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CareEdge Global assigns 'CareEdge B/Stable' rating to the dollar bonds of Annapurna Finance Private Limited

USD 25 million External Commercial Borrowing	CareEdge B/Stable

CareEdge Global has assigned a **'CareEdge B/Stable'** rating to USD 25 million of debt instruments of Annapurna Finance Private Limited (AFPL).

Rationale

The rating is driven by AFPL's established position as a leading microfinance company in India with asset under management (AUM) of Rs 11,034 crore (USD 1.3 billion[1]) as of March 31, 2025. The AUM has grown at a compounded annual growth rate (CAGR) of 23% in the last four fiscals through FY25 leveraging growing branch network. However, the AUM stood at Rs 10,839 crore (USD 1.2 billion) as of September 30, 2025. This is primarily owing to tightening of disbursements given the deterioration in credit discipline of borrowers faced by the microfinance industry since second half of fiscal 2025. AFPL's portfolio is moderately diversified, with 51% of AUM from the top three states (Bihar, Odisha, and Madhya Pradesh). AFPL follows the Joint Liability Group (JLG) lending model for microfinance loans and has diversified into micro, small and medium enterprise (MSME) lending comprising 16% of overall portfolio as of September 30, 2025. The rating also factors the company's healthy capitalisation level with a capital adequacy ratio (CAR) of 29.3% as of September 30, 2025. AFPL benefits from an operational track record for over 15 years, a diversified resource profile and an experienced management team.

The rating is constrained by the variability in the company's earnings profile as seen in FY2025 and the first half of this fiscal (H1FY26) owing to higher delinquencies and elevated credit costs. However, more than 90% of AFPL's loan portfolio is covered under the Government of India's Credit Guarantee Fund for Micro Units (CGFMU) since January 2024, which limits the credit loss. Under the scheme, AFPL pays an upfront premium and is eligible for future claims.

While the company's 90+ days past due (dpd) increased to 5.1% as of September 30, 2025 (on overall AUM basis), from 3.9% as of March 31, 2025 (on overall AUM basis), the average collection efficiency for six months ending September 2025 was 96%. Further, normalisation expected to follow in the second half of the fiscal with improvement in delinquencies and asset quality upon seasoning of the newly disbursed loans. That said, asset quality improvement and reduction in operating expenses would be crucial for the company for improvement in profitability and will be closely monitored. The rating is also constrained by the inherent risks

[1] Conversion of 1 USD = INR 90 is used in this document

of an unsecured asset class, a weak borrower profile and vagaries associated with microfinance sector.

Outlook: Stable

The stable outlook reflects CareEdge Global's expectation that AFPL will maintain its position as one of the leading microfinance companies in India supported by comfortable capitalisation and healthy growth while keeping asset quality in check.

Rating Sensitivities

Upward factors

- Sustainable growth in AUM while maintaining asset quality and reducing opex
- Higher product and geographic diversification mitigating risks associated with concentration and unsecured lending

Downward factors

- Weakening of capital structure with increase in overall leverage on a sustained basis
- Increase in operating expenses (opex) or credit costs adversely impacting the RoA on a sustained basis

Analytical Approach

CareEdge Global has analysed AFPL's business and financial risk profiles on a standalone basis.

Key rating drivers

Strengths

Leading microfinance company in India

AFPL, with its AUM of Rs 11,034 crore (USD 1.3 billion) as of March 31, 2025, is one of India's leading MFIs. The company's AUM has grown at a CAGR of 23% during the past four fiscals through 2025. However, the AUM stood at Rs 10,839 crore as of September 30, 2025, owing to credit stress faced by the borrowers in microfinance sector resulting in cautious disbursement by the MFI companies. AFPL started its operations in Odisha and gradually diversified its presence over the past 15 years to 21 states across the country with a network of 1,636 branches as of March 31, 2025. Nonetheless, the top three states (Bihar, Odisha & Madhya Pradesh) continue to account for ~51% of total AUM as of March 31, 2025. The management has indicated that the company's geographical mix is likely to diversify further over the medium term with a focus to expand and scale up in new geographies. AFPL intends to diversify beyond microfinance and increase the proportion of secured assets in its portfolio, following the Reserve Bank of India (RBI) MFI regulations, that have relaxed thresholds for 'qualifying assets' to 60% now from 75% earlier.

