'CareEdge B/Stable' rating assigned to Annapurna Finance Private Limited

EUR 8 million External Commercial Borrowing	**CareEdge B/Stable**
USD 20.96 million External Commercial Borrowing	**CareEdge B/Stable**
USD 25 million External Commercial Borrowing	**CareEdge B/Stable**

CareEdge Global Ratings has assigned '**CareEdge B/Stable**' rating to EUR 8 million and USD 20.96 million debt instruments of Annapurna Finance Private Limited (AFPL) and reaffirmed the same rating on its existing facility of USD 25 million.

Rationale

The rating is driven by AFPL's established position as a leading microfinance company in India, with assets under management (AUM) of Rs 116 billion as of March 31, 2026 (vs Rs 110 billion as of March 31, 2025). It is among the large NBFC-MFIs in India, supported by its scale of operations, extensive network of 1,757 branches across 22 states, and a long operational track record in the microfinance industry. While the company has gradually expanded its geographic footprint, Portfolio concentration remains moderate, with Bihar, Odisha, and Madhya Pradesh accounting for around 53% of the total portfolio. The rating also factors in AFPL's comfortable capitalisation profile, reflected in a capital adequacy ratio (CAR) of 28.1% as of March 31, 2026, which is significantly above the regulatory requirement. Further, the company's diversified resource profile, with access to funding from domestic banks, financial institutions, development finance institutions and overseas lenders, supports financial flexibility and growth prospects. The rating also draws comfort from the extensive experience of AFPL's promoters and senior management team, who have spent over two decades navigating multiple industry and regulatory cycles in the microfinance and financial services sectors.

However, these strengths are partly offset by the company's modest asset quality and earnings profile amid the challenging operating environment faced by the microfinance industry over the past two years. Although reported GNPA improved to 2.9% as of March 31, 2026, from 3.4% as of September 30, 2025, the stress on the AUM remains elevated with 90+ days past due (dpd) at around 5.1% as on March 31, 2026. Profitability was also subdued, with RoA and RoE at around 0.3% and 2.1%, respectively, owing to expenses for branch expansion, CGFMU cover and credit costs. Additionally, the company's predominantly unsecured portfolio exposes it to risks arising from borrower overleveraging, socio-political developments, inflationary pressures and weather-related disruptions, which could adversely affect the borrower repayment capacity and asset quality.

Outlook: Stable

The stable outlook reflects CareEdge Global's expectation that AFPL will maintain its position as a leading microfinance company 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 operating expenditure (opex)
- Higher product and geographical 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 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 is one of the leading NBFC-MFIs in India, with an AUM of around Rs 116 bn as of March 31, 2026, and a well-established presence across 22 states through an extensive network of over 1,757 branches. The company has built a strong franchise over the past 15+ years, particularly in eastern India, where it enjoys significant market penetration and a strong customer base. Its scale of operations, established brand recognition, and entrenched distribution network support business sustainability and provide operational advantages over smaller peers. While the microfinance industry witnessed a challenging operating environment over the past 18-24 months, AFPL maintained its position among the top 5 MFIs in the country, reflecting its resilient franchise strength and execution capabilities.

Comfortable capitalisation and diversified resource profile

AFPL has a comfortable capitalisation profile, with a CAR of around 28% as of March 31, 2026, significantly above the regulatory minimum requirement of 15%. The capital position provides adequate headroom to absorb potential stress arising from the inherently volatile microfinance business while supporting growth.

The company also benefits from a diversified funding profile comprising borrowings from Domestic funding (private sector Banks - 42% and public sector Banks - 11%) in addition to non-banking financial institutions (NBFIs 10% including trusts 2%) contributing 65% followed by foreign currency (FC) borrowing at 19% and DFI borrowing at (16%) as of March 2026. AFPL also has a sizeable off-book portfolio, through direct assignment (DA) transactions of around Rs 35 billion, constituting about 31% of overall AUM. Relationships with over 60 lenders and demonstrated access to domestic and international funding markets enhance financial flexibility and reduce refinancing risks. The availability of multiple funding avenues is particularly important during periods of industry stress and liquidity tightening.

AFPL's overall cost of borrowing remained at around 11.5% in FY26, partly due to higher-cost subordinated debt. The incremental borrowing cost for senior debt improved to less than 10% during the second half of fiscal 2026. This is also supported by strong relationships with public and private sector banks, foreign banks, and developmental finance institutions (DFIs).

Management’s rich experience in the microfinance industry
The company has been operating in the microfinance industry for over 15 years and has successfully navigated multiple periods of sectoral credit stress and challenges arising from an evolving regulatory landscape. It benefits from a seasoned management team with extensive experience in the microfinance industry—promoters Mr Gobinda Chandra Pattanaik (Managing Director) and Mr Dibyajyoti Pattanaik (Director) have been in this space for over two decades. 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.

