

September 18, 2025

SK Finance Limited: [ICRA]AA- (Stable) assigned; rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Non-convertible debentures	0.00	250.00	[ICRA]AA- (Stable); assigned
Non-convertible debentures	1,750.00	1,750.00	[ICRA]AA- (Stable); reaffirmed
Total	1,750.00	2,000.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in SK Finance Limited's (SKFL) adequate near-term capital profile and track record of good profitability, notwithstanding the recent moderation. The company's return on managed assets (RoMA) declined to 2.5% in FY2025 from 2.7% in FY2024 because of the higher credit costs. ICRA notes that SKFL shelved its initial public offering (IPO) plans for the near term but would need to raise equity to support growth over the medium term to maintain a prudent capitalisation profile. The rating continues to consider the company's established franchise and track record of operations in Rajasthan with a good knowledge of the local market.

The rating is, however, constrained by SKFL's high, albeit improving, geographical concentration. While the company has, over the years, expanded its reach to 12 states/Union Territories (UTs), the home state of Rajasthan still accounted for 47% of the portfolio¹ as on June 30, 2025 (though lower than 60% as on March 31, 2022). Further, the target borrower profile largely consists of first-time borrowers and single vehicle and small business owners, who are susceptible to economic shocks due to limited income buffers.

ICRA also notes that the reported gross non-performing advances (GNPAs) weakened to 4.8% as on March 31, 2025 from 3.5% as on March 31, 2024 and the 90+ days past due (dpd) for the overall assets under management (AUM) rose to 2.1% as on March 31, 2025 (1.8% as on March 31, 2024). The uptick in delinquencies in FY2025 was largely due to the challenges in the operating environment, including adverse weather patterns in key geographies. ICRA notes the improvement in the GNPA and 90+ dpd to 3.2% and 1.6%, respectively, as on June 30, 2025, supported by the sale of NPAs to asset reconstruction companies (ARCs) in Q1 FY2026. Going forward, SKFL's ability to control fresh slippages and contain the forward flow across delinquency buckets will remain a key monitorable, especially given its growth plans.

The Stable outlook reflects ICRA's expectation that the company would continue to scale up profitably while maintaining a prudent capitalisation profile and range-bound asset quality.

Key rating drivers and their description

Credit strengths

Established franchise and track record of operations – SKFL, under the leadership of Mr. Rajendra Setia, has a long track record of around three decades in the vehicle financing market, whereby it has established a retail franchise in Rajasthan and gained good understanding of the local market. The AUM stood at Rs. 13,900 crore² as of June 30, 2025 (Rs. 13,451 crore as on March 31, 2025) with vehicle loan accounting for 75% as on June 30, 2025 (76% as on March 31, 2025), though it

¹ The ratios/shares of various metrics in relation to the AUM/portfolio exclude the off-book portion of the co-lending book

² Including off-book portion of co-lending book. The AUM excluding the off-book portion of the co-lending book stood at Rs. 13,668 crore as on June 30, 2025 (Rs. 13,261 crore as on March 31, 2025)

was lower than 88% as on March 31, 2022. Within this segment, the share of the used vehicle segment stood at 56% of the AUM as on June 30, 2025 (57% as on March 31, 2025). ICRA notes that SKFL has gradually diversified its product mix with the share of micro, small and medium enterprise (MSME) financing, primarily catering to a similar category of low and middle-income group borrowers, in the AUM increasing to 25% as on June 30, 2025 (24% as on March 31, 2025) from 12% as on March 31, 2022.

The company's board of directors comprises two promoter directors, three independent directors and two investor nominee directors. Mr. Setia, along with his family members, held an equity stake of 31.1% in the company (fully-diluted basis) as on June 30, 2025. SKFL is also backed by established equity investors, such as Norwest Venture Partners X – Mauritius (Norwest), TPG Capital, India Business Excellence Fund IV, Evolveance, IIFL Special Opportunities Fund, which had a total equity stake of 49.8% (fully-diluted basis) as on June 30, 2025.

Adequate near-term capital profile; need to secure equity to maintain buffers for medium-term growth – SKFL is adequately capitalised at present with a net worth of Rs. 3,593 crore as on June 30, 2025 and a managed gearing of 3.8x as on June 30, 2025 (Rs. 3,502 crore and 3.8x, respectively, as on March 31, 2025). The reported capital adequacy stood at 30.9% as on June 30, 2025 (29.5% as on March 31, 2025). While SKFL shelved its IPO plans for the near term, ICRA notes that the leverage is likely to increase from the current level given the growth plans. The company would need to raise equity, which would be key for maintaining buffers (managed gearing below 4x) for medium-term growth.

