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Mergers, Acquisitions and the Changing Face of NBFCs in India:

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Abstract - Non-banking financial companies (NBFCs) have shifted from the fringes of India's financial system to its core, and from 2021 to 2026 a distinctive series of mergers and acquisitions (M&A) altered their ownership and structure. Using a multiple-case design built on secondary data, this paper studies nine landmark transactions: Piramal–DHFL, Poonawalla–Magma, the formation of Shriram Finance, the HDFC Ltd–HDFC Bank and IDFC–IDFC First Bank reverse mergers, Tata Motors Finance–Tata Capital, Reliance Capital–IIHL, Bain Capital–Manappuram and MUFG–Shriram Finance. The findings show that dealmaking has moved away from distress resolution under the Insolvency and Bankruptcy Code (IBC) and towards strategic consolidation and the entry of foreign capital, propelled by scale-based regulation, compulsory listing of upper-layer NBFCs, cheaper funding and investment in technology. Results after the deals vary: Shriram Finance and Poonawalla Fincorp grew their assets quickly while keeping asset quality steady, HDFC Bank endured sustained pressure on margins and low-cost deposits, and Tata Capital saw its asset quality weakened by the vehicle-finance book it absorbed. Approval delays and integration risk are the chief obstacles. It closes with policy suggestions on approvals, IBC implementation, prudential relief and disclosure.

***Keywords*:** Mergers and acquisitions; NBFC; Insolvency and Bankruptcy Code; Scale-based regulation; Bank–NBFC consolidation; India

1. Introduction

Non-banking financial companies (NBFCs) now serve as a core source of credit in India, especially for vehicle, housing, gold, micro and small-business loans, which banks serve unevenly. Acharya et al. (2013) traced the expansion of Indian shadow banking to differences in how banks and non-banks were regulated and funded, and the collapse of IL&FS and Dewan Housing Finance (DHFL) in 2018–2019 demonstrated how swiftly such growth could turn into systemic risk. According to the Reserve Bank of India (RBI, 2026), credit extended by upper- and middle-layer NBFCs expanded 16.6 per cent year-on-year in March 2026, while banks and NBFCs together recorded non-performing assets at multi-decadal lows.

Mergers and acquisitions (M&A) have been a main tool in this rebuilding. Between 2021 and 2026 India saw the first successful insolvency resolution of a financial service provider (Piramal Enterprises, 2021), the takeover of its biggest housing financier by its largest private bank (HDFC Bank Limited, 2024), the emergence of Shriram Finance, a retail lender with assets above ₹1.7 lakh crore (Business Standard, 2022), and the largest cross-border investment in its financial sector to date (Reuters, 2025). Grant Thornton data cited by Reuters (2025) put financial-sector M&A at roughly USD 8 billion in the first nine months of 2025, 127 per cent above the same period of 2024.

However, research on financial consolidation has focused on bank mergers (Berger et al., 1999; DeYoung et al., 2009), and few studies link NBFC transactions to the regulatory framework that emerged after 2022. This paper fills that gap through four

objectives:

O1. To examine the trend and pattern of mergers and acquisitions involving NBFCs in India over 2021–2026.

O2. To explore the strategic reasoning behind selected landmark M&A transactions in the banking–NBFC space.

O3. To identify the regulatory and technological forces speeding up NBFC consolidation, with particular reference to the Insolvency and Bankruptcy Code.

O4. To evaluate how selected NBFC mergers and acquisitions affected financial performance, operational efficiency and market position.

2. Review of Literature and Conceptual Framework

Berger et al. (1999) name technological change, deregulation and changes in financial markets as the forces behind consolidation, and find that efficiency gains are modest and unevenly distributed. Reviewing studies since 2000, DeYoung et al. (2009) conclude that performance

gains from mergers of financial institutions are uncertain and depend strongly on how well the deal is executed. Cartwright and Schoenberg (2006) likewise note that acquisitions often disappoint because of integration difficulties. Since Acharya et al. (2013) tie NBFC growth to the regulatory line between banks and non-banks, changes to that line should reshape the sector.

Taken together, these strands point to a three-part framework adopted here: (i) *drivers* — regulation, insolvency law, funding cost and technology; (ii) *deal routes* — IBC resolution, scheme of arrangement, preferential issue with open offer, and minority or joint-control investment; and (iii) *outcomes* — growth, margins, asset quality and market position, moderated by integration risk.

3. Research Methodology

This study is descriptive and analytical and follows a multiple-case design that relies wholly on secondary data from April 2021 to September 2026. Nine transactions were chosen purposively using four criteria: an NBFC or housing finance company acting as acquirer, target or merging entity; completion or regulatory approval between 2021 and 2026; a mix of routes (IBC, scheme of arrangement, equity investment); and the availability of audited or regulator-linked disclosures. Sources include RBI publications, company reports, investor presentations, press releases, and Reuters and Business Standard coverage.

