

April 23, 2024

## PAFT Finance Limited: Rating upgraded to [ICRA]BB+ (Stable)

### Summary of rating action

Instrument	Previous rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loan*	30.00	30.00	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable)
<b>Total</b>	<b>30.00</b>	<b>30.00</b>	

\* Instrument details are provided in Annexure I

### Rationale

To arrive at the rating, ICRA has taken a consolidated view of PAFT Finance Limited (PAFT) and its Group company – PAFT Inclusive Financial Services Private Limited (PAFT IFSPL)<sup>1</sup>. Incorporated in FY2023, PAFT IFSPL is a new entity. It will undertake the business correspondent (BC) operations of the Group while PAFT would be focused on carrying out its own-book lending operations. The revision in the rating approach to a consolidated view of both entities considers the significant financial, operational and managerial linkages between them.

The rating takes into consideration the improvement in the Group's capital profile, supported by internal accruals, even as it scaled up its operations significantly. The consolidated assets under management (AUM) increased to Rs. 667.9 crore as of December 2023 from Rs. 267.4 crore as of March 2022 with the same expected to be scaled up to ~Rs. 1,500-1,600 crore by the end of FY2026. The Group's operations are predominantly focused towards the BC segment at present (which accounted for 98.5% of the AUM as of December 2023) with the same expected to continue in the near-to-medium term. The consolidated net worth improved to Rs. 38.8 crore in December 2023 from Rs. 20.1 crore in September 2022, while the managed gearing improved to 16.6 times from 21.2 times during this period. The rating also takes into account the adequate asset quality profile as the 90+ days past due (dpd) stood at 0.3% of the AUM as of December 2023 compared to 2.1% as of September 2022 and the company's adequate earnings profile (PAT/AMA<sup>2</sup> stood at 2.4% in 9M FY2024 & 3.1% in FY2023), supported by BC fee income and the optimisation of operating expenses.

However, the rating is constrained by PAFT Group's geographically concentrated operations with its entire operations being concentrated in Tamil Nadu and the Union Territory (UT) of Puducherry. The rating takes cognizance of the risks associated with the unsecured nature of the loans, the marginal borrower profile, and other socio-political and operational risks inherent in microfinance operations.

### Key rating drivers and their description

#### Credit strengths

**Adequate asset quality** – The PAFT Group has been keeping the asset quality profile under control, given the customer segment in which it operates. The asset quality profile had improved in 9M FY2024 as the 90+ dpd stood at 0.3% as of December 2023 compared to 2.1% as of September 2022. This was supported by write-offs in the BC book as PAFT IFSPL had written off bad loans to the extent of ~Rs. 10 crore in the BC book, by paying Rs. 5.5 crore to the BC partner (0.8% of AMA)

<sup>1</sup> Together, PAFT and PAFT IFSPL are termed as the PAFT Group

<sup>2</sup> Profit after tax/Average managed assets

while the remaining 45% was borne by the BC partner. The company's ability to keep its asset quality indicators under control would be a monitorable from a credit perspective.

**Adequate profitability indicators** – The consolidated profitability remains adequate, with PAT/AMA at 2.4% in 9M FY2024 (3.1% in FY2023). The Group scaled up its BC business significantly in recent years, with AUM of Rs. 667.9 crore as of December 31, 2023 (Rs. 421.6 crore as of September 30, 2022), consisting primarily of the BC book (98.5% of the AUM as of December 2023). Accordingly, fee income from BC operations comprised 92% of the total income in 9M FY2024 (95% in FY2023). With economies of scale, the operating expenses improved to 4.3% in 9M FY2024 from 4.4% in FY2023 while PAFT IFSP had incurred credit losses in the BC book to the extent of 0.8% of AMA. It would be crucial for the Group to keep its asset quality profile under control as it scales up.

### Credit challenges

**Geographically concentrated operations** – The PAFT Group's scale of operations is moderate with AUM of Rs. 667.9 crore as of December 31, 2023 (Rs. 421.6 crore as of September 30, 2022), consisting primarily of the BC book (98.5% of the AUM as of December 2023). A major portion of the BC operations was transferred to PAFT IFSP while PAFT will concentrate on its own lending book in the near-to-medium term. This would support PAFT in meeting the regulatory requirements applicable for non-banking financial companies (NBFCs), including the minimum share of income and assets to be maintained from the lending operations.

