September 03, 2025

Micro Units Development and Refinance Agency Limited: [ICRA]AAA (Stable) /[ICRA]A1+ assigned to borrowing programme

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Borrowing programme^	20,000.00	[ICRA]AAA (Stable)/[ICRA]A1+; assigned
Total	**20,000.00**	

**Instrument details are provided in Annexure I*

^borrowing programme comprises non-convertible debentures and bank facilities; the applicable scale will be allocated to instrument as per terms of sanction/issue

Rationale

The assigned ratings factor in Micro Units Development and Refinance Agency Limited's (MUDRA) strategic role in developing the microenterprise sector by providing refinance to financial institutions, which, in turn, lend to micro businesses under the Pradhan Mantri MUDRA Yojana (PMMY). The Government of India (GoI) exercises oversight on MUDRA through representation on its board and ICRA expects the company to receive operational and financial support from the GoI, if required. To achieve its objectives, the Reserve Bank of India (RBI), in consultation with the GoI, allocates priority sector shortfall (PSS) funds to MUDRA at competitive rates, which helps keep its cost of funds under control and increase its funding competitiveness. The ratings also consider MUDRA's strong parentage as it is wholly owned by Small Industries Development Bank of India {SIDBI; rated [ICRA]AAA (Stable)}.

Following its establishment in FY2015, MUDRA's loan book has risen steadily and stood at Rs. 29,170 crore as on March 31, 2025, reflecting a compound annual growth rate (CAGR) of 27% during the past five years. The ratings also factor in the company's strong capitalisation levels with a net worth of Rs. 4,887 crore, a capital-to-risk weighted assets ratio (CRAR) of 74.42% and reported gearing of 6.5 times as on March 31, 2025. MUDRA has historically remained reliant on PSS funds for its refinancing activity and it plans to supplement its funds through market resources to augment its funding. However, as refinance from MUDRA is not exempt from the cash reserve ratio (CRR) and statutory liquidity ratio (SLR) for banks, funding availed from such market resources will not attract demand from banks and will need to be provided to non-banking financial companies (NBFCs). As refinance to banks attracts zero risk weight, increased lending to NBFCs may result in a decline in the reported CRAR. Nevertheless, the capitalisation profile is projected to remain healthy with cushions well above the regulatory levels.

The interest spreads for lending out of PSS funds are regulated by the RBI with higher spreads for refinance to NBFCs compared to banks. During the last five years, banks have accounted for 80-84% of MUDRA's total refinance portfolio, which, in turn, is dependent on PSS fund allocation. Higher market borrowings or lower PSS allocation could increase the size/share of lending to NBFCs in the company's refinance portfolio. Thus, its profitability profile would depend on the changing liability mix and the corresponding asset mix. Nevertheless, low operating expenditure and benign credit costs would continue to support the profitability profile.

The ratings consider the healthy asset quality profile with the company reporting nil slippages in the past three years and nil non-performing advances (NPAs) as on March 31, 2025. Nevertheless, given the high concentration of advances, its asset quality remains exposed to the risk of lumpy slippages and its ability to manage the same would remain monitorable.

ICRA expects that MUDRA will remain strategic to the GoI, given its role in developing the microenterprise sector. It will keep benefitting from its access to PSS funds and SIDBI's parentage by leveraging operational synergies, driving the Stable outlook on the long-term rating.

Key rating drivers and their description

Credit strengths

Strong parentage and strategic importance, given its role in development of microenterprise sector – MUDRA was set up by the GoI in FY2016 as a wholly-owned subsidiary of SIDBI. It acts as a nodal agency for developing the microenterprise sector by providing refinance to financial institutions lending to micro businesses and it monitors the progress of loans given under PMMY. To capitalise MUDRA, the GoI infused capital of Rs. 1,750 crore (Rs. 750 crore in FY2016 and Rs. 1,000 crore in FY2017) through SIDBI. SIDBI, which is an All-India Financial Institution (AIFI) and acts as a policy institution of the GoI for the development of micro, small and medium enterprises, maintains oversight on MUDRA's operations. It has the right to nominate up to three persons to the board, including the Chairman, and it also deputes its senior personnel for managing MUDRA's operations. The GoI also has representation on the company's board in the form of a member appointed from the Department of Financial Services (DFS). MUDRA also receives allocation from the PSS fund. Given the GoI's direct representation on its board and through SIDBI, it exercises significant control over the company to achieve its larger objective of the development of microenterprises. Thus, given MUDRA's strategic importance, ICRA expects the GoI and SIDBI to continue providing support to the company as and when required.

Healthy capitalisation profile – MUDRA had a net worth of Rs. 4,887 crore as on March 31, 2025, given the sizeable initial share capital infusion by the GoI through SIDBI and strong internal accruals. It maintains healthy capitalisation levels with a reported CRAR of 74.42%, comfortably above the regulatory requirement of 15%, and a gearing of 6.5 times as on March 31, 2025. ICRA notes that the reported CRAR benefits from the zero-risk weight on refinance to banks and the high share of banks (80%) in the company's overall refinance portfolio as on March 31, 2025. Refinance to NBFCs is risk weighted at 100% and the increase in refinance to this segment could moderate the reported CRAR. Nevertheless, it shall remain comfortably above 15%, given the current capital position. Further, given its strategic importance, ICRA expects the GoI to continue supporting the company directly/through SIDBI, though this is not likely to be needed in the next few years.