The analysis has three steps: classifying deals by route and motive; comparing assets under management (AUM), net interest margin (NIM), low-cost deposit share (CASA), gross non-performing assets (GNPA), capital adequacy and profit before and after each deal; and judging market position. As NBFCs report cost-to-income ratios inconsistently, efficiency is gauged through proxies: margin, funding mix and asset growth. The design allows description, not causal inference. Interest-rate cycles, risk-weight changes and post-pandemic recovery also affect the indicators, post-deal windows differ across cases, and the 2025–26 transactions are too recent to judge. All figures are reported as made public and were not independently audited by the author.

4. Trend and Pattern of NBFC M&A, 2021–2026

Table 1 lists the sampled transactions, and four overlapping phases can be seen.

Phase 1 (2021–22): distress and recapitalisation. The DHFL resolution and the Magma recapitalisation demonstrated that weak NBFC franchises could be acquired and rebuilt, with the IBC and preferential issues serving as the routes.

Phase 2 (2022–25): simplification and scale. Shriram Finance came into being in December 2022 (Business Standard, 2022). In September 2024 Aditya Birla Finance obtained RBI's no-objection to merge into its listed parent (Business Standard, 2024b), and Tata Motors Finance merged into Tata Capital in 2025 (Paytm, 2025). In February 2026 the NCLT cleared a merger in which RBI had required the Mirae Asset group to give up the licence of one of its two NBFCs (Free Press Journal, 2026).

Phase 3 (2023–24): bank–NBFC convergence. HDFC Limited merged into HDFC Bank on 1 July 2023 (HDFC Bank Limited, 2024), and IDFC Limited merged into IDFC First Bank from 1 October 2024 (Business Standard, 2024a). Both reverse mergers removed an NBFC parent.

Phase 4 (2025–26): foreign and private-equity capital. In March 2025 Bain Capital agreed to acquire 18 per cent of Manappuram Finance, and in December 2025 MUFG agreed to take 20 per cent of Shriram Finance (Reuters, 2025). Bank-side transactions, such as Emirates NBD's agreed purchase of 60 per cent of RBL Bank, point in the same direction (Reuters, 2025).

Table 1: Sampled NBFC-related transactions, 2021–2026

Transaction (year)	Route	Value / size	Core rationale
Piramal–DHFL (2021)	IBC resolution; NCLT approval June 2021	₹34,250 crore	Retail housing franchise bought at a discount to claims
Rising Sun (Poonawalla)–Magma (2021)	Preferential issue plus open offer; 60% stake	₹3,456 crore	Recapitalisation, rebranding, lower funding cost
Shriram Transport + Shriram City Union (2022)	NCLT-approved amalgamation	AUM ₹1.71 lakh crore	Scale in retail asset finance
HDFC Ltd–HDF	Reverse merger,	All-stock	Larger balance sheet;

C Bank (2023)	effective 1 July 2023		bigger-ticket lending
IDFC Ltd–IDFC First Bank (2024)	Composite reverse merger; 155:100 swap	All-stock	Simpler structure; no promoter
Tata Motors Finance–Tata Capital (2025)	NCLT scheme; effective May 2025	TMF AUM about ₹32,500 crore	Vehicle-finance scale; listing readiness
IIHL–Reliance Capital (2024–25)	IBC resolution	₹9,650 crore upfront	Insurance, asset reconstruction, broking portfolio
Bain Capital–Manappuram (2025–26)	Preferential issue plus open offer; joint control	₹4,385 crore for 18%	Gold-loan scale; private-equity capital
MUFG–Shriram Finance (2025–26)	20% preferential allotment, April 2026	₹39,618 crore	Foreign bank's entry through an NBFC

Three patterns emerge. First, the route has moved from the IBC to schemes of arrangement and negotiated equity deals. Second, motives have shifted from rescue to strategy. Third, deal sizes have risen from ₹3,456 crore (Magma) to ₹39,618 crore (Shriram), which suggests that large NBFCs are now viewed as investable platforms rather than distressed assets.

5. Strategic Rationale of Landmark Transactions

Piramal–DHFL. Piramal paid roughly ₹34,250 crore, of which ₹14,700 crore was upfront cash, for a failed housing financier whose creditors had claimed about ₹87,000 crore (Business Standard, 2021b; Piramal Enterprises, 2021). The aim was to acquire a ready retail franchise at a steep discount and rebuild it as a digital lender, with Piramal Capital & Housing Finance merging into DHFL.

