'CareEdge B+/Stable' rating assigned to dollar bonds of Choice Finserv Private Limited

USD 10 million External Commercial Borrowing	**CareEdge B+/Stable**

CareEdge Global has assigned a long-term foreign currency rating of **'CareEdge B+/Stable'** to USD 10 million external commercial borrowing (ECB) of Choice Finserv Private Limited (CFPL).

Rationale

CFPL's rating benefits from the expectation of continuous support of its parent, Choice International Limited (CIL), a holding company of the Choice Group. CIL regularly infuses capital and provides operational and financial support to CFPL. The entity is strategically important because it diversifies the group away from capital market-linked and fee-based income streams, stabilising the group's overall market positioning. CIL's focus is on scaling CFPL's loan book gradually and profitably to build franchise strength and generate long-term value. This relationship is reinforced by a shared brand identity, management oversight, and board-level representation. CIL's continuous backing secures CFPL's funding. Notably, the parent has extended corporate guarantees for external borrowings of CFPL, thereby reinforcing lender's confidence.

The rating also factors in CFPL's comfortable capitalisation profile, reflected in a capital adequacy ratio (CAR) of 45.8% as of March 31, 2026, compared with 38.6% as of March 31, 2025, well above the regulatory requirement of 15%. The company continues to maintain low leverage, with managed gearing at 1.5x as of March 31, 2026, compared to 2.0x as of March 31, 2025, providing adequate headroom to support future growth. Management aims to keep the gearing below 3x on a steady state basis. Additionally, CFPL has established relationships with over 30 lenders, including 15 banks as of March 2026, compared with 4 banks as of March 2023, reflecting steady improvement in its resource profile.

However, CFPL's standalone credit profile is constrained by its modest scale of operations, with assets under management (AUM) of Rs 7,966 million as of March 31, 2026. Gross non-performing assets (GNPA) increased to 2.8% as of March 2026 from 2.4% a year earlier. Consequently, credit cost rose to 2.2% in FY26 from negligible levels in FY25. This deterioration is primarily due to ongoing stress in the portfolio acquired in FY25, as well as in unsecured MSME and vehicle loans that originate prior to FY25. While management has undertaken corrective measures to address the initial challenges, including the delayed realisation of anticipated synergies, operating conditions have stabilised. Management expects operating efficiency and asset quality to gradually improve over the near to medium term.

Nevertheless, the pace and sustainability of this recovery is a key monitorable and will need to be reflected in CFPL's financial performance and profitability metrics going forward.

Outlook

The stable outlook reflects CareEdge Global's credit assessment of the parent, CIL, and the expectation of it demonstrating strategic commitment to CFPL through continued involvement and support. It also factors in CFPL's expected operational scaling, supported by business expansion and portfolio growth, along with a steady improvement in asset quality and profitability metrics over the medium term.

Rating sensitivities

Upward factors

- Improvement in the parent company's credit profile, **and;**
- A significantly large loan book with more focus on secured retail loans and geographical diversification, resulting in sustained improvement in asset quality and profitability

Downward factors

- Deterioration in the parent company's credit profile
- Significant deterioration in asset quality of the book, thereby weakening CIL's support and growth philosophy towards CFPL; **or**
- Material reduction (lower than 50%) in CIL's shareholding in CFPL

Analytical approach

CareEdge Global has assessed CFPL's business and financial profiles on a standalone basis in line with its Financial Institutions Methodology. The assessment also incorporates expected support from its parent, CIL, in accordance with our Group Rating Methodology.

Key rating drivers

Strengths

Strong parentage and strategic importance within the group

CIL's credit profile is supported by its diversified financial services portfolio managed through its subsidiaries, comfortable leverage backed by regular capital infusions, improving earnings profile, and an experienced management team. These strengths are partly offset by its modest market share and exposure to capital market-linked operations.

CIL operates a diversified financial services platform spanning broking and distribution (~59% of revenue), advisory and consultancy (~28%), and non-banking financial company (NBFC) lending (~13%). This business model benefits from a balanced mix of fund-based and fee-based income streams.