Weaknesses
Modest asset quality and earnings profile
AFPL’s asset quality is moderate despite some improvement in reported delinquency indicators during FY26. While the on-book GNPA declined to 2.9% as of March 31, 2026, from 3.4% as of September 30, 2025, the improvement was aided by write-offs and asset reconstruction company (ARC) transactions. The stress remains elevated with 90+ dpd levels at around 5.1% on the AUM. The company faces pressure from residual borrower overleveraging, uneven repayment behaviour across certain geographies, and sector-wide stress witnessed over the past two years. Accordingly, sustained improvement in collection efficiencies and reduction in portfolio stress across both on-book and off-book portfolios are key monitorables. 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.

AFPL’s earnings profile is modest, with profitability constrained by elevated operating expenses, credit costs, and guarantee fee under the CGFMU scheme. Despite growth in AUM to around Rs.116 billion, the company reported modest profitability--RoA of 0.3% in FY26, leading to low internal accrual generation. Operating expenses were high at nearly 9% of average assets due to branch expansion. While profitability is expected to gradually improve with normalisation of asset quality, benefits from portfolio repricing and lower credit costs, the company’s ability to improve operational efficiency and strengthen return metrics are critical from a credit perspective.

Exposed to weak borrower profile and vagaries of microfinance industry

AFPL is exposed to the inherent risks associated with the microfinance industry given that approximately 82% of its portfolio comprises unsecured loans, with (Joint Liability Group) JLG loans accounting for around 76% of the overall AUM. The company primarily caters to low-income rural and semi-urban borrowers whose repayment capacity is vulnerable to economic disruptions, inflationary pressures, agricultural income volatility, and socio-political developments. The operating environment for the microfinance players continues to be challenged by elevated borrower leverage in certain geographies, periodic disruptions in credit discipline, and regulatory developments. Furthermore, climatic uncertainties such as delayed or deficient monsoons, uneven rainfall, drought conditions, heat waves, and potential El Niño-related weather disruptions could adversely impact rural livelihoods and repayment behaviour. Supported by CGFMU coverage and a gradual diversification toward secured lending, AFPL has enhanced its resilience, while its credit profile continues to be shaped by conditions in the microfinance borrower segment

Product and geographical concentration

AFPL's portfolio continues to exhibit moderate concentration in both products and geographies despite gradual diversification efforts. As of March 31, 2026, approximately 82% of the portfolio is in the unsecured segment, majorly comprising the JLG-based microfinance loans. the predominantly unsecured nature of the JLG portfolio increases vulnerability to disruptions in borrower repayment behaviour. However, more than 90% of AFPL's loan portfolio is covered under the GoI's CGFMU scheme, which limits the credit loss

The dependence on key geographies of Bihar, Odisha and Madhya Pradesh accounts for ~53% of the overall portfolio as of March 31, 2026, this has improved from 60% as of March 31, 2021. This leads to concentration in select geographies exposing the company to adverse developments affecting specific borrower segments, regional economies or localised socio-political events. Furthermore, Any deterioration in economic activity, regulatory interventions, climatic events such as erratic monsoons, floods, droughts or crop failures in key operating states could adversely impact collections, asset quality and earnings. While the company has been increasing its presence in newer geographies and expanding secured lending products, meaningful diversification is a key monitorable from a credit perspective.

Liquidity

AFPL's liquidity position is adequate with cash and equivalents of Rs 6.3 bn as of March 31, 2026. As a policy, it maintains a liquidity buffer of 5% of total AUM in the form of cash. The company's liquidity is sufficient to cover 66% 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 March 31, 2026. 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 to ensure 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 pandemic through its MSME loans.