Strong asset quality indicators – As MUDRA's loan book comprises only refinancing, which entails lending to entities with strong credit profiles like banks, NBFCs and pass-through certificates (PTCs), slippages have been nil in the past three years. While it witnessed slippages in some MFIs in the past, leading to a gross NPA (GNPA) ratio of 3.73%% as on March 31, 2020, it undertook write-offs in succeeding years, leading to nil GNPAs as of March 2025. The asset quality will remain exposed to any lumpy slippages, especially from NBFCs. The regulatory exposure limit applicable to NBFCs for single borrowers is applicable to MUDRA, though the actual exposure taken by it depends on the financial profile of the NBFCs.

Credit challenges

Risk of lumpy slippages due to high credit concentration – MUDRA's lending is concentrated towards scheduled commercial banks (80% as on March 31, 2025), followed by NBFCs (14%) and NBFC-microfinance institutions (NBFC-MFIs; 5%). Given the nature of the business, i.e. refinance to lending institutions, the concentration of the top 20 advances in total advances remained high at 89% as on March 31, 2025 (93% as on March 31, 2024), which is likely to continue. However, this is mitigated by the strong credit profile of the banks. With the potential increase in refinance to NBFCs, the impact of the slippage of a single exposure on the headline metrics and solvency levels could be high.

Change in liability mix with increasing market borrowings may impact earnings profile – Although MUDRA benefits from access to a low cost of funds through PSS, lower allocation can lead to a decline in refinance demand from banks and accordingly the size of the refinance portfolio. This is because banks do not benefit from CRR and SLR on refinance from MUDRA and any refinance to banks out of market resources will be costlier than the bank's own borrowings from the market. Further, the company's earnings potential remains limited due to the cap on lending spreads for refinance through PSS funds. With the expectation of a decline in PSS funds in the near term, MUDRA will increasingly depend on market borrowings. Its ability to on-lend at remunerative interest spreads from such market resources will be important for its profitability. Furthermore, any future regulatory changes, affecting lending margins, could impact its profitability.

Liquidity position: Strong

As per its structural liquidity statement (SLS) as on March 31, 2025, MUDRA's current liquidity profile is strong, given its robust capital base and no negative cumulative mismatches across all maturity buckets. As on March 31, 2025, the SLS showed repayment obligations of Rs. 14,518 crore for the 12-month period ending March 31, 2026, while inflows during this period amount to Rs. 21,140 crore, including the cash and liquid balance of Rs. 10,514 crore as on March 31, 2025. MUDRA generally gets PSS fund allocation, which is repayable after three years and it lends accordingly, leading to a matched asset-liability profile. However, as it raises market resources, its ability to maintain a well-matched asset-liability profile will be a key driver of its liquidity position.

Rating sensitivities

Positive factors – NA

Negative factors – Deterioration in the credit profile of the parent, SIDBI, and/or a dilution in MUDRA's strategic role, leading to a dilution in its importance to the GoI would be negative factors. Sustained deterioration in the asset quality or capitalisation profile could also be a negative factor.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Non-banking Finance Companies
Parent/Group support	The ratings factor in MUDRA's status as a wholly-owned subsidiary of SIDBI and its strategic importance to the GoI for its role in the development of the microenterprise sector. ICRA expects that the GoI/SIDBI will provide requisite management, capital and funding support to MUDRA.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MUDRA.

About the company

Micro Units Development and Refinance Agency Limited (MUDRA) was set up by the GoI as a wholly-owned subsidiary of SIDBI in April 2015. It is responsible for developing the microenterprise sector in the country and provides refinance support to banks {commercial, regional rural banks (RRBs) and small finance banks (SFBs)}, NBFCs and MFIs for loans under the Pradhan Mantri MUDRA Yojana (PMMY). It reported a net profit of Rs. 827 crore in FY2025 on total income of Rs. 2,284 crore compared to a net profit of Rs. 814 crore in FY2024 on total income of Rs. 2,307 crore.

Key financial indicators

MUDRA (standalone)	FY2023	FY2024	FY2025
Total income	1,537	2,307	2,284
Profit after tax	577	814	827
Total managed assets	38,483	39,637	36,750
Return on average managed assets	1.61%	2.08%	2.17%
Reported gearing (Debt/Net worth; times)	10.61	8.63	6.48
Gross stage 3	0.10%	0.07%	0.00%
CRAR	71.61%	81.47%	74.42%

Source: MUDRA, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current rating (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Sep 03, 2025	Date	Rating	Date	Rating	Date	Rating
Borrowing programme^	Long term/Short term	20,000.00*	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	-	-	-

*Source: ICRA Research; * Yet to be placed*
^borrowing programme comprises non-convertible debentures and bank facilities; the applicable scale will be allocated to instrument as per terms of sanction/issue

Complexity level of the rated instruments

Instrument	Complexity indicator
Borrowing programme	Simple*

**Subject to instrument being issued/raised*

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	Interest/ Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Bank facility-BOI**	Mar 24, 2025	Repo rate+1.65%	Mar 27, 2027	3,000.00	[ICRA]AAA (Stable)
NA	**Bank facility-IDBI**	Jan 22, 2025	Repo rate+1.55%#	Mar 31, 2028	1,000.00	[ICRA]AAA (Stable) /[ICRA]A1+
NA	**Bank facility-SIDBI**	Feb 11, 2025	8.05%	Mar 10, 2028	3,950.00	[ICRA]AAA (Stable)
NA*	**Borrowing programme^**	NA	NA	NA	12,050.00	[ICRA]AAA (Stable) /[ICRA]A1+

Source: Company, ICRA Research

#8.05% fixed rate for the first year, to be reset to repo linked rate after completion of 1 year
** Yet to be placed/Unallocated*
^borrowing programme comprises non-convertible debentures and bank facilities; the applicable scale will be allocated to instrument as per terms of sanction/issue

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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