The company's financial profile is underpinned by a comfortable leverage position and the demonstrated ability of the promoters to raise capital. The gearing moderated to 0.5x as of March 31, 2026, from 0.7x a year earlier, supported by healthy internal accruals and capital infusion of ~Rs 6,936 million over the past two years. Consequently, the group's adjusted tangible net worth strengthened to Rs 16,701 million as of March 31, 2026, from Rs 9,969 million as of March 31, 2025, providing a strong capital base to support future growth initiatives. Further, the group's predominantly capital-light business model—excluding the NBFC and broking segments—enhances overall financial flexibility, while the capital-intensive segments are adequately supported to drive medium-term growth.

CFPL derives significant strength from the parent, CIL, through common management and board oversight, benefitting from rich experience in the financial services industry, an established brand, and strong operational and financial linkages. The synergies facilitate access to funding, shared client relationships, and cross-business opportunities, thereby supporting CFPL's business profile and growth trajectory. The entity holds a strategic importance within the group, contributing to the diversification away from capital market-linked and fee-based income streams.

CareEdge Global believes CFPL has a strong likelihood of receiving support from CIL, both on an ongoing basis as well as in a distress scenario, given majority shareholding (~82%), shared name and common branding, resulting in a moral obligation to support. Accordingly, CareEdge Global has factored a two-notch benefit of parent support in CFPL's overall rating, as per its Group Rating Methodology. Furthermore, CareEdge Global understands that CIL is expected to continue holding majority ownership in CFPL.

Comfortable capitalisation profile supported by regular capital infusions from CIL
As of March 2026, standalone CAR is comfortable at 45.8%, significantly higher than the regulatory requirement of 15%. This robust capitalisation profile ensures adequate headroom for growth while providing a cushion against potential risks. The company continues to maintain low leverage, with managed gearing at 1.5x as of March 31, 2026, compared with 2.0x as of March 31, 2025. While gearing is expected to increase in line with AUM growth, the company is expected to keep gearing below 3x on a steady state basis as indicated by management. Tangible net worth improved to Rs 4,032 million as of March 31, 2026, from Rs 2,905 million as of March 31, 2025, supported by capital infusion of Rs 1,000 million by CIL (cumulative infusion of over Rs 2,800 million since inception).

Improving funding profile
The company benefits from a diversified lender base, comprising banks, NBFCs, development financial institutions (DFIs), and retail/high net worth individuals through non-convertible debentures (NCDs), which reduces reliance on a single funding source and enhances financial flexibility. As of March 2026, CFPL has established relationships with over 30 lenders, including 15 banks (7 private sector banks, 3 public sector banks, and 5 small finance banks), compared with 4 banks as of March 2023, reflecting steady improvement in its resource profile.

In terms of the borrowing mix, term loans accounted for 73% of total borrowings, with NCDs comprising the balance. The company also has access to a sanctioned line (in the form of inter-corporate deposits) of Rs 1,000 million from its parent, providing additional liquidity support.

Weaknesses

Small scale of operations

Established in 2017, CFPL is a middle layer NBFC, with an AUM of Rs 7,966 million as of March 2026. The company materially expanded in FY25, aided by the acquisition of retail loan portfolios of Paisabuddy Finance Private Limited (PFPL; AUM of Rs 2,723 million) and Sureworth Financial Services Private Limited (SFSPL; AUM of Rs 650 million), which strengthened its retail lending franchise and expanded its borrower base.

CFPL focuses on secured MSME/loan against property (LAP) loans (~54%), followed by wholesale lending (~28%), and solar loans (~3%). The company has discontinued other segments (~15%), including vehicle loans and unsecured MSME loans, which are currently being run down. While the absolute level of wholesale exposure is expected to remain stable, its share in the overall portfolio is expected to decline with growth in retail lending. The wholesale book predominantly comprises exposures to corporates and individuals with long-standing relationships with the group. These exposures consist of short-term working capital loans that have exhibited zero delinquencies to date.

Geographically, CFPL's operations remain concentrated despite gradual expansion. While the company is present across eight states/union territories, its retail loan book is concentrated in three (Rajasthan: 45%, Maharashtra: 18%, and Madhya Pradesh: 11%), which collectively account for over 70% of the total portfolio as of March 31, 2026.