Good profitability, notwithstanding recent moderation – SKFL has a track record of good profitability despite the recent moderation. Notwithstanding the range-bound net interest margin³ (NIM) and operating expenses, the RoMA weakened to 2.5% in FY2025 from 2.7% in FY2024 due to the rise in the credit cost ratio owing to higher incremental provisioning and increased losses on repossessed assets. Further, the company reported RoMA of 2.0% in Q1 FY2026 compared to 2.0% in Q1 FY2025. This was primarily due to compressed NIMs owing to the softening of yields and negative carry on the investments, though this was partially offset by the decline in credit costs and operating expenses on a YoY basis. In view of the asset quality related pressure, it would be critical to keep the credit costs under control, going forward, even as the pressure on yields is expected to persist.

Credit challenges

Exposure to relatively modest borrower profiles – As SKFL primarily operates in the used vehicle financing segment, its customers are mostly first-time borrowers and single vehicle and small business owners, who are susceptible to economic shocks and have limited income buffers. Thus, the delinquencies in the softer buckets have historically remained volatile for the company. The uptick in delinquencies in FY2025 (30+ dpd of 7.0% as on March 31, 2025 compared to 5.6% as on March 31, 2024) was largely due to the challenges in the operating environment, including adverse weather patterns in key geographies. While the 30+ dpd improved marginally to 6.5% as on June 30, 2025, it remains high. The reported GNPA's weakened to 4.8% as on March 31, 2025 from 3.5% as on March 31, 2024 and the 90+ dpd for the overall AUM rose to 2.1% as on March 31, 2025 (1.8% as on March 31, 2024). On a lagged basis (one year), the 90+ dpd remained higher at 2.6% as on March 31, 2025. ICRA notes the improvement in the GNPA and 90+ dpd to 3.2% and 1.6%, respectively, as on June 30, 2025, supported by the sale of NPAs to ARCs in Q1 FY2026. Going forward, SKFL's ability to control fresh slippages and secure recoveries from the overdue book will remain a key monitorable, given its growth plans and the expected moderation in vehicle asset valuations after the GST rate reduction.

High, albeit improving, geographical concentration – SKFL has expanded its scale of operations in the last few years with its AUM increasing to Rs. 13,900 crore² as on June 30, 2025 (Rs. 13,451 crore as on March 31, 2025) from Rs. 4,714 crore as on March 31, 2022. Further, it expanded its reach to 12 states/UTs through a network of 656 branches as on June 30, 2025. However, the exposure to a single state remains relatively high for the current scale of operations with Rajasthan accounting for 47% of the portfolio as on June 30, 2025, though this has moderated from 60% as on March 31, 2022. The balance is primarily in Madhya Pradesh (14%), Punjab & Haryana (13%), Gujarat (9%), and Maharashtra (5%).

³ All figures and ratios are as per ICRA's nomenclature/ definitions/ calculations

Liquidity position: Strong

The tenure of the loans extended by SKFL (average tenure of 3.5-4 years) matches well with the weighted average tenure of the term facilities availed by it and reflects positively in the asset-liability maturity (ALM) profile. Thus, the ALM profile, in the normal course of business, is characterised by positive cumulative mismatches across all buckets up to one year. As per the ALM profile as on June 30, 2025, SKFL had scheduled principal debt repayments of Rs. 4,628 crore for the 12-month period ending June 30, 2026 against scheduled inflows from performing advances of Rs. 4,069 crore. The unencumbered on-balance sheet liquidity (cash and liquid investments) of Rs. 2,109 crore (17% of on-balance sheet borrowings), coupled with undrawn working capital lines of Rs. 84 crore as on June 30, 2025, further support the liquidity profile.

SKFL's borrowing profile is adequately diversified for the current scale of operations, with sources including term loans and working capital lines from banks including external commercial borrowings (ECBs; 48.3% of the total borrowings, including off-book portfolio, as on June 30, 2025), debentures (17.6%), term loans from financial institutions (FIs; 2.5%) and others (0.9%). It also continues to raise funds through securitisation/direct assignments (30.7% of the total borrowings as on June 30, 2025). As on June 30, 2025, the company had borrowing relationships with over 64 FIs.

Rating sensitivities

Positive factors – The rating could be upgraded on a sustained improvement in the profitability (RoMA of more than 3.0%) and competitive position through a healthy growth in the scale, while maintaining comfortable asset quality and capitalisation.

