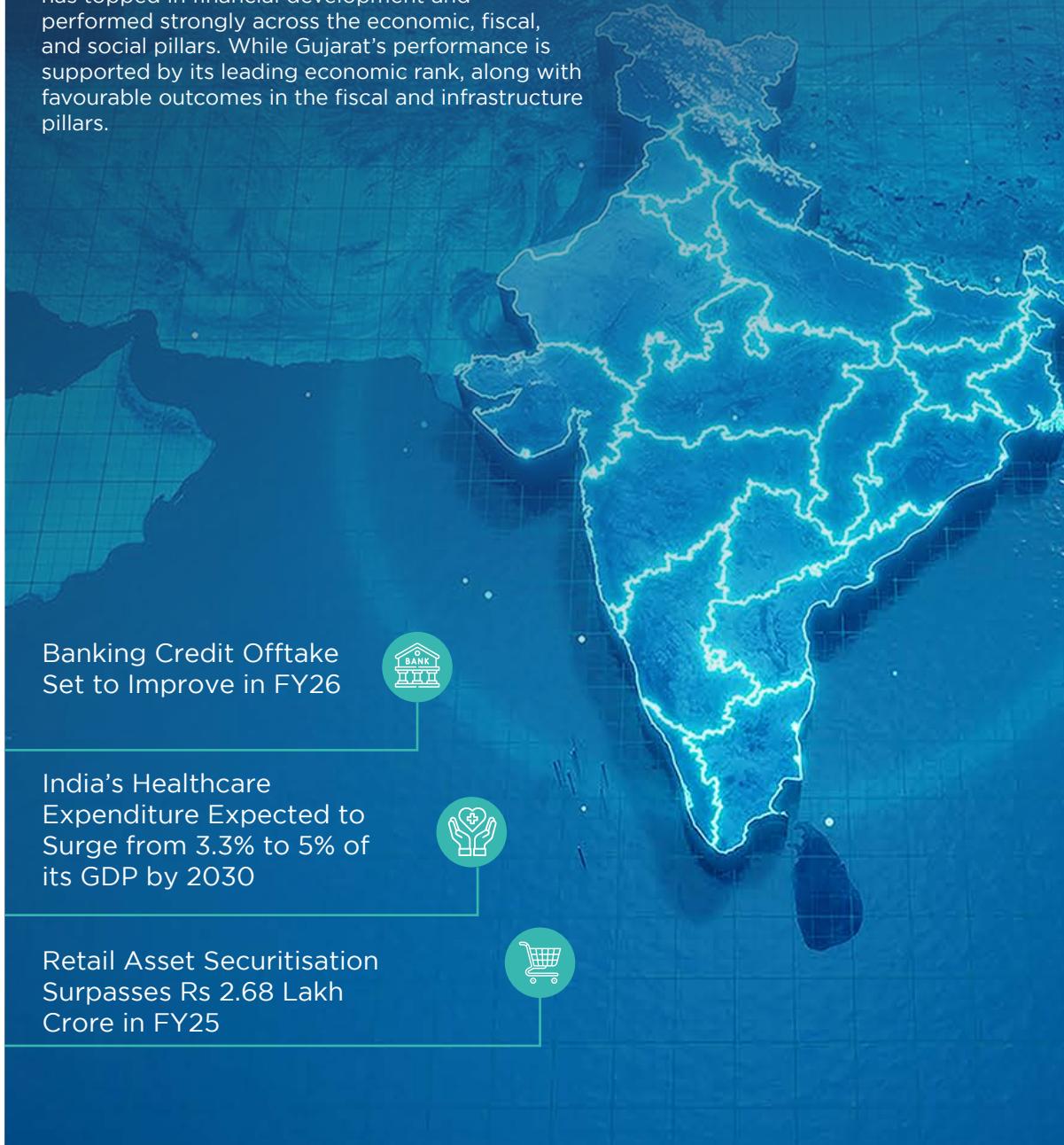


www.careedge.in | May 2025

STATE
RANKING
2025

STATES' RANKING 2025

The second edition of CareEdge State Rankings presents a comprehensive assessment based on seven key pillars – Economic, Fiscal, Infrastructure, Financial Development, Social, Governance and Environment – together capturing 50 indicators. This comprehensive analysis suggests that Maharashtra leads the overall composite rankings, followed by Gujarat and Karnataka. Maharashtra has topped in financial development and performed strongly across the economic, fiscal, and social pillars. While Gujarat's performance is supported by its leading economic rank, along with favourable outcomes in the fiscal and infrastructure pillars.



NOTE FROM

SACHIN GUPTA

Chief Rating Officer & Executive Director



Season of Trade deals

This financial year kicked off with Trump introducing steep tariffs affecting nearly all trade partners. Despite the usual uncertainties characteristic of Trump, one thing is clear: tariffs will continue to be a key issue worldwide. Against this backdrop, nations are keen to swiftly finalise trade agreements that have been in the works for many years.

Case in point is the India-UK trade deal, which was signed earlier this month. This assumes importance, as India and the UK are the world's fifth- and sixth-largest economies, with a combined total GDP of USD 8 trillion.

From India's perspective, the primary industries that will benefit are textiles, footwear, and seafood. Currently, tariffs in these sectors stand at around 10%, and they will soon be close to 0%. Notably, key competitors like Vietnam and Bangladesh already operate with near 0% tariffs. As a result of this trade agreement, we can enhance our competitiveness and seize a larger market share.

For the UK, the benefiting industries will be the liquor and automotive sectors. For liquor, the duty will be halved to 75%. For automobiles, the duty will be reduced to 10%, albeit only for a limited quota, which has not yet been finalised.

The adverse impact on the domestic liquor and automotive industries may be limited, as imports will primarily target the luxury segment, where domestic presence is limited.

Apart from the trade benefits to both countries,

this deal is also expected to provide a good, workable template for India's negotiations with the EU and the US.

U.S.-China trade negotiations were highly monitored. Tariffs over 100% have been temporarily reduced to 30% for 90 days, allowing both countries to negotiate more comfortably. Since tariffs for most other countries are paused at 10% compared to 30% for China, it indicates that China's final tariff rates may stay significantly higher. This is vital for Indian exporters expecting lower tariffs than China and other competitors. All these trade deals, while being a step towards freer trade, also indicate polarisation of trade between the US and China trade blocs.

Indo-Pak escalations

The biggest development for the month was indeed the Indo-Pak escalation, which caused ripples globally. From an Indian economic perspective, the most direct impact will be higher government defence spending, which will consequently lead to stronger order books for domestic defence manufacturers. On the other hand, however, the government's increased spending will lead to a higher fiscal deficit. If the government attempts to balance its budget, capital expenditure on the infrastructure sector may see some cuts.