Merger-related challenges impacted asset quality and profitability[1]

CFPL's credit profile is constrained by moderate asset quality indicators, although it has undertaken several corrective measures over the past 15 months to strengthen underwriting standards and improve the portfolio quality. As of March 31, 2026, the company reported GNPA of 2.8% and NNPA of 1.9%, compared with 2.4% and 0.5%, respectively, a year earlier. Asset quality challenges are primarily in the retail legacy portfolio that originated prior to January 2025, including the acquired loan book and the unsecured MSME and vehicle loan segments. In response, the company recalibrated its credit underwriting framework by tightening customer selection norms, strengthening collateral assessment standards, and implemented stricter credit filters. Consequently, the performance of loans originated post January 2025 has improved significantly, with over-90-days delinquencies remaining minimal at around 0.1%, demonstrating the stronger credit quality of the newer portfolio. Furthermore, the company has discontinued its unsecured-MSME and vehicle loan businesses, which are being gradually run down, and has shifted its focus towards secured MSME and LAP lending,

[1] All profitability ratios are computed based on average total assets (including securitisation pool)

which constituted around 54% of the portfolio as of March 31, 2026. Nevertheless, ability to sustain this improved asset quality profile need to be demonstrated over time, particularly as the secured MSME/LAP loan book seasons.

In FY26, profitability remained subdued, with return on managed assets (RoMA) at 1.2% (FY25: 0.7%) and return on AUM at 1.5% (FY25: 0.9%). This was driven by elevated credit costs due to operational disruptions during the integration phase, including a higher-than-expected attrition of employees, adversely affected collection efficiencies and growth in AUM. The resultant weakening in collections led to increased delinquencies and slippages, thereby driving up credit costs. Profitability was supported by a reduction in operating expenses arising from the rationalisation of workforce and the closure of overlapping branches following the acquisition of loan books from PFPL and SFSPL. Net interest margins improved in FY26, compared to a decline in FY25, which was largely attributable to a denominator effect from the acquired portfolio in the second half of the year.

Going forward, the company's ability to scale up its loan book while maintaining the asset quality will remain a key determinant its of profitability and credit profile.

Liquidity

CFPL's liquidity is adequate, with no negative cumulative mismatches as per the asset-liability mismatch statement as of March 31, 2026. The company had liquidity of around Rs 1,815 million in cash and equivalents, and liquid investments as on the same date. This is adequate to meet the upcoming debt maturities for the next 6 months. Additionally, CFPL benefits from the high degree of cash fungibility and adequate liquidity at the consolidated level, along with the expectation of timely, need-based funding support from its parent, further underpinning its liquidity position.

Environmental, social, and governance (ESG) considerations

CFPL integrates ESG considerations directly into its lending practices and governance framework. From a social perspective, the company supports financial inclusion by providing credit to MSMEs and small businesses, particularly in semi-urban and underserved markets. Its increasing focus on secured MSME lending and LAP products facilitates access to formal credit for entrepreneurs and self-employed individuals. Additionally, CFPL has exposure to solar financing, supporting the adoption of green/renewable energy solutions among its borrowers.

On the governance front, the company has strong risk management, credit monitoring, and compliance frameworks. An experienced management team and board oversight support its governance profile. Overall, ESG risks are adequately managed and not considered a significant concern from a credit perspective.

About CFPL

Incorporated in 2017, CFPL is a non-deposit-taking NBFC and a subsidiary of CIL, which holds ~82% stake as of March 2026. The company initially commenced operations through Margin Trading Funding (MTF) but the business was discontinued as management shifted its focus towards lending activities. Thereafter, CFPL built a wholesale lending portfolio, primarily catering to established corporate relationships and customers of the promoter group, which resulted in a portfolio characterised by low delinquencies and stable asset quality.

Over the past few years, the company has strategically reduced its exposure to wholesale lending and transitioned towards a granular retail and MSME-focused lending model. This transition accelerated in FY25 with the acquisition of the PFPL and SFSPL loan portfolios, significantly expanding the company's retail borrower base. As of March 2026, its AUM totalled Rs 7,966 million, comprising secured MSME/LAP loans (54%), wholesale loans (28%), vehicle loans (7%), unsecured MSME (4%), solar loans (3%), and others (4%). Going forward, the company intends to focus on secured MSME/LAP and solar financing while maintaining the wholesale loan book at the existing levels.