Negative factors – Pressure on the rating could emerge on a significant deterioration in the asset quality and/or the capitalisation profile (managed gearing increasing beyond 4x on a sustained basis) or weakening in the liquidity and earnings profile.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for non-banking finance companies
Parent/Group support	-
Consolidation/Standalone	Standalone

About the company

Incorporated in 1994, Jaipur-based SKFL is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). The company is backed by Mr. Rajendra Setia and his family members (promoter group), holding a 31.1% stake (fully-diluted basis), and is also supported by multiple private equity investors holding a 49.8% stake as on June 30, 2025. It primarily finances used light commercial vehicles, multi-utility vehicles, cars, tractors and two-wheelers. It also provides small and medium enterprise (SME) loans. SKFL had a network of 656 branches, as on June 30, 2025, across 12 states/UTs, namely Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Punjab, Haryana, Chhattisgarh, Delhi, Himachal Pradesh, Uttarakhand, Karnataka and Uttar Pradesh, though concentration in Rajasthan remains high at 47% of the portfolio. As on June 30, 2025, its AUM stood at Rs. 13,900 crore² with commercial vehicles forming the largest share at 38.53%, followed by MSME loans (24.68%), cars (21.41%), tractors (11.54%) and two-wheelers (3.84%).

The company reported a profit after tax (PAT) of Rs. 380 crore in FY2025 on total managed assets of Rs. 17,182 crore as on March 31, 2025 compared to PAT of Rs. 312 crore in FY2024 on total managed assets of Rs. 13,389 crore as on March 31, 2024. The net worth stood at Rs. 3,502 crore with a managed gearing of 3.8x as on March 31, 2025 compared to Rs. 3,109 crore and 3.2x, respectively, as on March 31, 2024. The gross and net NPAs stood at 4.8% and 3.4%, respectively, as on March 31, 2025 compared to 3.5% and 2.5%, respectively, as on March 31, 2024.

SKFL reported a PAT of Rs. 88 crore in Q1 FY2026 on total managed assets of Rs. 17,720 crore as on June 30, 2025. Its net worth stood at Rs. 3,593 crore with a managed gearing of 3.8x as on June 30, 2025. The gross and net NPAs stood at 3.2% and 2.1%, respectively, as on June 30, 2025.

Key financial indicators

SKFL	FY2024	FY2025	Q1 FY2026
	Audited	Audited	Provisional
Total income	1,798	2,384	650
Profit after tax	312	380	88
Total managed assets	13,389	17,182	17,720
Return on average managed assets	2.7%	2.5%	2.0%
Managed gearing (times)	3.2	3.8	3.8
Gross stage 3	2.2%	2.6%	1.7%
Gross NPA (as per new IRAC norms)	3.5%	4.8%	3.2%
CRAR	33.9%	29.5%	30.9%

Source: SKFL, ICRA Research; Amount in Rs. crore; All figures and ratios as per ICRA's nomenclature/ definitions/ 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							
				FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Sep 18, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD	Long term	1,750.00	[ICRA]AA-(Stable)	Apr 08, 2025	[ICRA]AA-(Stable)	Apr 12, 2024	[ICRA]AA-(Stable)	Sep 21, 2023	[ICRA]AA-(Stable)	Mar 06, 2023	[ICRA]A+ (Positive)
				-	-	Apr 12, 2024	[ICRA]AA-(Stable)	Sep 21, 2023	PP-MLD [ICRA]AA-(Stable)	Mar 06, 2023	PP-MLD [ICRA]A+ (Positive)
				-	-	Aug 08, 2024	[ICRA]AA-(Stable)	Mar 18, 2024	[ICRA]AA-(Stable)	Mar 21, 2023	[ICRA]A+ (Positive)
				-	-	Aug 08, 2024	[ICRA]AA-(Stable)	Mar 18, 2024	[ICRA]AA-(Stable)	Mar 21, 2023	PP-MLD [ICRA]A+ (Positive)
				-	-	Dec 23, 2024	[ICRA]AA-(Stable)	Mar 18, 2024	PP-MLD [ICRA]AA-(Stable); withdrawn	-	-
				-	-	Dec 23, 2024	[ICRA]AA-(Stable)	-	-	-	-
				-	-	Jan 08, 2025	[ICRA]AA-(Stable)	-	-	-	-
				-	-	Jan 08, 2025	[ICRA]AA-(Stable)	-	-	-	-
NCD	Long term	250.00	[ICRA]AA-(Stable)	-	-	-	-	-	-	-	-
Fund Based-Term Loan	Long Term			-	-	-	-	-	-	Mar 06, 2023	[ICRA]A+ (Positive)
				-	-	-	-	-	-	Mar 21, 2023	[ICRA]A+ (Positive); withdrawn

Source: ICRA Research

Complexity level of the rated instruments

Instrument	Complexity indicator
Non-convertible debentures	Very Simple (Simple for ISIN INE124N07697, INE124N07713)*
Non-convertible debentures (yet to be placed)	Very Simple

* Complexity indicator is Simple for ISINs INE124N07697 and INE124N07713 because of the put option on these NCDs

