Pahal Financial Services Private Limited

August 20, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures	60.00	CARE BBB-; Negative	Reaffirmed
Non-Convertible Debentures	45.00	CARE BBB-; Negative	Reaffirmed
Non-Convertible Debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation to the Non-Convertible Debentures (NCD) of Pahal Financial Services Private Limited (PFSPL) take into account its adequate capitalisation supported by the equity infusion, extensive geographical presence, and diversified funding profile. The company's capital adequacy ratio (CAR) stood at 29.89% (18.36% as on March 31, 2024) aided by a capital infusion of ₹147 crore from the existing promoter and a new investor during March 2025. CARE Ratings Limited (CareEdge Ratings) has taken note of diversified funding profile of the company, however ability of the company to raise funding from the banking channel at competitive rates remains a monitorable.

The rating is, however, constrained by contraction in PFSPL's AUM declined to ₹1,573 crore by June 30, 2025 from ₹2,094 crore as on March 31, 2024 on account of subdued disbursements in the microfinance segment amid ongoing industry stress. The rating is also constrained by limited seasoning of the loan book, given that a significant portion has been built up only in the last three fiscals. The rating also factors in the inherent risks of the microfinance sector, including unsecured lending, the marginal borrower profile, socio-political and regulatory risks, and rising operational challenges. Notwithstanding the recent asset quality improvement in Q1FY26 aided by sale to an asset reconstruction company (ARC), PFSPL's net stressed assets remained high at 4.57% in that quarter.

Going forward, CareEdge Ratings will continue to closely monitor PFSPL's ability to enhance collection efficiency, sustain earnings, diversify funding sources, and maintain healthy capitalisation and gearing levels.

CareEdge Ratings has withdrawn ratings assigned to Non-convertible Debenture aggregating ₹6.00 crore post redemption of the same. This is in accordance with the CareEdge Ratings' withdrawal policy.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade

- Significant improvement in the profitability with controlled credit costs.
- Improving scale of operations while keeping asset quality under control.

Negative factors: **Factors that could individually or collectively lead to positive rating action/upgrade**

- Steep rise in credit costs, impacting profitability.
- Assets under management (AUM)/tangible net worth (TNW) ratio remaining above 6.5x on a sustained basis.

Analytical approach: Standalone

Outlook: Negative

CareEdge Ratings expects elevated credit costs and subdued profitability in the near term amid ongoing stress in the microfinance sector. The outlook may be revised to 'Stable' if the company is able to demonstrate improvement in asset quality and profitability.

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Improved capitalisation supported by equity infusion

PFPSL's tangible net worth increased to ₹386 crore as on March 31, 2025, from ₹261 crore as on March 31, 2024, supported by equity infusion to the tune of ₹147 crore in March 2025 from existing and new promoter. With the capital raise and muted disbursements in FY25, the company's capital adequacy ratio (CAR) stood at 29.89% as on March 31, 2025, compared to 18.36% as on March 31, 2024. It further improved to 31.36% as on June 30, 2025.

The diversified resource profile, comprising borrowings from over 38 lenders including banks, NBFCs, and financial institutions, also provides comfort. With decline in the disbursements and the advances, the company's debt requirement reduced, translating to a reduced gearing level (debt/equity) of 3.63x as on March 31, 2025, from 5.85x as on March 31, 2024. Going forward, PFSPL expects to maintain gearing below 5x.

CareEdge Ratings expects comfortable capitalisation to provide cushion to PFSPL in current times of stress in the microfinance sector

Expanding through geographies, although concentrated in top three states

PFSPL has a geographically diversified presence, operating across multiple states including Gujarat, Bihar, Rajasthan, Uttar Pradesh, Madhya Pradesh, Tamil Nadu, Chhattisgarh, Maharashtra, and Haryana, and commenced disbursements in Telangana and Puducherry during FY25. As on June 30, 2025, the top three states contributed 66% to AUM, moderating from 67% as on March 31, 2025, and 71% as on March 31, 2024.

The company's growing footprint across newer geographies has gradually reduced concentration in its key markets. Gujarat's share in AUM declined to 33% as on June 30, 2025, from 35% as on March 31, 2023. Similarly, exposure to Bihar moderated to 20% as on March 31, 2025 from 29% as on March 31, 2023, while exposure in Tamil Nadu increased to 11% from 10% in the previous year.

With PFSPL in the process of expanding into new states, CareEdge Ratings expects concentration of operations to top three states to reduce in the coming years.