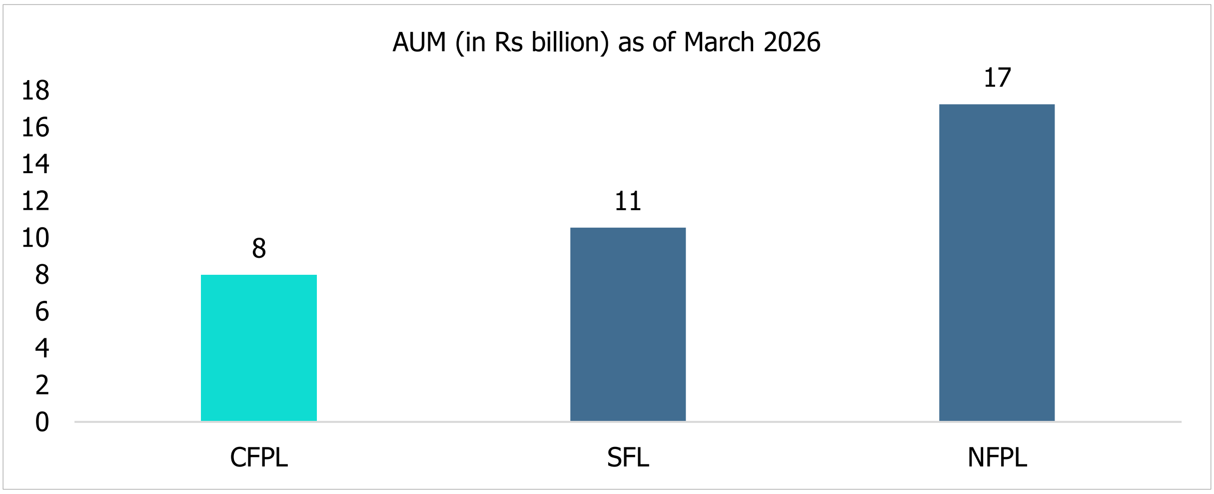
About CIL

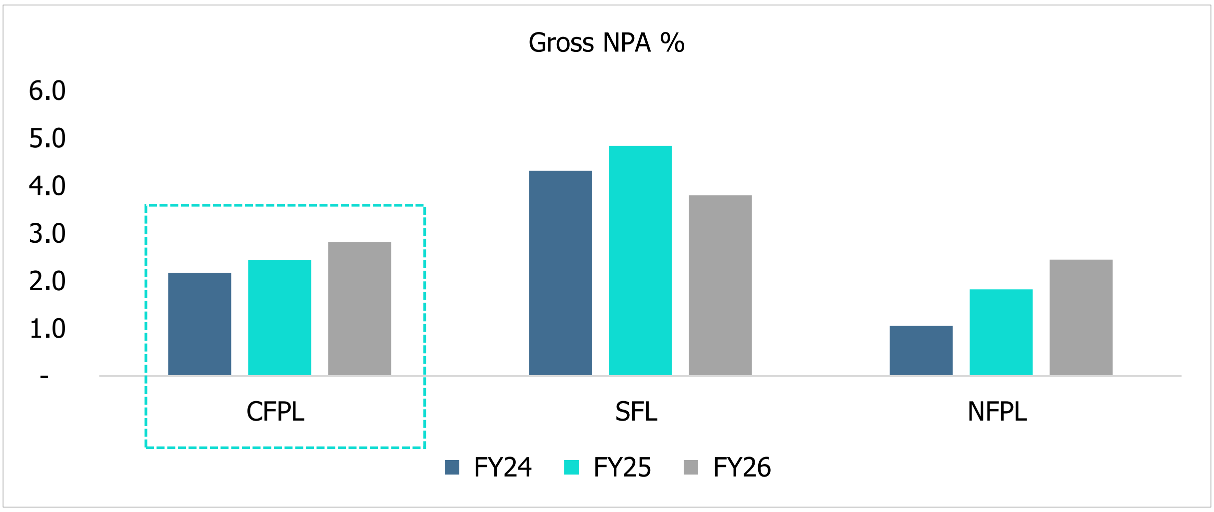
Incorporated in 1992 and subsequently acquired by current promoters in 2008, CIL is a publicly listed diversified financial services company. It offers a broad suite of services, including broking & distribution (59% of revenue), advisory & consultancy (28%), and lending/NBFC (13%). The broking segment includes stock broking, wealth management and insurance distribution, while the advisory business focuses on government consulting and investment banking with strong institutional linkages. As of March 31, 2026, the company's shareholding is held by promoters (53.7%) and the public (46.3%).