Softening Interest Rates

This is a significant development for corporate India. Interest rates are reducing following the RBI's rate cut. The 10-year benchmark GSec is around 6.35%, dropping nearly 50 bps in 6 months. Similarly, AAA-rated corporates are issuing 10-year bonds at rates ranging from 6.9% to 7.1%. With a predicted 50 bps rate cut by the RBI in FY26 and strong liquidity, the 10-year GSec could decrease to 6-6.1%.

The gap between the 10-year US Treasury and the 10-year Indian GSec has narrowed to an all-time low of less than 2%, reflecting India's strong fiscal position and controlled inflation.

Overall, the year that began with the absurd announcement of these tariffs now appears more reasonable. With expected normal monsoons and mild inflation, the immediate future seems to have more positives than negatives.



NOTE FROM

RAJANI SINHA

Chief Economist

India Amid the Global Turmoil

Indian economy, with low external trade exposure, is relatively better placed amidst the global trade war. However, in this intertwined world, India cannot remain unscathed from heightened global uncertainties. India's GDP growth was moderating even before the trade war erupted. Wide-based consumption spending in the economy remains elusive, while private investment is still not roaring back. The global trade war is expected to dent India's economic growth outlook further. The silver lining amid concerns about growth is the moderation in domestic inflation. With inflation under control, the RBI has focused on supporting growth, cutting interest rates twice (cumulatively 50 bps) and changing its stance to accommodative.

We estimate India's GDP growth to moderate to around 6.4% in FY25, from an average growth of 8.4% in the previous two fiscal years. The slower growth can be attributed to a brake on Government investment (due to elections), even while private investment remained feeble. Moreover, there has been some dwindling in urban consumption spending, though rural consumption has continued to improve. GDP growth is expected to pick up sharply in Q4 FY25, led by a bounce back in government investment and increased spending in this quarter due to the Maha Kumbh festival.

As we enter FY26, the reduction in income tax burden and lower inflation are expected to provide some spur to consumer spending. With expectations of a normal monsoon, the pickup in rural demand should continue. Lower interest rates would be the other supportive factor for spurring growth. However, the global uncertainties could overshadow some of these positives for the economy. As global growth slows, there will be repercussions on India's overall exports, including service exports.

The global turmoil could also have adverse implications for capital flows into India. Net FDI inflows into the country slowed to USD 1.4 billion during the first ten months of FY25 from USD 11.5 billion in the same period of FY24.



Moreover, net FII inflows were muted at USD 2.7 billion in FY25, compared to inflows of USD 41 billion in FY24. Capital flows into the economy could remain weak in FY26. Moreover, private investment could remain in a slow growth trajectory, given the uncertain economic environment. We expect GDP growth to moderate to 6.2% of GDP in FY26.

Expectations of normal monsoon and softening of global commodity prices are likely to keep inflation in control in FY26. Global crude oil prices have declined by around 15% compared to last year and are expected to remain stable in FY26. However, we need to remain cautious of any supply bottleneck amid the ongoing geopolitical conflicts. Weather-related disruptions and the consequent impact on food inflation are the other major risks that we need to be wary of.

RBI is likely to cut rates by a further 50 bps in FY26. The rate-cutting cycle could be deeper if the global growth gets severely dented by the trade war. The task of the US Fed will be more difficult given the growth concerns and inflationary risks in the US economy. If the Fed prioritises growth concerns and continues with rate cuts in 2025, it will make it easier for the RBI to maintain its rate-cutting cycle. While lower interest rates would provide comfort to Indian economy, the main concern would be the dented consumer and business sentiments amidst the global turmoil.

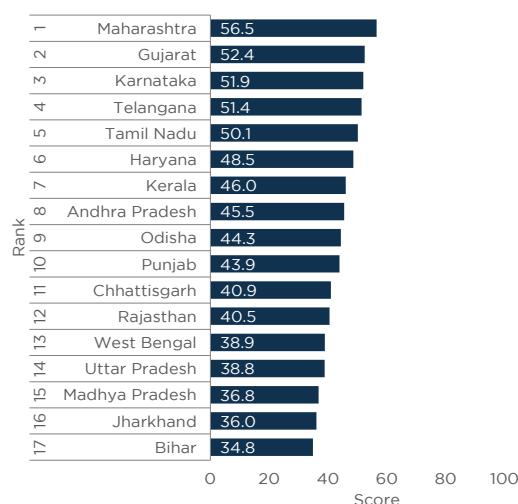


STATES' RANKING 2025

The second edition of CareEdge State Rankings presents a comprehensive assessment encompassing seven key pillars – Economic, Fiscal, Infrastructure, Financial Development, Social, Governance and Environment – together capturing 50 indicators. The assessment comprises large states categorised as Group A and North-East, Hilly & Small States categorised as Group B.

Composite

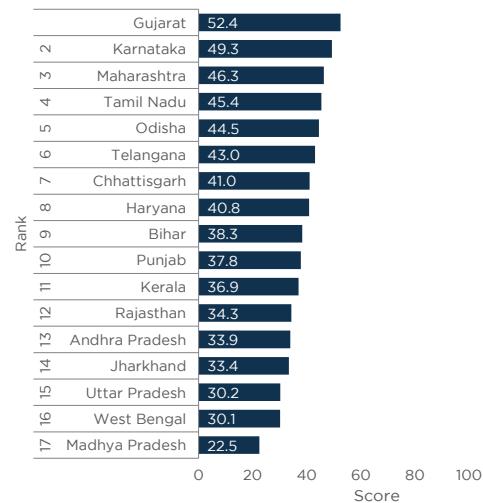
Large States (Group A)



- Maharashtra tops the overall ranking of states, followed by Gujarat and Karnataka. Maharashtra topped in financial development and performed strongly across the economic, fiscal and social pillars. Gujarat's performance is supported by its leading economic rank and favourable fiscal and infrastructure outcomes.
- Western and Southern states dominated the top five rankings. Fiscal, economic and financial development were the strong points for Western states, while the Southern states performed well across the economic, financial development, environment, and governance pillars.
- Goa topped the rankings in Group B, with a strong score for financial development, infrastructure, social, fiscal and economic pillars.