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
INE124N07689	NCD	Apr-02-2024	9.25%	Apr-02-2026	280.0	[ICRA]AA- (Stable)
INE124N07705	NCD	Jun-03-2024	9.25%	Jun-03-2026	50.0	[ICRA]AA- (Stable)
INE124N07721	NCD	Aug-14-2024	9.25%	Aug-14-2026	220.0	[ICRA]AA- (Stable)
INE124N07697	NCD	May-09-2024	9.25%	May-09-2027	350.0	[ICRA]AA- (Stable)
INE124N07697 (reissue)	NCD	Aug-23-2024	9.25%	May-09-2027	25.0	[ICRA]AA- (Stable)
INE124N07713	NCD	Jun-19-2024	9.25%	Sep-19-2027	100.0	[ICRA]AA- (Stable)
INE124N07747	NCD	Jan-02-2025	9.25%	Jan-02-2028	125.0	[ICRA]AA- (Stable)
INE124N07754	NCD	Jan-15-2025	9.25%	Jul-15-2027	200.0	[ICRA]AA- (Stable)
INE124N07754 (reissue)	NCD	Apr-17-2025	9.25%	Jul-15-2027	100.0	[ICRA]AA- (Stable)
INE124N07762	NCD	Apr-24-2025	9.25%	Oct-24-2027	300.0	[ICRA]AA- (Stable)
NA	NCD*	NA	NA	NA	250.0	[ICRA]AA- (Stable)

Source: SKFL, ICRA Research; * Yet to be placed; ^ As on September 15, 2025

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Sandeep Sharma
+91 22 6114 3419
sandeep.sharma@icraindia.com

Rajat Kher
+91 124 4545 833
rajat.kher@icraindia.com

Atharva Pednekar
+91 22 6114 3438
atharva.pednekar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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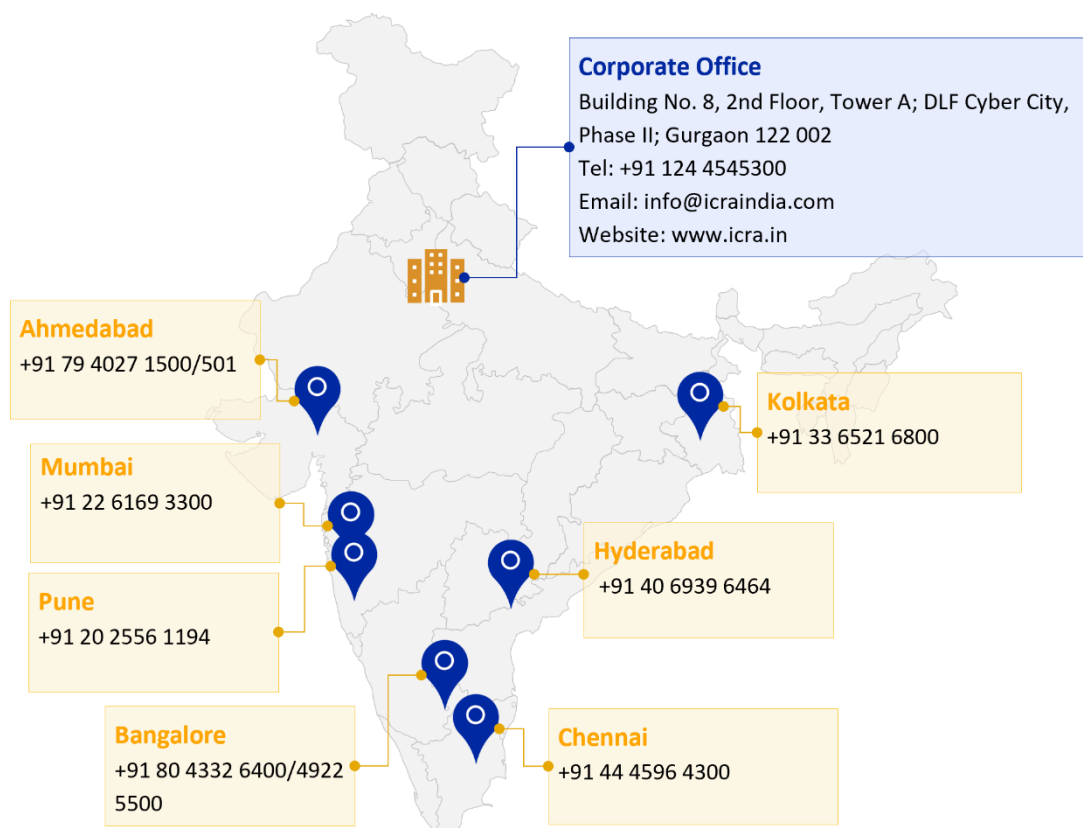


Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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