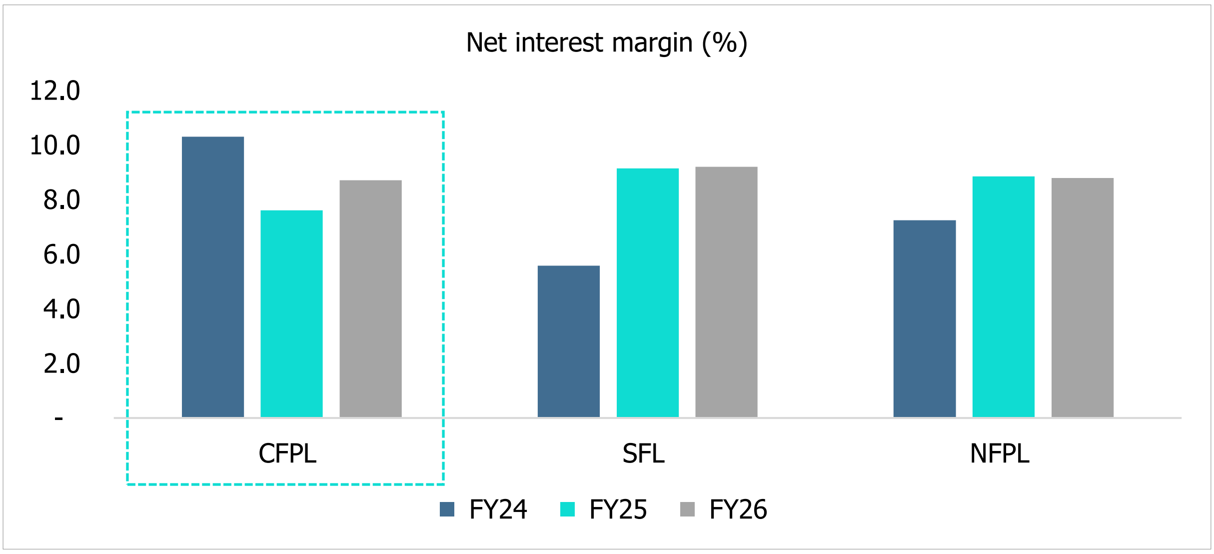
The group has been gradually diversifying beyond capital market-linked income, led by its NBFC arm (CFPL) and advisory services. CIL has maintained healthy earnings growth over the past few years, with profit after tax (PAT) rising from Rs 601 million in FY23 to Rs 2,379 million in FY26. PAT margin improved from 15% to 21% during the same period. Overall leverage was 0.5x as of March 2026.

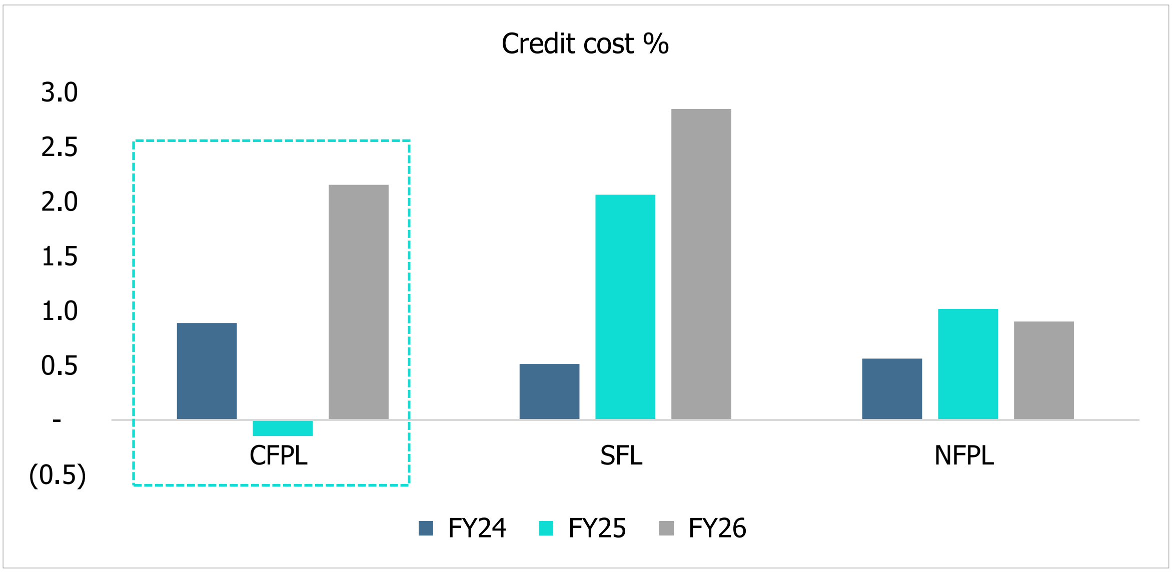
Going forward, CIL aims to strengthen its business profile by scaling its mutual fund business, lending franchise, and improving cross-segment synergies.

