

India's microfinance sector enters a structural upcycle with gross loan portfolio expected to reach INR 10 trillion over the next 5-6 years: Aventus Capital

Mumbai, July 21, 2025

Aventus Capital, India's premier investment bank, has published a thought paper on the evolution of the microfinance sector, highlighting a resilient reset underway in one of India's most critical engines of financial inclusion. The report projects a 15% CAGR in the gross loan portfolio (GLP), with the industry poised to surpass an INR 10 trillion loan portfolio over the next 5-6 years.

The report notes that despite weathering multiple downcycles, the microfinance sector has remained resilient and is now entering a structural upcycle. The sector is expected to return to historical cross-cyclical RoEs, ranging from 15-20% over the next five to six years. This shift is driven by improved credit discipline, operational reengineering by industry frontrunners and stronger regulatory oversight. Diverse geographic potential and deeper rural market penetration are opening new frontiers for financial inclusion, while the rising engagement with new-to-credit (NTC) customers is broadening the industry's borrower base. Accelerated adoption of AI-powered technologies is further enhancing operational efficiency and enabling smarter, data-driven lending decisions.

Anshul Agarwal, Managing Director & Head, Financial Institutions Group Investment Banking, Aventus Capital said, "The microfinance industry has shown strong resilience in recent years, with downturns getting shorter. This progress is a direct result of deliberate regulatory actions such as MFIN guardrails and the CGFMU scheme, aimed at curbing borrower overleveraging and improving asset quality. Green shoots are already visible on the ground signaling stronger borrower discipline and improved fundamentals going forward. Together, these developments are building the base for renewed investor confidence and durable sector health.

Snigdha Khemka, Director, Financial Institutions Group Investment Banking, Aventus Capital said, "India's microfinance sector is emerging as a compelling, underpriced opportunity. As the sector fundamentals reset through both regulatory and institutional actions, we anticipate a re-rating of sector valuations with multiples rising meaningfully from the current 1.0x levels in the medium term, making this an opportune time for investors to get their skin in the game and participate in the sector's next upcycle."

According to the report, large white spaces exist as the present AUM penetration stands at 35% across 16 states, highlighting significant headroom for expansion. The persistent demand for credit in informal markets presents a compelling opportunity for MFIs to deepen their reach and further drive financial inclusion.

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