Comfortable capitalisation and diversified resource profile

AFPL's capital adequacy remains well above regulatory requirements, with a CAR% of 29.3% as of September 30, 2025, against the regulatory threshold of 15%. Capitalisation has remained well above 20% during the past five years and has been supported by regular capital infusions, the most recent in FY23. The company's reported gearing stood at 3.9x as of March 31, 2025 (6.1x on an adjusted basis[2] due to a sizeable securitisation portfolio). Higher gearing is on account of subordinated debt carrying higher interest rate ranging from 12.0% to 14.6% p.a.

The company has a diverse resource profile with borrowings from over 51 banks and NBFIs in addition to ability to raise funds in form of NCDs and ECBs. Borrowings from domestic banks and non-banking financial institutions (NBFIs) contributing 46% of its total borrowing, followed by (34%), foreign currency (FC) borrowing at 17% and DFI borrowing at (3%) as of September 30, 2025. AFPL's overall cost of borrowing of around 12% is owing to higher interest-bearing subordinated debt. The incremental borrowing cost for senior debt improved to 10-10.2% during the first half of the current fiscal. This is also supported by strong relationships with public and private sector banks, foreign banks and developmental finance institutions (DFIs).

Long experience of management in the MFI sector

The company has been in the microfinance business for over 15 years and has successfully navigated through sectoral credit stress and challenges associated with evolving regulatory landscape on multiple occasions during these years. It benefits from a seasoned management team with extensive experience in the microfinance sector. AFPL's promoters, Mr Gobinda Chandra Pattanaik (Managing Director) and Mr Dibyajyoti Pattanaik (Director), have more than two decades of experience. They are supported by a team of professionals who have been with the company for 10-15 years and have a deep understanding of its values and policies. This is also reflected in its robust risk management policies, which have enabled calibrated growth and profitable operations over the years.

Downward factors

Modest asset quality and earnings profile

The company has a modest earnings profile as reflected in its profitability metrics. Return on assets (RoA) remained below 1% in the last five years, except for FY24. The return metrics were further impacted in FY25 due to higher opex costs and credit costs owing to challenges in the MFI sector. However, more than 90% of AFPL's loan portfolio is covered under the GoI's CGFMU scheme, which limits the credit loss. Under the scheme, the company pays an upfront fee/ premium which entails additional expense but provides relief against potential credit losses. Higher opex and credit costs have resulted in a subdued ROA and ROE profile. This trend continued into H1FY26 and is expected to show meaningful improvement only in FY27. The company's ability to demonstrate sustained improvement in early-bucket collection behaviour and recoveries as well as controlling opex will be essential for improving profitability going forward.

[2] Adjusted gearing computed as AUM to tangible net worth (TNW)

AFPL's asset quality remains modest due to weak borrower profile in microfinance segment coupled with unsecured lending. While the asset quality improved during FY22 to FY24, it deteriorated in FY25 and H1FY26 owing to rising delinquencies across all geographies. This was on account of weakening of macroeconomic factors and overleveraging of borrowers, witnessed across MFIs over the last 18 months. AFPL's gross non-performing assets (GNPAs) stood at 2.7% as on March 31, 2025 (PY: 2.7%) owing to higher write-offs of Rs 235 crore (USD 26.7 million). The company's 90+ dpd increased to 5.1% (on overall AUM basis) as on September 30, 2025 (March 31, 2025: 3.9% on overall AUM basis) along with increase in GNPAs to 3.4% (March 31, 2025: 2.7%). However, normalisation is expected in H2FY26 with improvement in delinquencies and asset quality as the newly disbursed loans season.