Poonawalla–Magma. The ₹3,456 crore infusion raised Magma's net worth above ₹6,300 crore, and analysts anticipated lower borrowing costs under the new promoter (Business Standard, 2021a). Magma's AUM had declined from ₹16,134 crore to ₹15,006 crore during the year to December 2020 (Mergers India, 2021), so the transaction paired fresh capital with new management.

Shriram Finance. Combining a commercial-vehicle financier with a two-wheeler and small-business lender produced a diversified retail platform with net worth of ₹40,900 crore and AUM of ₹1.71 lakh crore (Business Standard, 2022), reflecting the scale logic that Berger et al. (1999) associate with consolidation.

HDFC and IDFC First. HDFC Bank anticipated that a bigger balance sheet and net worth would support larger-ticket loans, including construction finance (HDFC Bank Limited, 2024); for a mortgage lender, access to the Bank's deposit franchise was a further funding advantage, though this is inferred. IDFC First Bank gained a simpler structure with neither a holding company nor a promoter (Business Standard, 2024a).

Tata Capital–TMF. Tata Motors wanted to exit a non-core business, whereas Tata Capital wanted a bigger presence in commercial- and passenger-vehicle finance (Bajaj Broking, 2024). The merger came before Tata Capital's ₹15,512 crore IPO of October 2025 (Capital.com, 2025), in line with the listing requirement for upper-layer NBFCs.

Reliance Capital, Manappuram and Shriram (equity routes). The Reliance Capital resolution gave IIHL control of 42 entities across insurance, asset reconstruction and broking (Business Standard, 2025b). MUFG stated that its investment would finance growth in commercial-vehicle and MSME lending and strengthen funding capacity (Retail Banker International, 2025). Entry through an NBFC appeals because bank deals face promoter-ownership caps and long approvals (Finshots, 2025).

Four motives recur: buying a franchise cheaply, bringing in capital, gaining scale and cheaper funding, and simplifying structures to suit regulation.

6. Regulatory and Technological Drivers

6.1 The Insolvency and Bankruptcy Code

The Insolvency and Bankruptcy Code, 2016 originally left out financial service providers; the 2019 Rules under Section 227 enabled RBI to start insolvency proceedings

against systemically important ones. DHFL became the first such referral in November 2019, and its plan won approval from 94 per cent of creditors and from the NCLT on 7 June 2021 (Business Standard, 2021b; Piramal Enterprises, 2021). Creditors recovered about ₹38,000 crore, roughly 44 per cent of claims (author's calculation). The IBC therefore delivered a time-bound change of control and a reset balance sheet.

Reliance Capital illustrates the limits. IIHL offered ₹9,650 crore upfront against reported debt above ₹40,000 crore, implying a recovery of under one-quarter. Creditors backed the plan with 99.96 per cent of votes, but regulatory approvals and a GST dispute held up implementation (Business Standard, 2024c), and completion was confirmed only in March 2025 (Business Standard, 2025b). The IBC is thus a powerful route to acquisition, yet recoveries and timelines differ widely.

6.2 Scale-based regulation and listing

RBI's scale-based framework sorts NBFCs into four layers and imposes enhanced requirements on the upper layer for at least five years (RBI, 2023); an upper-layer NBFC must list within three years of being identified (S&R Associates, 2026). This accounts for Aditya Birla Finance's merger into its listed parent (Business Standard, 2024b), Tata Capital's listing after absorbing TMF, and RBI's push for the Mirae group to hold a single NBFC.

6.3 Approval architecture

RBI's prior approval is needed for changes of control and for NBFC amalgamations. Its Voluntary Amalgamation Directions of 28 November 2025 require a no-objection from RBI before the tribunal is approached (RBI, 2025). Thresholds matter: RBI confirmed that MUFG's 20 per cent stake required no prior approval (Business Standard, 2026), while Bain's joint-control bid took about eleven months, with reported RBI concerns in January 2026 and final approval in February–March 2026 (Medianews4u, 2026; Multibagg, 2026). Approval carried conditions on further stake increases (Multibagg, 2026).

6.4 Technology

RBI's consolidation of its rules into 35 NBFC Master Directions in November 2025 covers digital-lending and information-technology frameworks (Vinod Kothari Consultants, 2025). Compliance, cybersecurity and data infrastructure carry large fixed costs, which plausibly favour scale; this fits Berger et al. (1999) but is not proven by the case data. Poonawalla Fincorp, for instance, reported delivering seven AI solutions, with eighteen more under way, in FY2024–25 (Poonawalla Fincorp Limited, 2025).