Economic

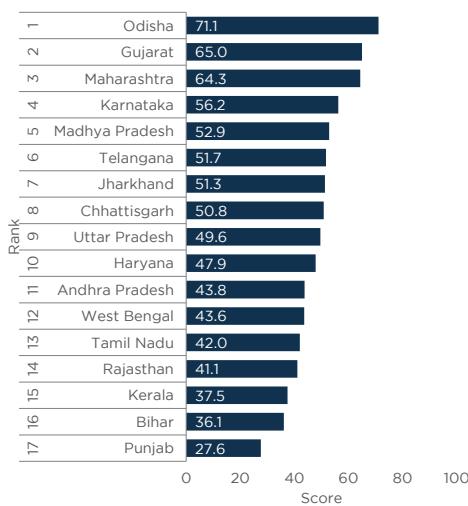
Large States (Group A)



- Gujarat topped the economic pillar, aided by a strong performance in per capita GSDP, FDI (% GSDP) and GFDCF (industries).
- A higher share of industry & services in GVA and an encouraging performance in FDI supported the rankings of Karnataka and Maharashtra.
- Western and southern states dominated the economic rankings with a healthy per capita GSDP, higher share of industry & services and strong FDI.
- Sikkim ranked highest in Group B, aided by an upbeat performance in per capita GSDP and a higher share of industry & services in GVA.

Fiscal

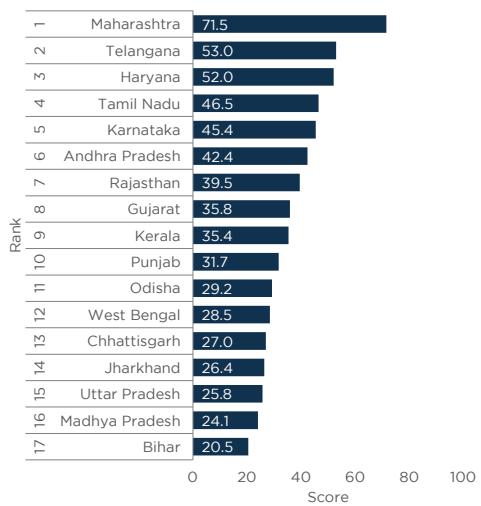
Large States (Group A)



- Odisha led the fiscal rankings, scoring better in terms of revenue deficit, interest payments (% revenue), debt management, outstanding liabilities and guarantees.
- Gujarat's performance is supported by a better score in fiscal deficit, government's capital outlay, outstanding liabilities and guarantees.
- In Group B, Uttarakhand performed well due to better outcomes in fiscal deficit, own tax revenues, outstanding liabilities and guarantees, as well as relatively better spending by the government on health and education.

Financial Development

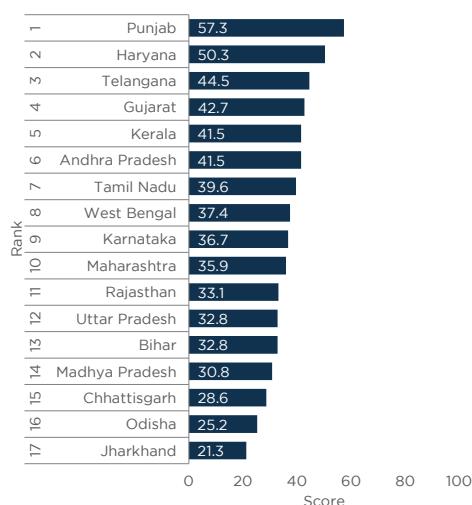
Large States (Group A)



- Maharashtra excelled in terms of financial development, faring well in credit disbursements by banks & NBFCs, penetration of mutual funds and health insurance.
- Southern states like Telangana and Tamil Nadu performed positively in terms of bank credit disbursements and SHG loans.
- Haryana occupied the third spot, supported by better outcomes for NBFC credit, balance in PMJDY account, life insurance and mutual funds penetration.
- Goa's leading position with a large margin vis-à-vis other states in Group B is driven by higher scores across most indicators.

Infrastructure

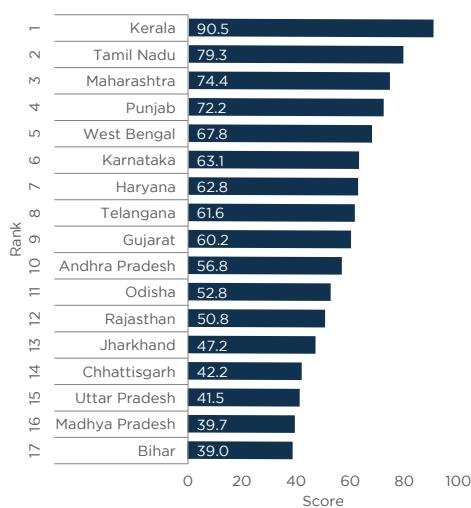
Large States (Group A)



- Northern states of Punjab and Haryana occupy the top ranks for infrastructure on account of better scores in per capita power availability, railway density and net irrigated area (% net sown area).
- For social infrastructure, both Punjab and Haryana fared well in the pupil-teacher ratio but lagged in doctor availability.
- Goa led the Group B states faring well in per capita power availability, road and railway density, air passenger traffic and doctor availability.

Social

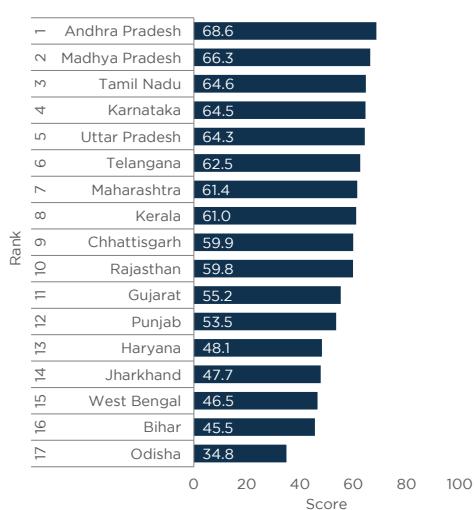
Large States (Group A)



- Kerala and Tamil Nadu stood out in the social assessment, driven by strong scores across most indicators. However, Kerala lagged on the unemployment front.
- Goa and Mizoram were the front-runners with better scores for infant mortality and multi-dimensional poverty rate outcomes. Goa also fared well in gross enrolment, while Mizoram scored better in literacy and had lower unemployment levels.