Exposed to weak borrower profile and the vagaries of microfinance industry
AFPL's overall portfolio remains largely unsecured (84% as of September 30, 2025), with loans primarily disbursed under the JLG microfinance model. Borrowers are predominantly low-income women typically vulnerable to income shocks due to rainfall variability, crop cycles, market disruptions, or health emergencies and overleveraging risks. This borrower segment inherently exhibits higher loss volatility, requiring strong field discipline, frequent customer interactions and continuous monitoring of borrower indebtedness. Therefore, the company remains exposed to the structural risk of unsecured lending to a weak borrower profile.

Historically, the poor credit behaviour in microfinance segment is underpinned by socio-political events (such as the "announcement" of farm loan waivers) and its sensitivity to the borrower class. The materialisation of such instances in multiple states / geography coupled with the sector's cyclical nature have resulted in asset quality deterioration and impaired the credit profile of MFIs. Similarly, a lack of awareness has resulted in misinterpretation of certain ordinances in CY25 by borrowers in Karnataka and Tamil Nadu leading to deterioration in loan repayment behaviour for non-financial reasons. Additionally, environmental factors such as floods, drought / heat wave etc. can affect the income levels and ability of the borrowers impacting the asset quality. Since this segment is highly susceptible to economic downturns, maintaining good asset quality while increasing the scale of operations will remain a key monitorable. CareEdge Global expects asset quality issues to continue in the near term, particularly with the inherent borrower segment and asset class.

Liquidity

AFPL's liquidity position is adequate with cash and equivalents of Rs 885 crore (USD 101 million) as of September 30, 2025. As a policy, it maintains a liquidity buffer of 6–7% of total AUM in form of cash. The company's liquidity is sufficient to cover 91% of its debt servicing obligations for the next three months. There are no negative cumulative mismatches as per the asset liability mismatch statement as of September 30, 2025. While AFPL has historically demonstrated strong relationships with banks and has not faced refinancing challenges, maintaining higher near-term liquidity buffers and elongating liability tenors would strengthen liquidity resilience, particularly during volatile microfinance cycles.

Environmental, Social and Governance (ESG) considerations

AFPL's ESG considerations are integrated into its operations and social outreach. The company has implemented an ESG Policy, ensuring that its financial services do not negatively impact the environment and the communities they serve. The company has lending guidelines that establish standards to limit the impact of its lending operations on the environment. Socially, it focuses on financial inclusion being an MFI, especially for women offering skill development training. The company supported micro and small enterprises in restarting their businesses post Covid-19 through its MSME loans.

