

₹20,000 Crore Shield: Can CGSMFI-2.0 Rescue India's Turbulent Microfinance Sector?

(Why Sudden Fall in Loan Portfolio & Rise in Defaults & Delinquencies ?)



Bandhan Bank has been diversifying away from microfinance

December 2025

Bandhan Bank sells Rs 3,212 crore microfinance bad loans to ARCIL

By Shilpy Sinha, ET Bureau • Last Updated: Dec 29, 2025, 12:25:00 AM IST

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Synopsis

Bandhan Bank has sold a ₹3,212 crore microfinance non-performing loan portfolio to ARCIL for ₹578 crore. This sale followed a Swiss Challenge process. The bank also initiated a process to sell an additional ₹3,720 crore in loans. These actions come as the bank's asset quality faced pressure from the microfinance segment.



bandhan bank shares

Bandhan Bank has sold a microfinance non-performing loan (NPL) portfolio worth ₹3,212 crore to Asset Reconstruction Company (India) (ARCIL) for about ₹578 crore, people familiar with the transaction told ET.

The sale follows a **Swiss Challenge**

March 2026

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Bandhan Bank to reduce microfinance exposure to one third of loan book: CFO Rajeev Mantri

"Bandhan Bank is working towards a 60:40 secured-unsecured mix, with microfinance stabilising at around 30-33% of the loan book over the next one to three years," CFO Rajeev Mantri told ETBFSI in an interview. Hear him on credit cost normalisation after the NPA sale, portfolio diversification beyond microfinance, cautious corporate lending, margin outlook, and technology investments including AI.



Shrishti Sharma • ETBFSI

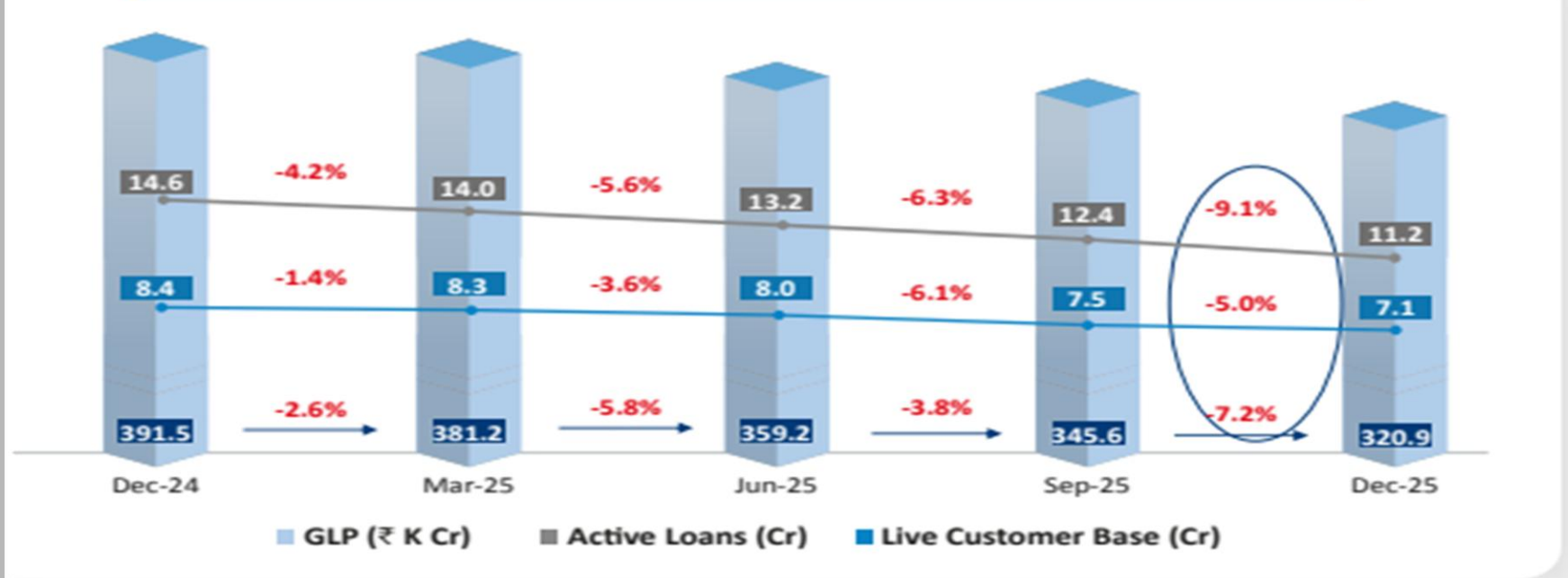
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- ❑ Origins: Pioneering MFI → universal bank (strong East India focus)
- ❑ Microfinance (EEB) portfolio: Major contributor but stress source
- ❑ Peak stress: GNPA rose to ~6.8% (FY25 end); net NPA ~3.5%
- ❑ Key actions in turbulence:
 - ✓ Sold ₹3,212 Cr microfinance NPAs to ARCIL (Dec 2025)
 - ✓ Total bad loans/write-offs sold: ₹6,872 Cr (late 2025–early 2026) → cleaned balance sheet
 - ✓ Shift to secured lending: From 42–47% to 57% by Dec 2025