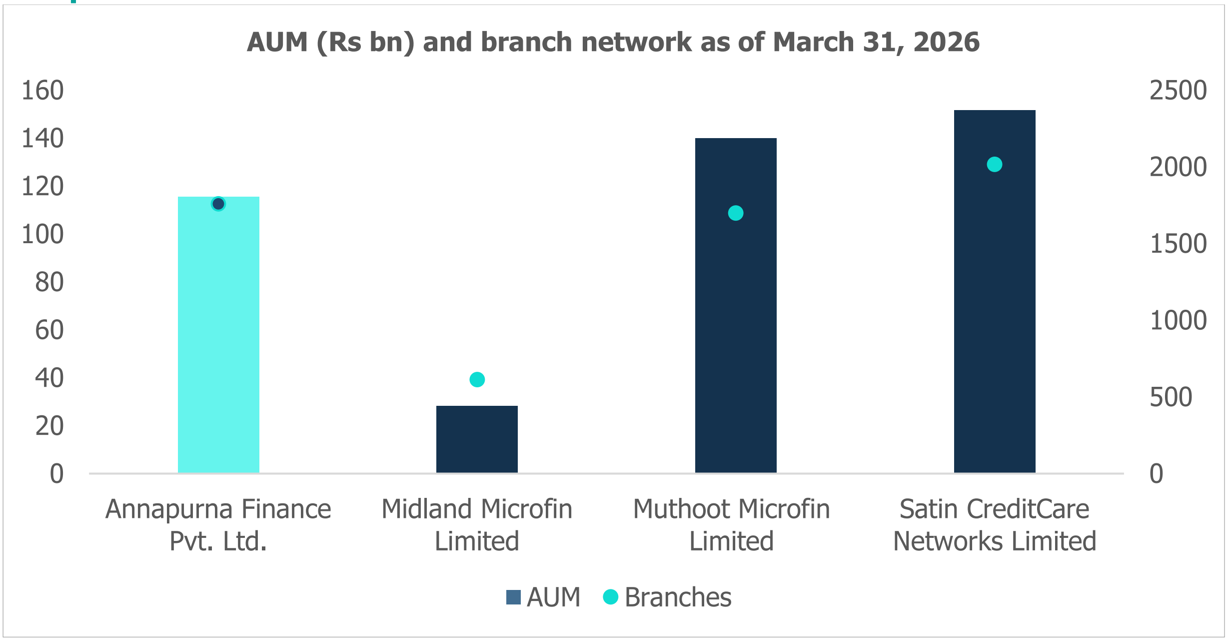
On the governance front, the company's board functioning is effective, with three of 12 directors being independent. The board constitutes seven nominee directors and only two directors from the promoter group. Furthermore, the company upholds strong ethical practices with a Whistleblower Policy and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