Governance

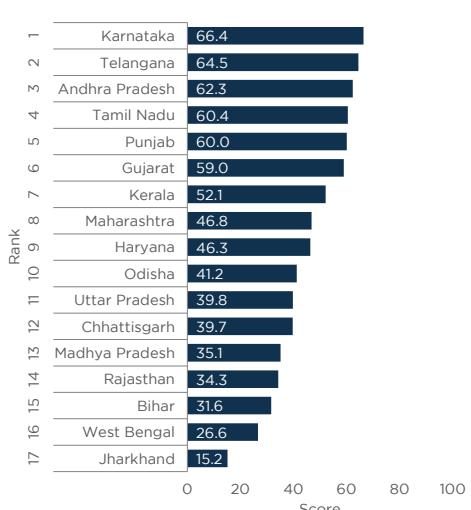
Large States (Group A)



- Andhra Pradesh topped the assessment of governance pillar, supported by better scores on business environment, court conviction rate, completion of court trials and strength of judges in district and subordinate courts.
- Madhya Pradesh follows in the second spot, aided by positive outcomes for completion of court trials and public e-service delivery.
- Regionally, the southern states performed strongly on the governance pillar, securing four of the top six positions.
- In Group B, Uttarakhand and Himachal Pradesh topped the rankings owing to better performance in business environment, completion of court trials, strength of judges and public e-service delivery.

Environment

Large States (Group A)



- Southern states such as Karnataka, Telangana, Andhra Pradesh and Tamil Nadu stood out in the environment category.
- Karnataka led with encouraging scores for air quality and renewable energy. Telangana performed well in terms of change in forest cover and potable water.
- Himachal Pradesh excelled in renewable energy, potable water and change in forest cover, leading the states in Group B.

Source: CareEdge Research

Note: The CareEdge state rankings of 2023 and 2025 are not comparable due to changes in methodology. The 2025 methodology incorporates a longer normalisation period for better comparability across periods going forward. Furthermore, additional indicators have been added to enhance the comprehensiveness of the assessment.



BANKING CREDIT OFFTAKE SET TO IMPROVE IN FY26

Indian banks saw strong credit growth in FY24, achieving a credit growth of 16.4% (excluding the HDFC merger). However, in FY25, credit growth has slowed, primarily due to a deceleration in other personal loans and lending to non-banking financial companies (NBFCs). FY25 has closed with a growth of around 11%, with personal loans remaining the largest segment and industrial sector growth not showing significant improvement. CareEdge estimates credit growth to be between 11.5% and 12.5% in FY26 as banks balance growth and margins while maintaining the credit-to-deposit (C/D) ratio.

Banking Credit Offtake Set to Improve in FY26 due to Lower Base and Increased Demand

The recent period has been marked by a structural shift in the performance of India's banking sector, with the sector seeing a substantial reduction in the overhang of stressed assets. On a y-o-y basis, growth in bank credit has slowed below the long-term growth rate and has converged towards deposit growth during FY25. The bank group-wise break-up shows a moderation in credit growth for both public sector banks (PSBs) and private sector banks (PVBs). Meanwhile, the elevated credit offtake numbers due to the HDFC-HDFC Bank merger have largely dissipated. Credit has continued to outpace deposit growth. A part of the funding gap was met through

Certificates of Deposits (CDs), reduced surplus SLR investments, market borrowings, and avenues such as refinancing from financial institutions.

Aggregate Bank Credit Offtake Slowed in FY25, set to improve in FY26



Source: RBI, CMIE, CareEdge Estimates

PSBs have gained market share by 28 bps year-on-year (y-o-y), reaching 53.5% in December 2024, slightly outpacing PVBs in credit growth during Q3 FY25, with a marginal difference of approximately 1-2%. This marginal outperformance can be understood as private banks' focus on managing their high C/D ratio.

Credit Growth Has Decelerated Across Segments

Over the past decade, the overall composition of banking exposure has undergone significant changes. Credit growth is now led by the personal loan segment, largely retail, which holds the largest share in banking exposure. This segment, which constituted just about 18% in FY14, has increased to around 34% for FY24. In contrast, the industry segment, which accounted for 46% during the same period, has decreased to 23%. This shift towards retail began after the Asset Quality Review days and has continued since then as banks have moved towards granularising their advances.

Industrial credit has increased from low levels but remains below the growth in other segments. Services and personal loans led the overall credit growth. Within personal loans, credit card receivables continued to post robust growth over the last five years, despite the slowdown in unsecured lending in 9MFY25, due to concerns over asset quality and increased risk weights on unsecured personal loans. Growth in personal loans has halved in the 9MFY25 from high levels, driven by both a high base and lower originations. However, its expansion continued to be broad-based, with housing loans as the largest segment. The credit growth extended by banks to NBFCs has declined significantly. For over a year, advances to NBFCs have lagged overall bank credit growth due to regulatory changes (an increase in risk-weight on exposure to NBFCs in November 2023), base effects, and rising

Domestic Credit to the Private Sector (% of GDP, 2023)



Source: World Bank, CMIE

capital market borrowings by NBFCs. The recent rollback of risk weights suggests that the RBI is comfortable with NBFCs in these asset classes. Although most banks have enough equity to meet additional capital requirements, the increased risk weight has made them more cautious about lending to NBFCs. Consequently, the growth in advances to NBFCs is unlikely to return to pre-circular levels in the near term, given the competitive intensity and favourable rates available in the capital markets compared to bank financing for top-rated NBFCs.

India has a relatively low bank credit-to-GDP ratio compared to other countries and continues to present significant headroom for growth on an aggregate basis. Credit offtake has moderated in FY25. This slowdown has been primarily driven by decreased unsecured retail lending and slower advances to NBFCs. Recently, RBI rolled back the risk weights, which is likely to result in more funds being made available to banks to on-lend to NBFCs and is expected to lead to lower borrowing costs for NBFCs. This change, along with the deferral of the LCR framework, is expected to improve the bank credit growth in FY26 compared to FY25.

The outlook for bank credit off-take remained positive due to economic expansion, a rise in capital expenditure, growth in retail credit, and the anticipated expansion in capital expenditure spending, especially by the private sector. The growth is anticipated to be broad-based across the segments. The personal loan segment is expected to continue doing well compared with the industry and service segments.

The medium-term prospects look promising with diminished corporate stress and a substantial buffer for provisions. This growth would be coming off a low base in FY25, which would marginally impinge on the growth rate. Hence, based on GDP forecasts, sectoral credit growth expectations, and management expectations, CareEdge Ratings estimates credit growth to be 11.5% to 12.5% during FY26. However, elevated interest rates and global uncertainties could adversely impact credit growth. Further reducing inflation could also reduce the demand for working capital.



CITY GAS DISTRIBUTION TO INCREASE TO 25% BY 2030

According to CareEdge Ratings, in the natural gas sector, the contribution from City Gas Distribution (CGD) accounted for 20% in FY24 and is projected to increase to 25% by 2030. CareEdge Ratings anticipates that gas consumption volumes for the sector will grow at a Cumulative Average Growth Rate (CAGR) of 10% during FY25-30. According to CareEdge Ratings, volumes are expected to expand at a sustainable compound annual growth rate (CAGR) of ~10% over FY25- 30, supported by capital expenditure (capex) of Rs 30,000 crore during FY25-FY27.