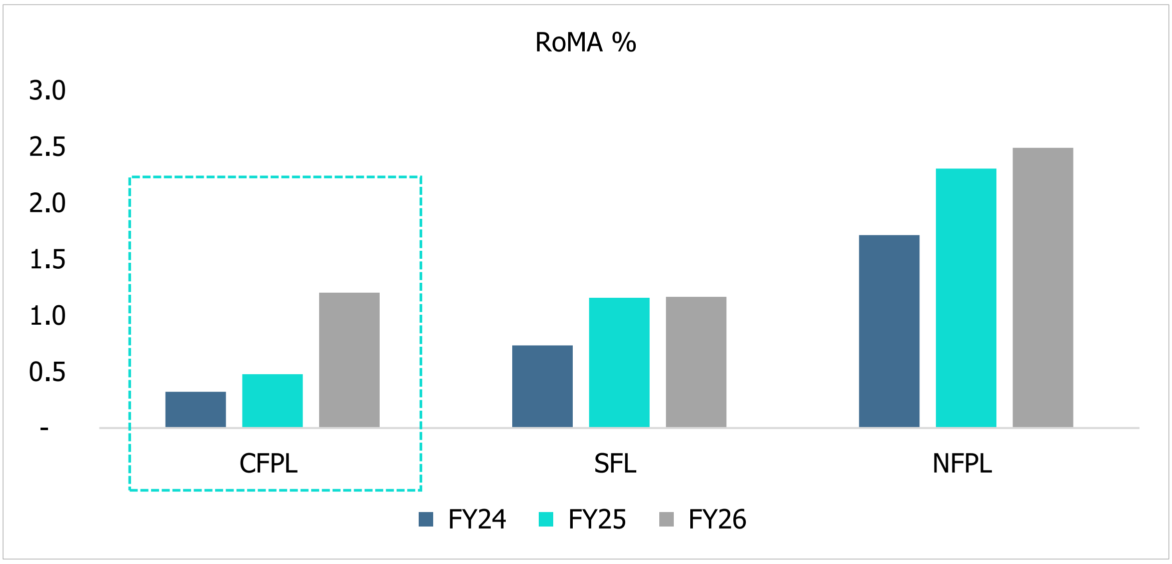
Comparison with other NBFCs











* SFL: Satin Finserv Limited, NFPL: Namdev Finvest Private Limited

Key financial metrics

Particulars	Unit	March 31, 2024	March 31, 2025	March 31, 2026
AUM	Rs million	4,821	7,679	7,966
Net interest margin	%	10.3	7.6	8.8
Cost to income	%	88.5	82.8	64.5
GNPA[2]	%	2.2	2.4	2.8
RoMA	%	0.3	0.7	1.2

[2] As per reported financials

CAR[2]	%	46.9	38.6	45.8

Solicitation status

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

Details of the instrument

Instrument	ISIN	Date of issuance	Coupon rate (%)	Maturity date	Issue size	Rating
External Commercial Borrowing	INIFD2605019	-	-	-	USD 4 million	CareEdge B+/Stable
External Commercial Borrowing (proposed)	-	-	-	-	USD 6 million	CareEdge B+/Stable

Rating history

Instrument	Type	Rating	Date
External Commercial Borrowing	Long-Term Foreign Currency	CareEdge B+/Stable	June 18, 2026

Criteria applied

[CareEdge Global's Financial Institutions Rating Methodology]
[CareEdge Global's Group Rating Methodology]

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