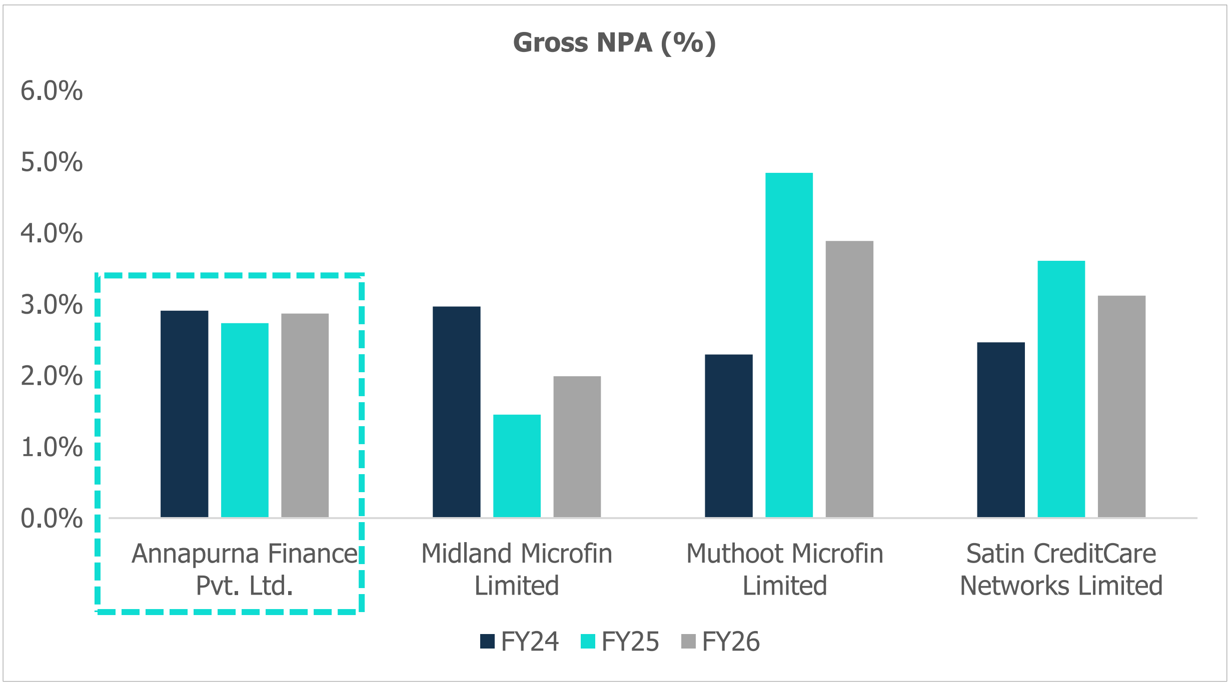
About the company

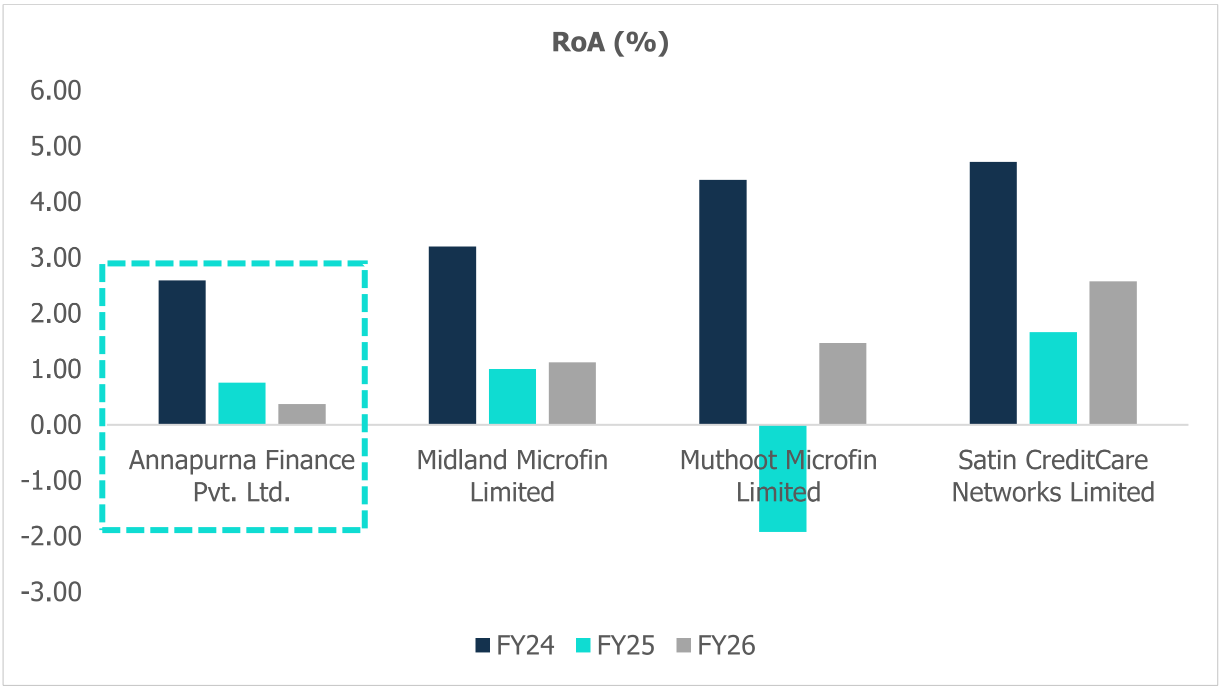
AFPL is one of India's leading NBFC-MFIs, with an AUM of Rs 116 billion as of March 31, 2026. Established in 2009 and originating from the NGO People's Forum, the company has over 15 years of operational experience in the microfinance industry and focuses on providing financial services to underserved rural and semi-urban households. AFPL was registered as an NBFC-MFI with the Reserve Bank of India in 2013.

The company primarily operates through the JLG lending model, which accounted for around 76% of its portfolio as of March 31, 2026. In addition to microfinance loans, AFPL offers MSME loans, home improvement loans, electric vehicle financing, and other secured business loans as part of its diversification strategy. As of March 31, 2026, the company operated across 22 states through a network of over 1,757 branches, serving a large and geographically diversified customer base.

Comparison with other NBFC- MFIs







Key summary financial metrics

Particulars	Unit	March 31, 2024	March 31, 2025	March 31, 2026
AUM	Rs bn	103	110	116
Net interest margin	%	11.2	11.2	9.5
Cost to income	%	49.3	61.2	68.6
GNPA	%	2.7	2.7	2.9
Return on assets[1]	%	2.0	0.6	0.3
CAR	%	25.5	29.6	28.1

Solicitation status

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

1 Includes managed assets

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
External Commercial Borrowings	INIFD2205034	July 20, 2026	July 20,2032	EUR 8 million	CareEdge B/Stable
External Commercial Borrowings	-	-	-	USD 20.96 million	CareEdge B/Stable

Rating history

Instrument	Type	Rating	Date
External Commercial Borrowings	Long-Term Foreign Currency	CareEdge B/Stable	August 04, 2026
External Commercial Borrowings	Long-Term Foreign Currency	CareEdge B/Stable	January 15, 2026

Criteria applied

CareEdge Global's Rating Methodology for Financial Institutions

Analytical contacts

Ankit Kedia

ankit.kedia@careedgeglobal.com

Sanchit Arora

Sanchit.Arora@careedgeglobal.com

Smit Doshi

smit.doshi@careedgeglobal.com

Media contact

Mradul Mishra

mradul.mishra@careedge.in

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CareEdge Global IFSC Limited
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 l www.careedgeglobal.com
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