Scanning the Macro Environment of Microfinance Sector

Trends in portfolio outstanding and active loans (Dec-24 to Dec-25)



Source :
 Micro lend , Dec 25 , CRIF
 Report

Calibrated reduction persists:

The portfolio outstanding of India's microfinance industry stood at ₹320.9 K Cr at the end of Dec'25, supporting over 7.1 Cr borrowers and 11.2 Cr active loans.

The industry continues to undergo consolidation, with portfolio outstanding moderating by 7.2% QoQ and 18% YoY, alongside a sharper reduction in active loans of 9.1% QoQ and 23% YoY.

Active loans are contracting more steeply than portfolio outstanding, indicating consolidation toward higher ticket-size loans and a moderation in borrower outreach.

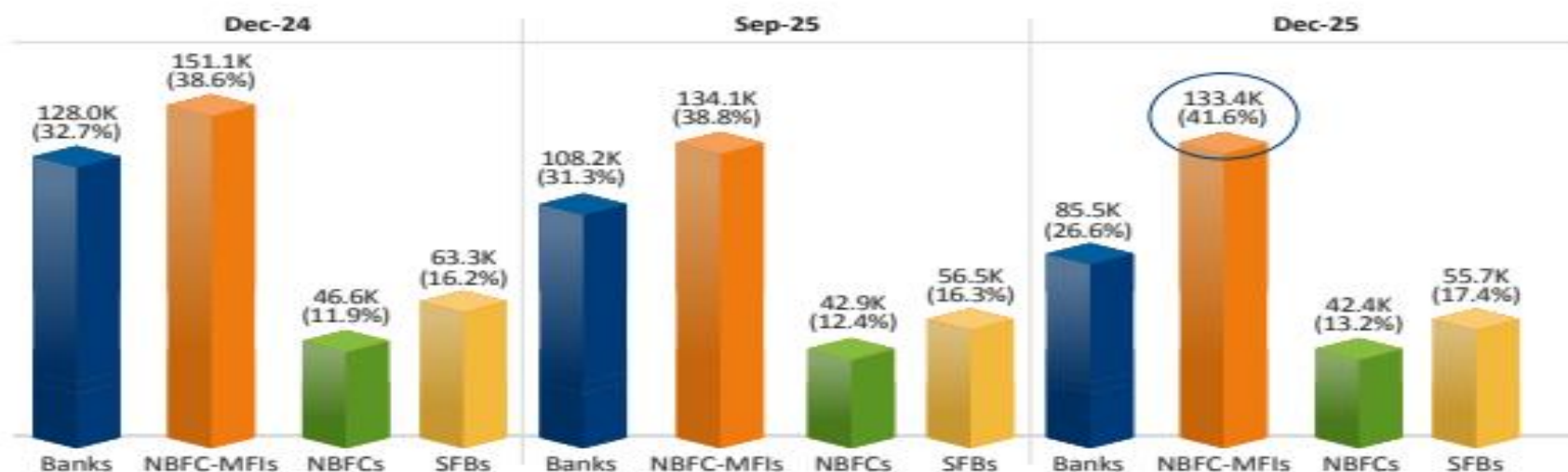
Cautious approach continues:

In addition, the average number of loans per borrower declined from 1.7 in Dec'24 to 1.5 in Dec'25, reflecting the impact of tighter norms.

*GLP: Gross Loan Portfolio

NBFC-MFIs continue to lead, commanding a 41.6% share of portfolio outstanding, with POS levels remaining stable QoQ

Lender type trends - POS distribution (Dec-24 to Dec-25)



The First Figure Indicates the book size in ₹ Cr, Second Figure (%) indicates the market share by lender type.

