk management.

MFI Outlook - FY27

The microfinance sector is entering FY27 on a more stable footing, with sequential portfolio growth returning and asset quality improving. GLP stood at ₹3.33 lakh crore in June 2026, up 0.6% QoQ, while PAR 31-180 declined to 1.6%. However, active loans and borrowers continued to decline, indicating that the recovery remains gradual rather than broad-based.

Portfolio growth is expected to recover gradually in FY27, supported by improving asset quality, stronger collections and a continued shift towards higher-ticket lending. Q1 FY27 disbursements increased 18.6% YoY to ₹61,172 crore, while the

average ticket size rose to around ₹62,000. The ₹1 lakh-plus segment remained relatively resilient, with origination value nearly 90% higher YoY.

The recovery is likely to remain measured, constrained by a shrinking borrower base, regional concentration, funding conditions, and regulatory requirements. Overall, FY27 should mark a shift from portfolio correction to gradual normalisation, with sustainable growth depending on lenders' ability to expand credit without eroding the asset-quality gains achieved in FY26. This transition supports India's broader growth story and rural credit landscape, particularly as the country remains the world's fastest-growing major economy. However, persistent challenges, including regional imbalances and the need to provide timely, affordable, and accessible credit to underserved households, require coordinated and urgent action by all stakeholders. Priorities should include expanding digital financial infrastructure, increase women's financial participation, and strengthen regulatory and credit systems. Greater attention is also needed to improve access to finance for rural and low-income households, support microenterprise growth, and expand livelihood financing. Addressing these priorities will be essential to take India's microfinance industry to the next stage of development.

References

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- 3 CRIF High Mark, Micro Lend – March 2026 Data, May 2026.
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Infomerics Ratings

Author	Designation	Contact
Mr. Vipin Malik	Chairman	vma@infomerics.com
Dr. Manoranjan Sharma	Chief Economist	msharma@infomerics.com
Mr. Athar Imam Raza	Economist	athar.raza@infomerics.com

Address

Registered Office

Flat No. 104/108, First Floor Golf Apartments, Sujan Singh Park, Maharishi Ramanna Marg, New Delhi – 110003, India

Corporate Office

Office No - 1102,1103,1104, B – Wing, Kanakia Wall Street, Off. Andheri Kurla Road, Andheri East , Mumbai - 400093

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