India's energy mix has remained unchanged over the past decade, with coal continuing to dominate energy consumption in the country and gas maintaining a modest share of around 6%. The Government of India aims to transform the nation into a gas-based economy and achieve a 15% share of natural gas in the primary energy mix by 2030, an increase from its current 6.5% (as of 2024). In this context, the CGD industry plays a crucial role in enhancing the contribution of natural gas to India's energy mix by ensuring efficient last-mile connectivity to consumers.

The CGD sector ranked as the second-largest consumer after the fertiliser industry in India's overall natural gas consumption in FY24. Historically, CGD consumption has steadily grown, with a temporary decline in FY23 amid a sharp rise in natural gas prices following the Russia-Ukraine conflict. However, demand recovered in FY24.

The PNGRB's authorisation, which covers 88% of the country's geographical area and 98% of its population through various bidding rounds, has been at the forefront of its CGD expansion. PNGRB has set a target to establish 18,300 CNG stations and 126 million PNG-domestic connections by 2032, which is expected to drive CGD volume growth. The EBITDA/SCM is anticipated to experience moderation in FY25 due to a lower APM allocation, with a potential recovery from FY26 onwards. CareEdge



Ratings projects CGD volumes to record a CAGR of 10% from ~41 mmscmd in FY25 to ~ 72 mmscmd in FY30 and reach a 25% share in a natural gas basket in FY30 from the existing 20% level in FY24.

Tej Kiran Ghattamaneni, Assistant Director, CareEdge Ratings, adds, "The industry is poised for strong growth with CGD consumption share of natural gas set to rise to 25% by 2030. CNG is expected to continue dominating volumes in the CGD consumption mix, supported by growth in CNG-powered vehicles and increased refuelling stations. The PNG-D penetration has enormous potential, with its share compared to LPG at only 1.5%-2% in the South, East, and North-East parts of the country. While the targets set for PNG-D connections appear optimistic, even partial delivery would drive rapid growth in gas demand. Addressing challenges related to timely approvals, trunk pipeline expansion, connection to the national grid, and last-mile connectivity shall be a prerequisite for successfully implementing the planned infrastructure in the sector."

Puja Jalan, Director, CareEdge Ratings, said, "The overall industry revenue is expected to grow at a CAGR of ~18% during FY25- 27, with profitability likely to improve in the medium term with growing volumes resulting in operating leverage efficiency. In the long run, profitability will be largely determined by the gas sourcing strategy adopted by CGD players in terms of APM usage and the proportion of spot and contracted R-LNG. For the CGD sector, dependence on costlier LNG import is expected to increase to ~55% by FY30 from ~26% level in FY24, reinforcing the need to secure long-term contracts to manage price volatility."

The government's push towards increased access to cleaner fuels, along with favourable policy decisions such as the establishment of the Indian Gas Exchange (IGX) and the implementation of gas pricing changes based on the Dr Kirit Parikh Committee's recommendations, are some of the prominent regulatory enablers for the sector.

INDIA'S HEALTHCARE EXPENDITURE EXPECTED TO SURGE FROM 3.3% TO 5% OF GDP BY 2030

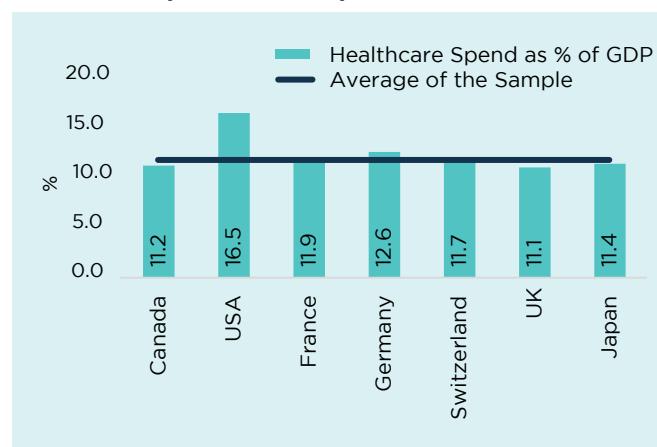
Developed nations, such as the USA, Germany, and Japan, spend a higher percentage of their GDP on healthcare, resulting in better health infrastructure and outcomes. In contrast, developing countries, such as India, allocate a smaller portion of their GDP to healthcare, resulting in gaps in the quality of service and infrastructure.

India's healthcare expenditure is relatively low compared to other developing countries. As of 2022, India has allocated around 3.3% of its GDP to healthcare, below the average of 5.1% for developing countries. Additionally, India's per capita healthcare expenditure is ~\$80, significantly lower than the sample average of ~\$354 for developing nations. This underinvestment has resulted in inadequate healthcare infrastructure and services, although there has been some improvement over the last decade.

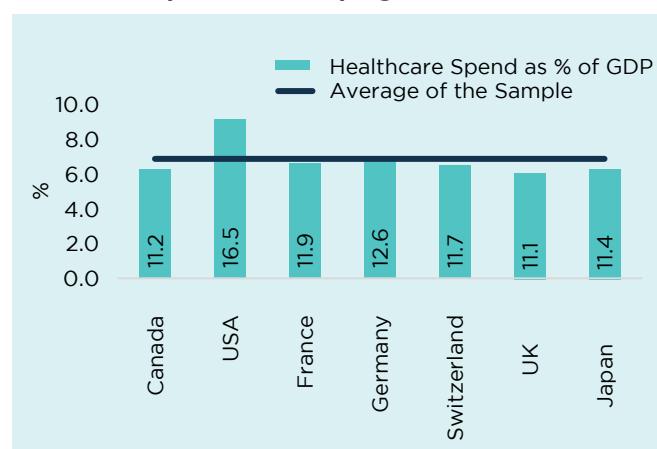
India's lower per capita income than many other countries has been a key reason for underinvestment in the healthcare infrastructure and lower healthcare spending.

However, the Government has been increasing its efforts to improve healthcare spending, which bodes well, especially for rural areas and weaker sections of society heavily dependent on public health services.

Healthcare Spend - Developed Countries



Healthcare Spend - Developing Countries



Source: World Health Organization (WHO); Compiled by CareEdge Ratings; Data presented above are for 2022

Infrastructure and Resource Metrics: Progress and Gaps

India's hospital bed availability has improved substantially, nearing that of some developing economy peers, due to massive investment by the government and private players following the Covid-19 pandemic. However, the availability of skilled healthcare professionals, including doctors and nurses, is inadequate. Furthermore, a significant disparity exists in the availability of healthcare infrastructure and healthcare professionals between urban and rural areas. The per capita availability of hospital beds and doctors in urban areas is estimated to be ~2.5 to 3.0 times that of rural areas. More than 60% of all available hospital beds are operated by the private sector, which generally tends to invest in urban areas. Although the government has mandated rural service for doctors trained in public institutions, the long-term effectiveness of such measures is limited without complementary incentives and systemic support. Rural healthcare infrastructure should get a much-needed boost through enabling policy initiatives.

