June 16, 2026

Pahal Financial Services Pvt. Ltd.: Rating downgraded and put on Rating Watch with Developing Implications; rating withdrawn for matured instruments

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Non-convertible debentures	32.40	32.40	[ICRA]BB+ Rating placed on watch with developing implications; rating downgraded from [ICRA]BBB- (Negative) and put on rating watch with developing implications
Long term term loan – Fund based	50.00	0.00	[ICRA]BB+ Rating placed on watch with developing implications; rating downgraded from [ICRA]BBB- (Negative) and put on rating watch with developing implications and withdrawn
Total	**82.40**	**32.40**	

**Instrument details are provided in Annexure II*

Rationale

The rating action factors in the continued deterioration in Pahal Financial Services Pvt. Ltd.'s (PFSPL) asset quality and profitability in FY2026, negatively impacting its capitalisation profile and financial flexibility. The company reported a net loss of ~Rs. 89 crore in FY2026, which led to net worth erosion with the same standing at ~Rs. 329 crore as of March 2026 compared to ~Rs. 404 crore as of March 2025. This, along with the acquisition of the business correspondent portfolio of ~Rs. 700 crore in FY2026, led to an increase in its managed gearing to 7.0 times as of March 2026 (4.3 times as of March 2025). While ICRA takes note of the company's plan to infuse ~Rs. 200 crore in the current fiscal, its credit risk profile is expected to remain under pressure in the interim. This is due to its elevated operating cost structure and leverage, and its modest provisions on overdues and security receipts (SRs).

Given the deterioration in the asset quality, the company's total stressed assets [gross non-performing assets (NPAs) and SRs] increased to ~19% (~17% net of provisions) as on March 31, 2026 from ~8% as on March 31, 2025. Its solvency has weakened with net stressed assets equivalent to ~60% of its net worth as on March 31, 2026 vis-à-vis ~16% as on March 31, 2025. Given the unsecured nature of the portfolio, maintaining adequate capital buffers and securing commensurate funding remains critical for PFSPL to improve its liquidity profile, which has been impacted by its weak performance and the consequent breach of covenants from lenders. The rating continues to factor in the inherent risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

The company is planning to enter into a strategic agreement and/or pursue an acquisition to expand its product offerings and diversify its portfolio. It is at an advanced stage of discussion/due diligence in this regard with some players. Accordingly, the rating has been placed on Watch with Developing Implications. ICRA will closely track the progress of these initiatives and take an appropriate rating action once there is greater clarity on the proposed developments.

ICRA has downgraded and simultaneously withdrawn the rating for the Rs. 50.00-crore fund-based term loan programme as the instruments have matured/been redeemed by the company with no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established track record in microfinance business – Since commencing operations in 2011 under microfinance lending, PFSPL has a track record of over a decade in the sector. As on March 31, 2026, the company was operating through a network of 550 branches spreads across 252 districts in 17 states/Union Territories (UTs) while managing a portfolio of Rs. 2,056 crore (Rs. 1,773 crore as on March 31, 2025). PFSPL's existing investors include Base of Pyramid Asia (BoPA) Pte. Ltd., Dia Vikas Capital Private Limited, GAWA Capital Pte. Ltd and Proparco. In FY2026, the company had acquired Sub-K Impact Solutions Ltd's (Sub-K) business correspondent portfolio of ~Rs. 700 crore, which helped improve the scale and geographical diversification of operations. Consequently, the share of the top 3 states improved to 52% of the assets under management (AUM) as on March 31, 2026 from 67% as on March 31, 2025, with Gujarat having the highest share at 23% (32% as on March 31, 2025).

Credit challenges

Continued deterioration in asset quality and profitability – The company's asset quality continued to deteriorate, resulting in a net loss of Rs. 89 crore in FY2026 vis-à-vis a modest profit of Rs. 6 crore in FY2025. While the reported gross NPAs stood at 2.3% as of March 2026 (6.4% as on March 31, 2025), it was supported by the sale of stressed loans, amounting to ~Rs. 331[1] crore (~35% of on-book portfolio as of March 2026), to an asset reconstruction company (ARC). Against this, PFSPL held gross SRs amounting to ~Rs. 190 crore as on March 31, 2026. The total stressed assets (gross NPAs and SRs) increased to ~19% as on March 31, 2026 from ~8% as on March 31, 2025, with limited provisions on the same.

Given the stress in the asset quality, the company's credit costs rose to 4.7% of average managed assets (AMA) in FY2026 from 3.3% in FY2025. High credit costs and the elevated operating cost structure, compounded by the decline in its own portfolio and the acquisition of Sub-k's operations, adversely impacted the earnings profile, resulting in a net loss of ~Rs. 89 crore in FY2026 (return on managed assets (RoMA) of -3.6%) vis-à-vis a net profit of ~Rs. 6 crore in FY2025 (RoMA of 0.3%). ICRA expects the profitability to remain under pressure in the near term, characterised by high operating expenses and credit costs.