Lender Type (Dec-25)	Banks	NBFC MFI	NBFCs	SFBs	Total
Q-o-Q GLP Growth	-21.0%	-0.5%	-1.2%	-1.3%	-7.2%
Y-o-Y GLP Growth	-33.2%	-11.7%	-8.9%	-11.9%	-18.0%

Highlights

NBFC-MFIs continue to hold the largest share of the aggregated microfinance portfolio outstanding at 41.6% as of Dec'25.

The structural shift from banks (POS share declining from 32.7% in Dec'24 to 26.6% in Dec'25) toward NBFC-MFIs, followed by NBFCs and SFBs, remains evident.

The YoY and QoQ reduction in POS was driven mainly by banks (-33.2% YoY and -21% QoQ).

Meanwhile, the aggregated portfolio outstanding of NBFC-MFIs, NBFCs, and SFBs remained broadly stable on a QoQ basis, though it declined YoY.

Regional GLP and performance trends

Rank	State	GLP (₹ K Cr) Dec-25	Y-o-Y Growth %	Q-o-Q Growth %	Active loans (Cr) Dec-25	Y-o-Y Growth %	Q-o-Q Growth %	PAR 31-180 Dec-24	PAR 31-180 Sep-25	PAR 31-180 Dec-25
1	Bihar (-)	48.7	-16.7%	-6.2%	1.6	-23.5%	-9.4%	8.2%	4.8%	3.6% ▼
2	Tamil Nadu (-)	39.8	-21.5%	-4.0%	1.2	-29.3%	-8.8%	6.0%	4.3%	2.9% ▼
3	Uttar Pradesh (-)	36.9	-12.5%	-3.3%	1.3	-19.9%	-7.0%	8.5%	4.7%	3.6% ▼
4	Karnataka (+1) ▲	28.3	-25.4%	-8.2%	0.9	-30.0%	-11.6%	4.5%	7.4%	3.8% ▼
5	West Bengal (-1) ▼	28.0	-22.7%	-19.7%	1.0	-22.8%	-14.0%	3.3%	3.2%	3.1% ■
6	Maharashtra (-)	24.2	-18.7%	-7.7%	0.9	-23.4%	-9.3%	5.3%	4.7%	4.0% ▼
7	Madhya Pradesh (-)	18.6	-14.9%	-5.7%	0.7	-21.5%	-8.3%	7.0%	4.9%	3.8% ▼
8	Odisha (-)	16.8	-23.0%	-5.5%	0.7	-25.8%	-9.5%	9.7%	4.5%	2.8% ▼
9	Rajasthan(-)	12.4	-19.4%	-5.5%	0.4	-26.6%	-9.4%	7.4%	4.7%	3.8% ▼
10	Kerala (-)	10.0	-15.4%	-2.7%	0.3	-23.1%	-7.2%	5.9%	3.6%	2.7% ▼
	Pan India	320.9	-18.0%	-7.2%	11.2	-23.0%	-9.1%	6.4%	4.6%	3.4% ▼

Higher exposure: KL and TN (₹33.1K each) followed by BR (₹30K) have the highest exposure per loan.

Quick Fact
 All of the top 10 states recorded sharper declines in active loans compared to reductions in GLP, driven by increase in ticket size coupled with the impact of guardrails

The top 10 states constitutes 82.2% of the GLP.

POS Concentration:

The top three states continue to account for ~39% of GLP (BR 15.2%, TN 12.4%, UP 11.5%). KA has moved to #4, replacing WB.

POS Trends:

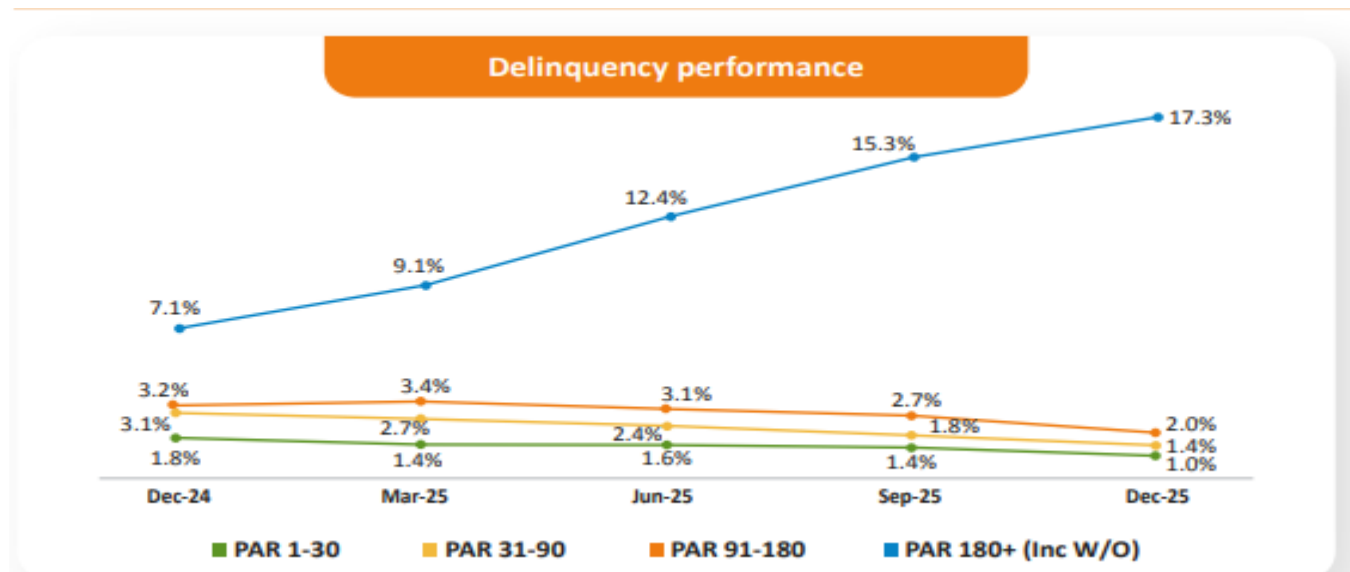
Southern states (TN, KA) and eastern states (OD, WB) recorded sharper declines in both GLP and active loans compared to the pan-India average. POS reductions in these states ranged from 21–25% YoY, while active loans saw even steeper declines of 23–30%. This could also be driven by movement of a proportion of microfinance portfolio to consumer.

PAR Trends:

Most states saw better performance in PAR 31–180. OD showed the strongest YoY reduction, from 9.7% in Dec’24 to 2.8% in Dec’25 (a 6.9% drop) while KA recorded higher QoQ reduction, from 7.4% in Sep’25 to 3.8% in Dec’25 (a 3.6% drop).

(-) indicate YoY state rankings based on GLP, comparing the current year’s rank to the previous year.

	As of Dec-24	As of Sep-25	As of Dec-25	Y-o-Y (Dec-24 to Dec-25)	Q-o-Q (Sep-25 to Dec-25)
GLP (₹ Cr)	391.5K	345.6K	320.9K	▼ -18.0%	▼ -7.2%
Active Loans (Cr)	14.6	12.4	11.2	▼ -23.0%	▼ -9.1%
PAR 1-30	1.8%	1.4%	1.0%	▼ 0.8%	▼ 0.4%
PAR 31-90	3.1%	1.8%	1.4%	▼ 1.7%	▼ 0.5%
PAR 91-180	3.2%	2.7%	2.0%	▼ 1.3%	▼ 0.8%
PAR 1-180	8.2%	6.0%	4.4%	▼ 3.8%	▼ 1.6%
PAR 180+ (incl. W/O)	7.1%	15.3%	17.3%	▲ 10.2%	▲ 2.0%



Key Players - Outstanding Portfolio & NPA/GNPA

Player	Type	Outstanding Portfolio (Microfinance / Relevant)	GNPA (%)	PAR (Key Metric)	Key Notes / Improvements (Q3 FY26)
Bandhan Bank	Bank (heavy MF exposure)	Microfinance (EEB): ₹50,076 Cr (down 11% Y-o-Y)	3.3% (down from 5.0% in Sep 2025)	N/A (uses GNPA)	Major NPA sale ₹3,212 Cr to ARC; secured mix ↑ to 57%; collection efficiency 98.1%; GNPA improved sharply post-clean-up
Ujjivan Small Finance Bank	SFB (diversified, strong MF)	Micro Banking: ₹19,372 Cr (up 4.1% Y-o-Y)	2.39% (down from 2.68% Y-o-Y)	PAR: <4% (improved to 3.98%)	Secured share ↑ to 48.1%; highest-ever NII ₹1,000 Cr; slippages moderated; PAR/GNPA stable & improving
CreditAccess Grameen	Pure-play NBFC-MFI	AUM: ₹26,566 Cr (up 7.1% Y-o-Y)	4.04% (at 60+ dpd; up slightly YoY from -3.99%)	PAR 0+: 4.4% (down from 4.7% QoQ); PAR 90+: 2.9%	Disbursements ↑ 13.4% YoY; unique borrowers share ↑ to 43%; collection efficiency 95.5%; new PAR accretion ↓ sharply
Spandana Sphoorty	NBFC-MFI	AUM: ₹3,948 Cr (down 3% Q-o-Q)	2.60% standalone (down from 4.97% Q-o-Q); consol 4.24%	N/A (uses GNPA; 1-90 bucket ↓ to 2.5%)	Disbursements ↑ 27% QoQ; GNPA improved significantly; collection efficiency ↑ to 94.5%; recovery underway but lagged peers
Muthoot Microfin	NBFC-MFI	Not specified in detail (sector trends apply)	4.40%	Improving PAR (aligns with NBFC-MFI trend)	Q3 PAT ₹62 Cr; among peers with moderate GNPA; sector recovery signals apply (improving asset quality)
Industry Aggregate (Microfinance Sector)	All (NBFC-MFIs 42%, Banks/SFBs, etc.)	Total GLP: ₹3.14-3.15 lakh Cr (down 7.3% Q-o-Q, 18% YoY)	N/A (varies by type)	PAR 1-180 days: ~3.8-4.7% (improved); PAR 31-180: improved; PAR 180+: elevated but legacy	NBFC-MFIs PAR 31-180: ~3.1%; early buckets improving; 50 lakh borrowers exited; recovery in newer vintages