CareEdge Ratings anticipates substantial growth in India's healthcare infrastructure and related workforce in the coming years, driven by demand tailwinds and policy support from the Government. Although India's population is expected to grow by ~0.8% to 0.9% p.a., its population aged 45 years and above is expected to grow by ~2.5% to 3%. This, along with improvement in per capita income and increasing health insurance coverage, is expected to boost investment in India's healthcare infrastructure.

India's health insurance coverage (public and private) has more than doubled over the last 10 years, reaching ~40% in 2023, largely due to increased awareness and central and state-sponsored health insurance schemes. Additionally, the recent expansion of the Ayushman Bharat scheme to cover citizens aged 70 years and above will likely expand health insurance coverage to ~50% in 2025.

India is expected to add ~25,000 to 30,000 hospital beds over the next three years, with public and private sector investments.

Over the last decade, there has been a substantial investment in medical education, resulting in almost double the number of undergraduate and postgraduate seats in medical colleges. CareEdge Ratings expects India's doctor availability to improve, driven by

more than 1 lakh undergraduate medical seats. This may also somewhat bridge the gap between the availability of healthcare professionals in rural areas and urban areas.

CareEdge Ratings View

India's healthcare sector is on the cusp of significant transformation, driven by increased public and private investments, policy initiatives, and demographic shifts. Despite the current challenges, including disparities in healthcare infrastructure and the availability of medical services in the workforce between urban and rural areas, the future looks promising with sustained efforts and strategic investments. As of 2022, India's healthcare spending accounted for 3.3% of the GDP; however, with sustained efforts, it is anticipated to reach 5% by 2030.

Krunal Modi, Director, CareEdge Ratings, emphasises, "India's healthcare landscape is evolving rapidly. The government's commitment to increasing healthcare spending, coupled with private sector participation, is laying a strong foundation for improved healthcare access and quality". He further adds, "The doubling of medical seats, expanded health insurance coverage, and continued addition of hospital beds are positive steps towards building a robust healthcare system. As we move forward, a balanced approach incorporating concerted efforts from both the public and private sectors will be essential in achieving our healthcare goals and delivering better health outcomes for all citizens.

The rising share of the population aged over 45 years, coupled with income growth, is also expected to catalyse higher demand for quality healthcare services. This demand will likely translate into sustained investments across the entire value chain, from medical education and training to hospital infrastructure and digital healthcare technologies.

To truly capitalise on this opportunity, India must focus on the equitable distribution of resources, enhancing public healthcare systems, and retaining skilled medical personnel in rural and semi-urban regions by providing adequate compensation and quality of life. A balanced and inclusive approach, supported by continued fiscal commitment and private sector participation, will be essential in closing the accessibility gap and delivering better health outcomes.



PROPOSED PARTIAL CREDIT ENHANCEMENT FRAMEWORK: A STEP FORWARD TO BOOST INFRA FINANCING

On April 09, 2025, the Reserve Bank of India (RBI) released draft directions on non-fund-based credit facilities, including a new framework for extending partial credit enhancement (PCE). Key revisions proposed include (i) extension of eligibility for providing PCE to All India Financial Institutions (AIFIs), NBFCs and HFCs alongside commercial banks [together referred to as Regulated entities (RE)], (ii) increase exposure limit by a single RE to 50% (from present 20%) and (iii) reduction in capital requirement norms, linking it to PCE amount vis-à-vis bond issue size as per existing framework. The proposed changes in the scheme have been aimed at addressing the bottlenecks in the current framework, which has hindered its acceptance.

The PCE scheme, initially released on September 24, 2015, stipulated that banks can provide credit enhancement to investment-grade bonds as a contingent line of credit of up to 50% of the proposed bond size to provide shortfall support. The framework aimed to shift the pressure on the banking system by facilitating increased bond issuances; however, the on-ground issuances remained abysmally low over the last decade. IIFCL, an early entrant

from even before the RBI's scheme on PCE, had sanctioned Guarantees aggregating ~ Rs 2,400 crore (as on Mar 31, 2024) for bond issuances exceeding Rs 9,000 crore by 20 infrastructure projects.

The Union Budget 2025-26 announced capex of Rs 11.2 trillion, with a share of ~46% towards roads and railways. Given the large funding requirement, the government has re-emphasised PCE in augmenting financing sources via bond issuances, evident from the Union Budget announcement in 2025-26, wherein the National Bank for Financing Infrastructure & Development (NaBFID) was directed to set up a PCE facility, aimed at infrastructure corporate bonds.

The Indian corporate bond market, although growing, remains inaccessible to entities with moderate credit profiles, resulting in a high reliance on bank finance. Infrastructure projects with long-term concessions and modest cash flow generation in the initial years require patient capital and a staggered or back-ended amortisation structure. Pension funds, provident funds and mutual funds, whose stringent investment norms allow exposure to only minimum AA category-rated credits, can adequately fulfil this.

The PCE mechanism holds strong potential for the infrastructure sector, as the underlying cash flows are more defined—such cash flows, when stress-tested, aid in improved decision-making. The PCE framework may be useful in multiple infrastructure segments with variable or gradually rising cash flows. Some segments could include toll roads, state annuities, and power

generation/transmission projects with moderate or weak counterparties.

The existing scheme remained unpopular among PCE providers and issuers, and in this backdrop, the proposed changes are favourable. The proposal to raise the exposure threshold of a single RE for providing PCE to 50% is likely to streamline transactions, making them more efficient and quicker. Additionally, the draft directive to reduce capital requirements is expected to attract interest from REs and issuers with lower capital and commission needs, respectively.

The draft directives aim to resolve legacy issues and boost infrastructure bond issuances; however, the repayment/NPA recognition clause remains a concern. This poses a risk of a sharp downward revision in credit ratings for all facilities, including the pre-enhanced (unsupported) rating, if the drawn PCE remains unpaid by the 30th day. The NPA classification may also limit the issuers' access to bank lines. In such a scenario, the capital requirements for RE are likely to go up. Simultaneously, the costs will be passed onto the issuer, thus increasing the latter's liability to the PCE provider. As a

result, credits with higher pre-enhanced ratings are more likely to find takers. Additionally, the extent of economic benefits achieved by issuing PCE bonds in comparison to traditional bank finance will also influence the shift towards PCE bonds.