7. Impact on Performance, Efficiency and Market Position

Table 2: Selected pre- and post-transaction indicators

Case	Indicator	Before	After
HDFC Bank	Average CASA ratio	43.5% (March 2023)	37.4% (March 2024); about 34% (Q4 FY26)
HDFC Bank	NIM	4.1% (Q1 FY24)	3.4% (Q2 FY24); 3.38% (Q4 FY26)
HDFC Bank	Profit after tax	₹67,350 crore (FY25)	₹74,670 crore (FY26)
Shriram Finance	AUM	₹1.71 lakh crore (Dec 2022)	₹2.8 trillion (Sept 2025)
Poonawalla Fincorp	AUM	₹15,006 crore (Dec 2020)	₹35,631 crore (March 2025)
Tata Capital	GNPA	0.5% (excluding TMF)	0.8% (including TMF), FY25

HDFC Bank. The merger delivered scale but carried a clear integration cost. Average CASA dropped from 43.5 to 37.4 per cent within a year (HDFC Bank Limited, 2024), and NIM fell from 4.1 to 3.4 per cent in the first quarter after the merger (S&P Global Market Intelligence, 2023). A high credit–deposit ratio added to the pressure (Business Today, 2024). By March 2026 profit after tax had risen 10.9 per cent to ₹74,670 crore, GNPA stood at 1.15 per cent, NIM remained at 3.38 per cent and CASA was about 34 per cent (HDFC Bank Limited, 2026). Deposit growth exceeded loan growth of 12 per cent, taking the loan-to-deposit ratio below 95 per cent (Outlook Business, 2026). The Bank remains India's largest private lender, but margin and funding-mix recovery has been gradual.

Shriram Finance. AUM increased about 64 per cent, from ₹1.71 lakh crore at the time of the merger to ₹2.8 trillion by

September 2025 (Business Standard, 2022, 2025a), with FY2025 profit of ₹8,272 crore and roughly 3,200 branches (Finshots, 2025). Growth cannot be credited wholly to the merger, but the larger platform drew MUFG's ₹39,618 crore investment.

Poonawalla Fincorp. AUM expanded 2.4 times, from Magma's ₹15,006 crore to ₹35,631 crore, with GNPA of 1.84 per cent, capital adequacy of 22.94 per cent and an AAA/Stable rating (Poonawalla Fincorp Limited, 2025). Growth had friction: slippages in the short-term personal loan book required a one-off provision of ₹666 crore in Q2 FY2025.

Tata Capital. Taking over TMF weakened asset quality: GNPA went up from 0.5 to 0.8 per cent because TMF's own NPAs were 4.4 per cent, and FY2025 profit was ₹3,670 crore compared with ₹3,710 crore excluding TMF (The Ken, 2025). Market position still improved through scale and a successful listing.

Synthesis. Mergers of similar retail businesses (Shriram) and turnarounds combining capital with new management (Poonawalla) produced clear growth. Bank–NBFC mergers offer structural funding advantages but impose near-term costs on margins and liability mix. Acquisitions can also bring in legacy risk (Tata Capital). These findings are consistent with the cautionary literature (DeYoung et al., 2009; Cartwright & Schoenberg, 2006).

8. Discussion and Policy Implications

NBFC consolidation during 2021–2026 was drawn by regulation and capital as much as it was driven by distress. Outcomes depend on the type of deal, and approval time is a hidden cost. Five suggestions follow. First, RBI could publish indicative timelines for change-of-control approvals and clarify the criteria for group-level control, since the Bain case showed how uncertainty delays closure. Second, IBC resolutions of financial service providers would benefit from coordinated sector-regulator clearances (RBI, IRDAI, competition and foreign-investment authorities) to avoid delays like Reliance Capital's. Third, bank-absorbs-NBFC mergers could be eased by transitional prudential glide-paths, given HDFC Bank's multi-year adjustment. Fourth, acquirers should disclose post-merger cost-to-income, deposit mix and the asset quality of the acquired book so that impact can be assessed consistently. Fifth, technology and customer-data migration plans should be reviewed during approval, because digital integration increasingly decides whether scale becomes efficiency.

9. Conclusion

From 2021 to 2026 the Indian NBFC sector moved from rescue to strategy: from IBC-led resolutions such as DHFL, through group simplifications and bank–NBFC reverse mergers, to foreign and private-equity capital in Shriram Finance and Manappuram. The rationales centre on cheap acquisition of franchises, capital, scale, funding cost and regulatory fit. Impact is uneven: strong growth at Shriram and Poonawalla, gradual margin recovery at HDFC Bank, and diluted asset quality at Tata Capital. Limitations include dependence on secondary data, short post-deal windows and the lack of consistent efficiency ratios. Future studies could apply event-study methods and cost-to-income data once the 2025–26 deals mature, and examine customer outcomes and financial inclusion.

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