High-Exposure Banks

(e.g., Bandhan, Ujjivan SFB, other SFBs)

Short-term pain was severe — elevated credit costs (3–9%), profitability hit, portfolio de-risking needed.

Aggressive clean-up pays off — NPA sales (e.g., Bandhan ₹3,212 Cr+), shift to secured lending (Bandhan 57%, Ujjivan 48%) → GNPA down sharply (Bandhan 3.3%, Ujjivan 2.39% in Q3 FY26).

Diversification is now mandatory — Reduce unsecured MF reliance; pivot to retail/MSME/gold/housing for stability.

Recovery visible — Collections rebounding (>94–98%), newer vintages strong; expect normalization by FY27 with cautious growth.

For Large Public Sector Banks

Largely insulated — Minimal direct unsecured MF exposure (<1–2% of book); mainly via SHG/MUDRA/on-lending/PSL.

Asset quality remains strong — GNPA multi-year lows (SBI 1.57%, Canara 2.08%, PNB 3.19% in Q3 FY26); no material spillover from MF stress.

Opportunistic positioning — Freed-up PSL capacity (from de-risked on-lending) can support recovering MFIs or direct rural schemes.

Stable profitability — Low credit costs, high PCR, continued rural/agri growth without turbulence drag.

The sector's future: Lend better, not more — for sustainable inclusion & profitability.

CGSMFI-2.0 – Key Highlights

- ❑ **Corpus:** ₹20,000 crore
- ❑ **Administrator:** National Credit Guarantee Trustee Company (NCGTC)
- ❑ **Target:** Loans by Banks/FIs to NBFC-MFIs & MFIs for on-lending to small borrowers (as per RBI definition)
- ❑ **Expected Reach:** 36 lakh small borrowers
- ❑ **Validity:** Immediate effect – 20 Mar 2026 to 30 Jun 2026 (or till limit exhausted)
- ❑ **A short-term, high-impact window to scale responsibly.**

Risk Mitigation - Tailored by MFI Size

MFI Category	AUM	Guarantee Coverage (on default amount)
Small MFIs	< ₹500 crore	80%
Medium MFIs	₹500 – 2,000 crore	75%
Large MFIs	> ₹2,000 crore	70%

Interest Rate Framework

Bank to MFI: Capped at EBLR / MCLR + 2% p.a.

- ❑ **MFI to Borrower:** At least 1% below MFI's average lending rate of past 6 months
- ❑ **Benefit:** Ensures sustainability while protecting margins for banks.

(Responsible & Transparent Lending)

Mandatory Allocation

- ❑ Minimum 5% to small MFIs
- ❑ Minimum 10% to medium MFIs
- ❑ Low Cost: Guarantee Fee only 0.50% p.a. (sanctioned in Year 1, then on outstanding)

Major Positive Impact on Public Sector Banks

1. Sharp Reduction in Credit Risk

- ✓ 70-80% government guarantee → significantly lower potential losses

2. Revival of Lending Volumes

- ✓ Removes hesitation → enables quick scaling of MFI portfolio

3. Easier Achievement of Priority Sector Lending (PSL) Targets

- ✓ Loans to MFIs for microfinance qualify under PSL

4. Better Capital Efficiency

- ✓ Lower risk weights on guaranteed exposures → improved CRAR

5. Attractive Revenue Opportunity

- ✓ Higher disbursements with manageable risk and reasonable spreads

No Major Downsides – Pure Win-Win for PSBs


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