The draft directives also bar PCE providers from participating in PCE-backed bonds. This step reinforces RBI's push for pension funds, insurers, and similar entities to invest in PCE-backed bonds. The bond market issuances by corporates have been approximately 25% of the average capital expenditure (capex) spent by India Inc. on a yearly basis, thereby signalling the large dependence on banking institutions to fund incremental capex. The PCE scheme facilitates the upgrade of ratings for moderate credits, thereby qualifying them for the investment criteria of various funds. The restrictions on investment by REs in any PCE-backed bond issuance are likely to draw large-scale investments into the infrastructure corporate bond market, channelling funds towards incremental capital expenditure investments and, in turn, further deepening the country's bond market.

Illustrations

Bond issue size (Rs.)	PCE amount (Rs.)	Pre-enhanced rating	Enhanced rating	Risk weights (for Col C) %	Risk weights (for Col D) %	CAR %	Capital requirement (Existing)	Capital requirement (New) (Rs.)	Savings (Rs.)	Savings (Rs.)
A	B	C	D	E	F	G	A*(E-F)*G	B*E*G		
100	40	BBB	AA	100	30	9	6.3	3.6	2.7	43
100	30	A	AA	50	30	9	1.8	1.4	0.5	25
100	50	BBB	AA	100	30	9	6.3	4.5	1.8	29
100	20	A	AA	50	30	9	1.8	0.9	0.9	50

Note: The above examples are only for illustrative purposes and do not provide any guidance on PCE requirements for rating thresholds. Also, the above examples neither capture the rating modifiers "+/-" nor the sector-specific risks. The actual PCE requirement may vary and needs to be assessed on a case-by-case basis.

As seen above, irrespective of the PCE coverage and rating category, there is likely to be a reasonable reduction in capital requirements under the proposed framework.

Some of the perceived benefits from the PCE scheme are:

- Improve the creditworthiness of corporate bonds.
- Unlock more funding options. Attract insurers, mutual funds, and pension funds to moderate credit issuers and

infrastructure bonds.

- Reduce borrowing costs by enhancing your credit profile.
- Reduction in the capital requirement of banks.

Overall, the revised framework is likely to address the issues plaguing the investor community's acceptance and weak penetration of the PCE framework and is thus a positive step towards bridging the infrastructure funding gap.



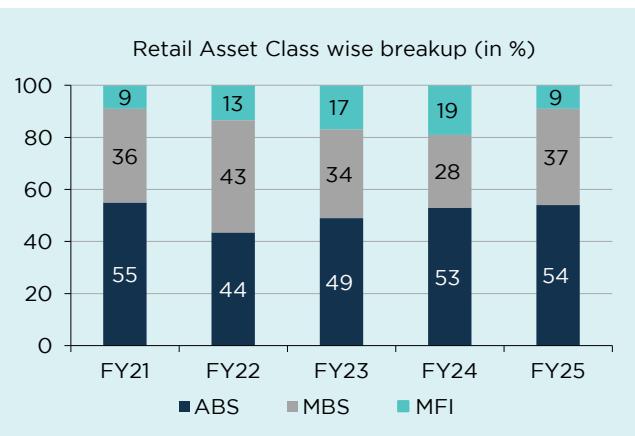
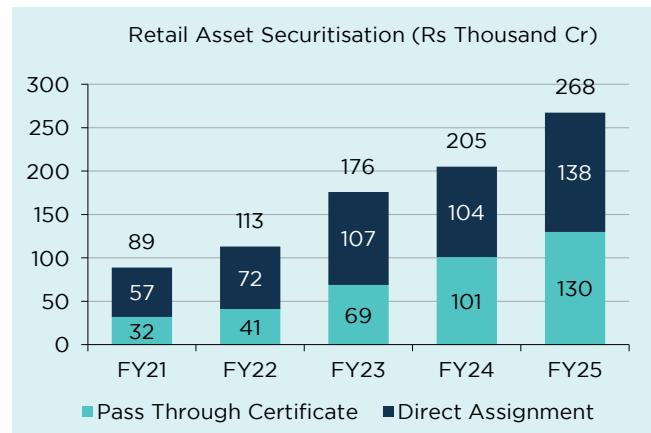


RETAIL ASSET SECURITISATION SURPASSES Rs. 2.68 LAKH CRORE IN FY25

The securitisation market reached an all-time peak in FY25, with total volumes reaching Rs 2,68,000 crore (CareEdge Ratings' estimate), encompassing both pass-through certificates (PTC) issuances and direct assignment (DA) transactions. In FY25, the market experienced a robust growth of approximately 39% (CareEdge Ratings' estimate) compared to FY24. The securitisation market issuances gained momentum in the second quarter of the current fiscal year, primarily driven by substantial contributions from private banks and other large originators and continued demand for loans that meet Priority Sector Lending (PSL) norms.

The aggregate volume for Q4FY25 stood at around Rs 69,000 crore, up from Rs 62,000 crore for Q4FY24. The DA volume was marginally higher than the PTC volume, constituting 51% of the overall volume. The share of PTC issuances was higher than DA volumes over the first nine months of FY25. However, large DA transactions in the last quarter pulled overall DA volumes ahead of PTC issuances in FY25. The securitisation market also entered over 45 new originators in FY25.

Retail Securitisation Volumes and Asset Class-wise Breakup

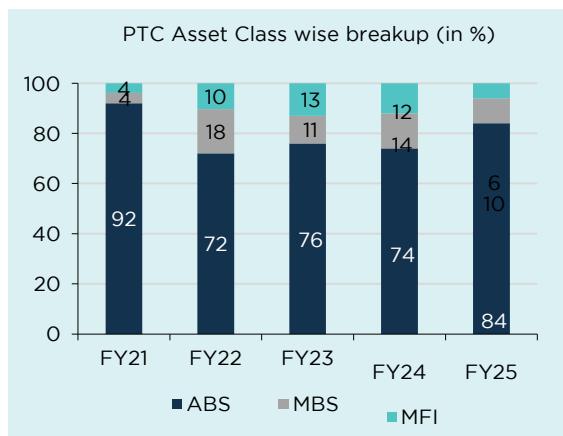
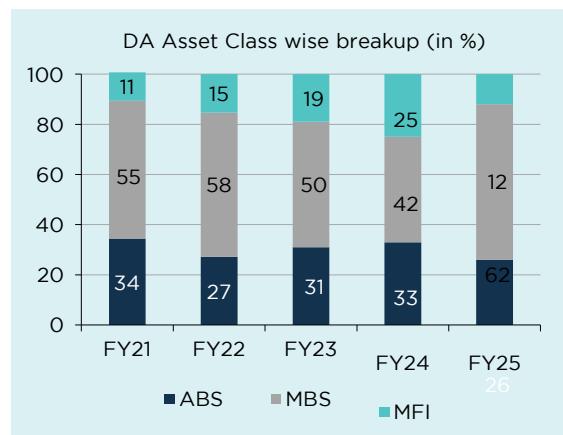