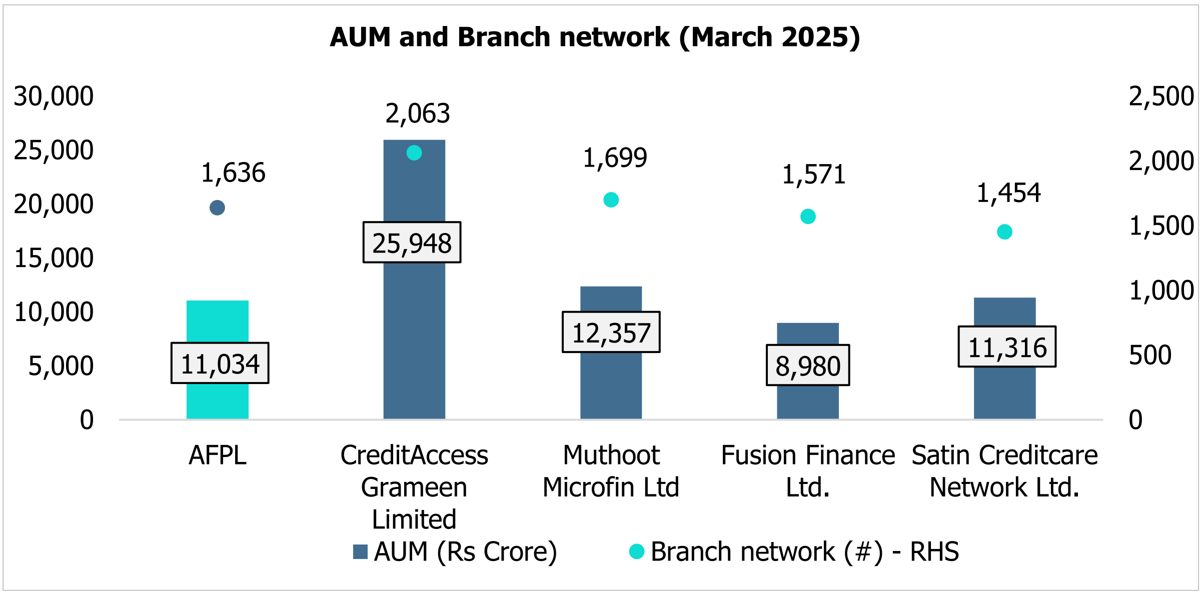
On the governance front, the company's board functioning is effective, with three out of 12 directors, being independent. The board constitutes seven nominee directors and only two directors from the promoter group. Furthermore, the company upholds strong ethical practices with a Whistleblower Policy and a Workplace Harassment Prevention Policy, promoting transparency, accountability, and employee safety.