Key weaknesses

Deterioration in asset quality

PFSPL's asset quality deteriorated during FY25, with the GNPA and NNPA ratios on AUM rising to 6.04% and 2.22%, respectively, as on March 31, 2025, compared with 1.96% and 0.60% as on March 31, 2024. The deterioration was primarily driven by the ongoing stress in the microfinance segment. Delinquencies also increased, with 30+ dpd at 11% and 90+ dpd at 6% as on March 31, 2025, against 3% and 2%, respectively, in the previous year. As per its NPA recognition policy, the company classifies NPAs at 90+ dpd for both the JLG and non-JLG portfolios, while loans in the own-book portfolio are written off at 180+ dpd.

While the company's asset quality improved in Q1FY26, with GNPA declining sharply to 1.36% as on June 30, 2025, compared with 6.04% as on March 31, 2025, the same was largely supported by the ARC transaction executed in June 2025. However, it led to increased net stressed assets at 4.57% in Q1FY26. At the same time, delinquencies stood at 11% in 30+ dpd and moderated to 2% in 90+ dpd as on June 30, 2025.

Amid ongoing stress in MFI sector, slippages and flow rates from current bucket to delinquency buckets remains monitorable.

Moderating profitability metrics

PFSPL reported a significant deterioration in profitability in FY25, with RoTA sharply declining to 0.34% from 2.33% in FY24 with decline in profit to ₹6.37 crore in FY25 from ₹39.15 crore in FY24, primarily driven by elevated credit costs to 5.02% from 1.85% in the previous year, owing to stress in the microfinance segment. Although yields and net income margin (NIM) remained largely stable, the sharp spike in provisioning expenses eroded bottom-line performance. However, profitability in FY25 was partially supported by a fee income of ₹22.39 crore. Further, company reported a PAT of ₹1.23 crore during Q1FY26 on the total income of ₹104.51 crore during the same period.

Going forward, CareEdge Ratings expects moderation in the profitability ratio in the medium term with further increase in credit costs due to the asset quality stress.

Liquidity: Adequate
As per asset liability management (ALM) statement of PFSPL, as on June 30, 2025, there are no negative cumulative mismatches upto 5 years. Further, PFSPL had a unencumbered cash and bank balance of ₹250 crore including liquid investments as on June 30, 2025 against the debt obligation of ₹224 crore for the next 3 months. Also, as on June 30, 2025, static collections of the company stood at around ₹1064 crore for the next 12 months.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Withdrawal Policy
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Finance	Microfinance Institutions

PFSPL is a non-deposit-taking systemically important NBFC (NBFC-ND-SI) registered with the Reserve Bank of India (RBI) since 2011 and was classified under NBFC-MFI on January 29, 2014. PFSPL provides microfinance loan to low-income households. In 2011, PFSPL acquired a microfinance portfolio of ₹2.60 crore under the JLG model from Lok Vikas Nidhi, a division of Vikas Centre of Development, which had a track record of over 25 years, and subsequently, started SME ending in 2012. In FY23, PFSPL acquired another microfinance institution, Growing Opportunity Finance (India) Private Limited.

Brief Financials (₹ crore)	31-03-2024	31-03-2025	Q1FY26
	A	A	UA
Total income	462.23	505.20	104.51
PAT	39.15	6.37	1.23
Total assets	1,909.83	1,886.36	NA
Interest coverage ratio	NA	NA	NA
Net NPA (%)	0.60	2.22	0.49
ROTA (%)	2.33	0.34	NA

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non Convertible Debentures	INE514Q08013	26-Mar-2019	16.75	25-Apr-2025	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE514Q07379	24-Oct-2024	13.00	15-May-2031	60.00	CARE BBB-; Negative
Debentures-Non Convertible Debentures-Proposed	-	-	-	-	45.00	CARE BBB-; Negative

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (04-Aug-22)
2	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB-; Negative (23-Dec-24) 2)CARE BBB-; Stable (14-Oct-24) 3)CARE BBB-; Positive (01-Aug-24)	1)CARE BBB-; Positive (03-Aug-23)	1)CARE BBB-; Stable (04-Aug-22)
3	Debentures-Non Convertible Debentures	LT	60.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (23-Dec-24)	-	-

						2)CARE BBB-; Stable (14-Oct-24)		
4	Debentures-Non Convertible Debentures	LT	45.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (23-Dec-24)	-	-

LT: Long term;

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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