Source: CareEdge Ratings

Asset Class-wise Breakup of PTC and DA Volume

Asset-backed securitisation (ABS) pools constituted a substantial portion of the total PTC issuances, accounting for almost 84% in terms of volume, with the share of Mortgage-backed securitisation (MBS) transactions reducing to 10% (14% in FY24). The share of PTC issuances originated by the Microfinance Institutions (MFI) also declined to 6% of total PTC issuances (12% in FY24). Vehicle loan financing, including loans against commercial vehicles, cars, two-wheelers, construction equipment, and tractors, accounted for over Rs 93,000 crore, making up 71% of overall PTC issuances.

Mortgage-backed transactions dominated the DA segment in FY25, comprising 62% of DA volumes, while Asset-backed DA transactions accounted for 26%. The overall proportion of DA transactions backed by MFI loans dropped to around 12% compared to 25% in FY24.



Source: CareEdge Ratings

CareEdge Ratings View

CareEdge Ratings expects the momentum to continue into the next fiscal year. While the surge in the securitisation market volume for FY25 was primarily driven by issuances from a

few large private sector banks, we expect the market for residential mortgages to gain some traction, driven by the push from RMBS Development Company Limited (RDCL). Additionally, the anticipated easing of monetary policy in the upcoming fiscal year and renewed interest from mutual fund houses could further boost the securitisation market. The updated PSL guidelines have expanded the range of assets that qualify under PSL norms. This is expected to influence the demand for securitisation, though the extent of this impact is yet to be determined. These factors will significantly shape the retail securitisation market in India in FY26 and beyond.

“The securitisation market in India is experiencing significant growth, driven by resilient rating performance and high volumes from select banks and large NBFCs. The market reaching an all-time high of Rs. 2.68 lakh crore is impressive! This growth is largely supported by banks' focus on expanding retail assets and meeting Priority Sector Lending (PSL) norms. The activity in the Residential Mortgage-Backed Securities (RMBS) space this financial year will be a key monitorable and has the potential to reshape securitisation market dynamics in the medium term,” said Vineet Jain, Senior Director, CareEdge Ratings.

“Over the past year, we've seen a rise in delinquencies within unsecured asset classes, notably in MFI portfolios. We expect this trend to persist into FY26. By the end of Q2 FY26, we'll have a clearer picture of whether this is the new normal or if there is a further shift in delinquency patterns. Regarding securitisation issuances, FY25 experienced an increase from universal banks, a trend likely to continue,” said Sriram Rajagopalan, Director, CareEdge Ratings.

“This year's volume was primarily driven by HDFC Bank and other large originators. Due to industry-wide stress, there was a decline in the securitisation volume of unsecured asset classes, such as business loans, personal loans and microfinance loans, resulting in slower disbursement growth in the NBFC sector in Q3 FY25. However, the market rebounded in Q4FY25, fuelled by the growth of MBS transactions, which helped mitigate the earlier impact,” said Chirag Gambhir, Associate Director, CareEdge Ratings.





HEAT MAP AND PROJECTION TABLE

		Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
PMI-M	Unit	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2
PMI-S	Unit	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7
GST Collections	Rs lakh crore	2.1	1.7	1.7	1.8	1.7	1.7	1.9	1.8	1.8	2.0	1.8	2.0	2.4
E-Way Bill	Crre	9.7	10.3	10.0	10.5	10.5	10.9	11.7	10.2	11.2	11.8	11.2	12.5	11.9
Air Passenger Traffic	Crre	3.2	3.5	3.3	3.2	3.3	3.2	3.4	3.5	3.8	3.7	3.5	3.6	
PV Sales	Lakh	3.4	3.5	3.7	3.6	3.7	3.8	4.1	3.6	3.5	4.1	3.9	4.1	
2-3-Wheeler Sales	Lakh	21.4	20.1	19.9	18.5	21.5	25.0	26.3	20.5	15.6	19.9	18.6	21.1	
Tractor Sales	Lakh	0.8	0.9	1.1	0.7	0.6	1.1	1.5	0.8	0.6	0.7	0.7	0.9	0.9
IIP	y-o-y%	5.2	6.3	4.9	5.0	0.0	3.2	3.7	5.0	3.7	5.2	2.7	3.0	
Core Sector	y-o-y%	6.9	6.9	5.0	6.3	-1.5	2.4	3.8	5.8	5.1	5.1	3.4	3.8	
Power Consumption	y-o-y%	10.5	15.3	8.9	8.2	-4.9	0.6	1.1	4.0	5.9	2.7	-0.8	6.7	2.2
Petroleum Consumption	y-o-y%	7.8	1.9	2.3	10.7	-3.1	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	-0.2
Outstanding Bank Credit - Total	y-o-y%	19.0	20.8	17.3	13.6	13.6	13.0	11.7	12.1	11.2	11.4	11.0	11.0	
Capital Goods Import	y-o-y%	3.2	7.0	11.6	6.2	8.7	8.6	4.1	5.5	4.9	15.5	-0.5	8.6	
Merchandise Exports	y-o-y%	2.0	13.2	2.4	0.6	-9.9	-0.2	16.6	-5.3	-1.5	-2.5	-10.8	0.7	

Indicator	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25 Forecast	FY26 Forecast
Gross Domestic Product (y-o-y%)	6.8	6.5	3.9	-5.8	9.7	7.0	8.2	6.5 (SAE)	6.2
CPI Inflation (y-o-y%)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.6	4.2
Fiscal Deficit (As % of GDP)	3.5	3.4	4.6	9.2	6.8	6.4	5.6	4.8	4.4
Current Account Balance (As % of GDP)*	-1.8	-2.1	-0.9	0.9	-1.2	-2.0	-0.7	-0.7 #	-1.1
Rupee (USD/INR) (Fiscal year-end)	65.0	69.2	75.4	73.5	75.8	82.2	83.4	85.5	88-89
10-Year G-Sec Yield (%) (Fiscal year-end)	7.3	7.5	6.1	6.3	6.8	7.3	7.1	6.6	6.2-6.4

*(-) Deficit / (+) Surplus; SAE: Second Advance Estimate; # Forecast; Fiscal deficit data for FY25 is revised estimate and FY26 is budget estimate.

About Us

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and strong position across the segments. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.

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