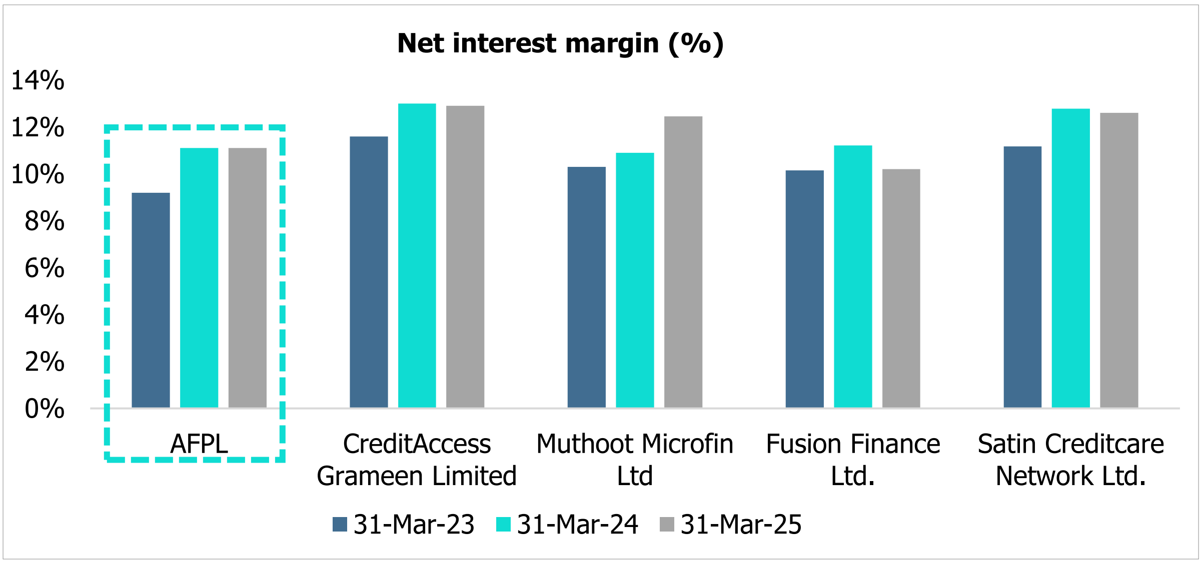
About the company

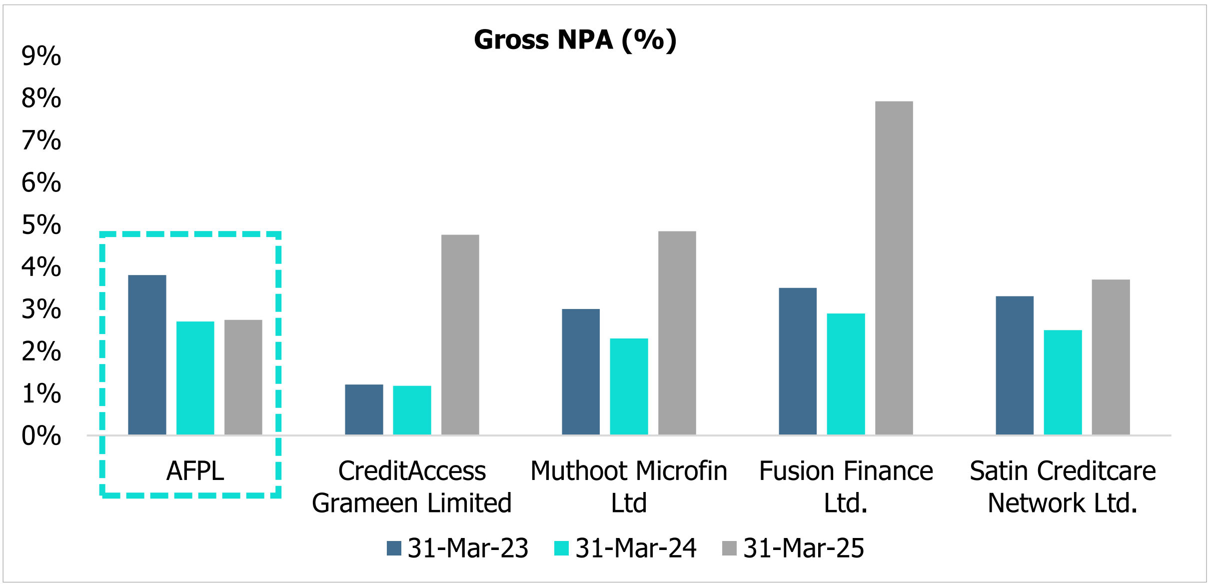
AFPL was set up in 2009 and is now one of the top 10 NBFC-MFIs in the country. It was formed as a not-for-profit entity, People's Forum, a non-governmental organisation (NGO), which worked for the development and welfare of the unserved sections of the society. Microfinance activities started with the inception of Mission Annapurna under People's Forum from 2005. Mission Annapurna was able to reach the interior unserved areas of Odisha through its untiring effort of addressing the economic necessities of poor women at their doorstep. The gradual transformation of Mission Annapurna brought forth the name Annapurna Finance Pvt Ltd in 2009. Thereafter, the company registered itself with the Reserve Bank of India (RBI) as an NBFC-MFI in 2013. The company offers both financial and non-financial services to the resource poor, unbanked and marginalised people in rural and semi-urban areas. The services aim to meet the evolving needs of community and people who are involved in agricultural and small business activities.