The Group had disbursed Rs. 216.2 crore in 9M FY2024 vis-à-vis Rs. 300.4 crore in FY2023, mainly through its BC partners. It had two BC partners, ESAF Small Finance Bank Limited and IDBI Bank Limited, as of December 2023 though the former accounted for a major portion (~94%) of the BC portfolio. The company's operations remain concentrated in Tamil Nadu and Puducherry while the top 10 districts accounted for 80% of the AUM as of December 2023. ICRA expects the operations to remain concentrated in Tamil Nadu, Andhra Pradesh and Puducherry over the near-to-medium term.

**Stretched capitalisation profile, though some improvement seen in the last one year** – PAFT's net worth increased to Rs. 38.8 crore as of December 2023 from Rs. 20.1 crore as of September 2022 on account of the healthy internal generation during this period. Despite improving, the managed gearing was high at 16.6 times as of December 2023 (21.2 times as of September 2022) on account of the increased scale of operations. The first loss default guarantee (FLDG), which was required to be maintained at 5% of the BC book in the form of lien marked deposits, was reduced to 3% from Q4 FY2024. This will lead to lower capital requirement for the BC operations. A major portion of the required FLDG is currently maintained by PAFT on behalf of PAFT IFSP. Going forward, PAFT's ability to raise equity capital and maintain adequate profitability would be critical to support the envisaged growth over the near-to-medium term.

**Ability to manage political, communal and other risks in microfinance sector** – The microfinance sector is vulnerable to socio-political and operational risks, which could negatively impact the operations and the financial position of entities with exposure to this sector. The industry risks are further accentuated by the company's geographically concentrated portfolio. PAFT's ability to navigate through the prolonged economic adversity and manage the impact on business growth, customer retention and the risks pertaining to borrower overleveraging, given their access to informal funding sources, would be a key monitorable.

### Liquidity position: Adequate

The PAFT Group had a cash and bank balance of Rs. 3.9 crore as of December 31, 2023 against debt repayment obligations of Rs. 3.3 crore during January 2024-June 2024. As of December 31, 2023, it had two lenders and served as a BC partner of two lenders. Going forward, it would be crucial for the company to secure funds in a timely manner to improve its liquidity profile.

### Rating sensitivities

**Positive factors** – Scale-up of the operations, while maintaining the asset quality, and a significant improvement in the capitalisation profile would have a positive impact on the rating.

**Negative factors** – The rating could be negatively impacted in case of a weakening in the asset quality or a deterioration in the capitalisation profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated financial profile of PAFT Finance Limited and PAFT Inclusive Financial Services Private Limited

## About the company

PAFT Finance Limited (PAFT) is a non-systemically important non-deposit taking non-banking financial company (NBFC) headquartered in Tiruchirappalli (Tamil Nadu). It extends microfinance for income-generation purposes to women with a good track record. The founders of PAT Trust, which conducted microfinance operations under the self-help group (SHG) model from 2002, acquired Indma Finance. Indma was renamed PAFT Finance Limited in August 2016 and the company carried out lending operations primarily under the BC model. In FY2023, PAFT's promoters floated PAFT Inclusive Financial Services Private Limited to carry on the BC operations of the Group.

In 9M FY2024, the PAFT Group reported a net profit of Rs. 11.3 crore on total managed assets of Rs. 691.8 crore while it reported a net profit of Rs. 13.4 crore on total managed assets of Rs. 571.5 crore in FY2023.

## Key financial indicators (audited) – IGAAP

Particulars	FY2022	FY2023 <sup>#</sup>	9M FY2024 (P) <sup>#</sup>
Total income	15.8	38.0	40.4
Profit after tax	4.9	13.4	11.3
Total managed assets	286.4	571.5	691.8
RoMA	2.4%	3.1%	2.4%
Managed gearing (times)	19.1	19.5	16.6
CRAR	490.4%	406.9%	NA

Source: Company, ICRA Research; Amount in Rs. crore; <sup>#</sup> Consolidated from FY2023; P – Provisional

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

S. No.	Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
			Amount Rated	Amount Outstanding	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			(Rs. crore)	(Rs. crore)	Apr-23-2024	-	Jan-03-2023	-
1	Long-term fund-based term loan	Long term	30.00	0.00	[ICRA]BB+ (Stable)	-	[ICRA]BB (Stable)	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term term loans – Unallocated	-	NA	-	30.00	[ICRA]BB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for limited consolidated analysis**

Company Name	Ownership	Consolidation Approach
PAFT Finance Limited	NA	Full Consolidation
PAFT Inclusive Financial Services Private Limited	NA	Full Consolidation

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### Branches



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