Indian shadow banks' IPO boom falters on mounting credit stress

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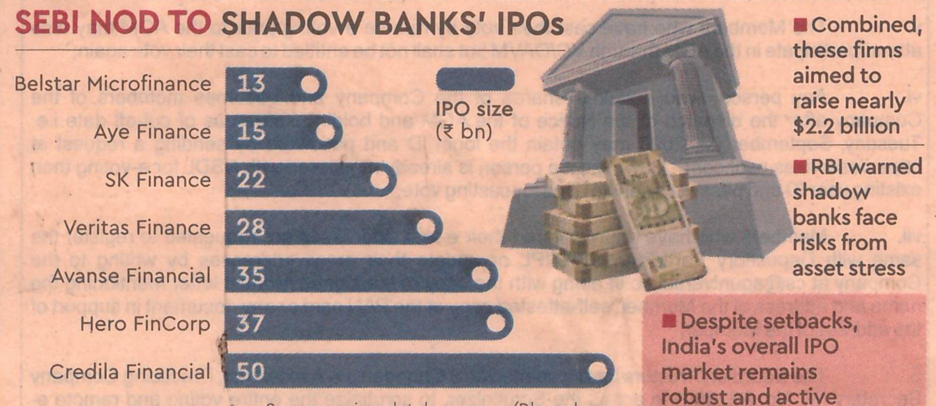
INDIA'S ONCE-BURGEONING pipeline for new stock sales by shadow banks is stalling as strains across the sector prompt lenders to scrap or delay listings.

TPG Inc-backed SK Finance and Belstar Microfinance are the latest firms to shelve plans for initial public offerings, according to people familiar with the matter. SK Finance had sought to revive its IPO last month at a smaller size and lower valuation, Bloomberg News reported earlier.

Shadow lenders are losing appeal with investors even though India's IPO market has rebounded recently. The pulled sales threaten to blemish what could be a record year for IPOs, based on some analysts estimates, topping last year's $21 billion tally.

"Weak economic activity, uncertainty of tariffs and job continuity have led to lenders tightening their underwriting standards," said Anil Gupta, senior vice president and co-group head for financial sector ratings at Icra, a credit rating firm.

Other shadow lenders that have delayed IPOs include Norwest Venture Partners-backed Veritas Finance Ltd. and British International Investment-backed Aye Finance, the people said. Both firms won approval from the regulator in April, and are now awaiting more favourable market conditions, the people said. Hero FinCorp, the lending arm of Hero MotoCorp., hasn't yet decided when to proceed with a sale, they added.



Source: primedatabase.com/Bloomberg

Avanse Financial Services, the Warburg Pincus-backed education lender, has also delayed its IPO as demand for student loans cools amid stricter US visa rules, Bloomberg News reported.

Another education lender, Credila Financial Services, which got regulatory approval in May, has yet to launch its IPO.

In all, these firms had planned to raise a combined ₹195 billion ($2.2 billion), led by Credila.

Representatives for SK Finance, Belstar Microfinance, Veritas Finance, Aye Finance, Credila Financial and Hero FinCorp didn't respond to requests for comments.

Some shadow lenders, or non-bank finance companies, are struggling with rising bad loans due to poor credit assessment, overexposure to risky borrowers and an economic slowdown, according to analysts. The sector suffered from the Infrastructure Leasing & Financial Services Ltd. crisis of 2018, which exposed them to liquidity risks and asset quality issues.

In a June report, the central bank said that shadow banks face risks from household debt stress, higher funding costs and deteriorating asset quality, particularly for weaker companies.

These concerns have dragged down shares of several listed shadow lenders such as Bajaj Finance, Cholamandalam Investment and Finance, and Shriram Finance, which have underperformed the Nifty Index since the start of their fiscal year on April 1. The only finance IPO this year, HDB Financial Services, is up 5% from its offer price in July but was sold at a 40% discount to its price in the unlisted market, *The Economic Times* reported.

The concern is most prevalent for unsecured small business loans in the 200,000-700,000 rupees category, given such loans don't have collateral and are unpredictable, said Amit Sharma, business head for small business lending at IIFL Finance, a shadow lender. An incorrect assessment of business prospects of these borrowers and aggressive sales plans have led to lenders approving excessive leverage, he said.

Latest data from credit bureau CRIF and IIFL Capital— a local brokerage— shows that the proportion of small business borrowers holding three to five loan accounts make up just 4.3% of the total, but control 22% of credit.

The US tariffs, which came into effect last month, doubled the existing 25% duty on Indian exports, is an additional strain for lenders. The levies hit more than 55% of goods shipped to the US — India's biggest market — and hurt labor-intensive industries like textiles and jewelry the most. Lenders are now reducing exposure to these sectors.

Indian companies have raised approximately $10 billion through IPOs this year August, according to data compiled by Bloomberg. They are expected to raise $18 billion in the second half of 2025, according to Jefferies Financial Group. If that materializes, total fundraising could surpass last year's record. **BLOOMBERG**