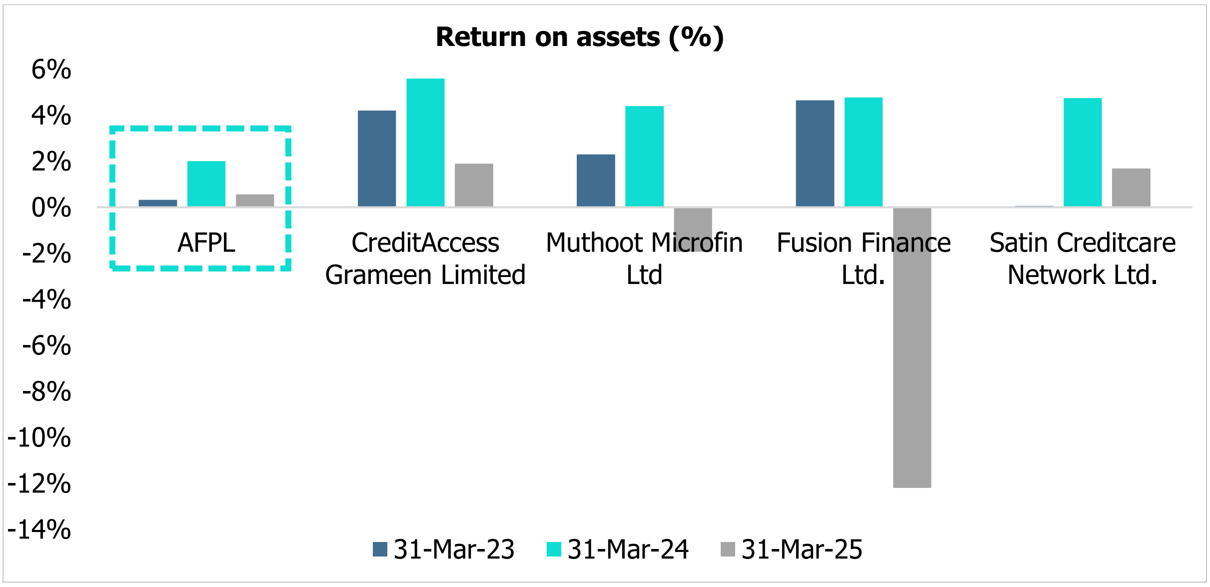
The company's business model is centred on providing loans on a Joint Liability Group (JLG) structure, which enables efficient delivery of small ticket, short tenor loans aimed at income generation, livelihood support, and household welfare. In addition to core microfinance loans, AFPL offers a range of MSME loans, including home improvement, 3-wheeler electric vehicle (EV) financing and secured business loans. As of September 30, 2025, it operates across 22 states of India, covering 451 districts through a network of over 1,708 branches.

Comparison with other NBFC- MFIs









Recent updates and financial summary

The company posted a net profit of Rs 13 crore (USD 1.5 million) for the first half of current fiscal, lower than Rs 64 crore (USD 7.3 million) for the same period of the previous fiscal, an 80% reduction. As of September 30, 2025, its AUM reached Rs 10,839 crore (USD 1.2 billion), marginally lower from Rs 11,034 crore (USD 1.3 billion) as of March 31, 2025. It posted GNPA and NNPA of 3.4% and 1.1% respectively, as of September 30, 2025 (March 31, 2025: 2.7% and 1.0% respectively). AFPL maintained a healthy CAR of 29.3% as of September 30, 2025, against the regulatory requirement of 15%.

Key summary financial metrics

Particulars	Unit	March 31, 2023	March 31, 2024	March 31, 2025
AUM	Rs crore	8,749	10,336	11,034
Net Interest Margin	%	9.2	11.1	11.1
Cost to Income	%	55.1	49.3	61.2
GNPA[3]	%	3.8	2.7	2.7
Return on Assets[4]	%	0.3	2.0	0.6
CAR	%	24.7	25.5	29.6

Solicitation status

The rating is solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Details of Instruments

Instrument	ISIN	Date of Issuance	Maturity Date	Issue Size	Rating
External Commercial Borrowings	INIFD2205018	December 23, 2025	December 27, 2028	USD 20 million	CareEdge B/Stable
External Commercial Borrowings	INIFD2205026	December 23, 2025	December 27, 2028	USD 5 million	CareEdge B/Stable

Rating History

Instrument	Type	Rating	Date
External Commercial Borrowings	Long-Term Foreign Currency	CareEdge B/Stable	January 15, 2026

[3] As per reported financial statements

[4] Includes managed assets

Criteria Applied
CareEdge Global’s Rating Methodology for Financial Institutions

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