Weak solvency and financial flexibility – PFSPL's capital buffers weakened in FY2026 due to the loss incurred during the year. The managed gearing rose to 7.0 times as on March 31, 2026 (On-book gearing at 3.5 times as on March 31, 2026). The company's capital adequacy ratio declined to 22.3% (Tier I: 18.8%) as on March 31, 2026 from 29.9% (Tier I: 26.5%) as on March 31, 2025. Given the continued deterioration in the asset quality, the solvency profile has deteriorated with a large pool of stressed assets and limited provisioning, which could also make it difficult to maintain the required asset cover for its secured borrowings. PFSPL plans to raise Rs. 50-75 crore by Q2 FY2027, followed by a further infusion of ~Rs. 150 crore by Q3 FY2027. In ICRA's view, the timely infusion of equity will be essential for strengthening PFSPL's capitalisation, which will be key for augmenting its financial flexibility.

Political, communal and other risks in microfinance sector, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact its operations. PFSPL's ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations would be key for managing high growth rates while maintaining its credit profile.

[1] ~Rs. 391 crore, including written-off portfolio

Liquidity position: Stretched

As on March 31, 2026, the company held a free cash and bank balance of ~Rs. 167 crore. As per the asset-liability management statement as on March 31, 2026, it had scheduled debt repayments of ~Rs. 217 crore and ~Rs. 310 crore, respectively, over the next three months and six months versus expected principal collections of ~Rs. 154 crore and ~Rs. 287 crore, respectively, during these periods. However, the current collection efficiency was ~90% in FY2026. The company's inability to improve its collection efficiency would impact its liquidity profile.

Further, ICRA notes that PFSPL faces prepayment risk, given the breach of covenants, including financial, operating and rating-linked covenants with various lenders. As per the data available with ICRA, the company was in breach of covenants pertaining to non-convertible debenture facilities amounting to more than Rs. 200 crore (above 17% of overall borrowings) as on March 31, 2026. ICRA notes that PFSPL has sought waivers from the lenders and is yet to receive the same.

Rating sensitivities

Positive factors – A significant improvement in the asset quality, profitability and capitalisation could positively impact the rating.

Negative factors – Inability to improve the capital buffers and liquidity shall negatively impact the rating. Continued deterioration in the asset quality and profitability can also exert pressure on the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs) ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

PFSPL is an Ahmedabad-based non-banking financial company-microfinance institution (NBFC-MFI) registered with the Reserve Bank of India. It commenced operations in March 2011 by acquiring the existing operations of Lok Vikas Nidhi, a trust operational in Gujarat for over 25 years. The current promoters acquired the portfolio of Rs. 2.6 crore spread over 15 branches, along with the field staff of Lok Vikas, and subsequently transferred the acquired portfolio to an NBFC along with an equity contribution of Rs. 2 crore. The NBFC was renamed Pahal Financial Services Pvt. Ltd.

PFSPL lends to poor women primarily in the rural and semi-urban areas of Gujarat, Rajasthan, Madhya Pradesh, Bihar, Uttar Pradesh, Chhattisgarh, Haryana, Maharashtra, Tamil Nadu, Puducherry and Telangana. It reported a net loss of Rs. 89 crore in FY2026 with AUM of ~Rs. 2,056 crore as on March 31, 2026 compared to a net profit of Rs. 6 crore in FY2025 with AUM of Rs. 1,773 crore as on March 31, 2025.

Key financial indicators

PFSPL	FY2024	FY2025	FY2026
	Audited	Audited	Audited
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Total income	461	486	389
Profit after tax	39	6	-89
Total managed assets	2,402	2,294	2,728
Return on average managed assets	1.9%	0.3%	-3.6%

PFSPL	FY2024	FY2025	FY2026
	Audited	Audited	Audited
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Managed gearing (times)	7.7	4.3	7.0
Gross NPA (on-book)	2.2%	6.4%	2.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Managed gearing = (On-book debt + Off-book portfolio)/Net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Current (FY2027)			Chronology of rating history for the past 3 years					
	FY2027			FY2026		FY2025		FY2024	
Instrument	**Type**	**Amount rated (Rs. crore)**	**June 16, 2026**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term term loan – Fund based	Long term	0.0	[ICRA]BB+ rating watch developing implications; withdrawn	Jul-24-25	[ICRA]BBB- (Negative)	Dec-17-24	[ICRA]BBB- (Negative)	Mar-8-24	[ICRA]BBB- (Stable)
				Oct-24-25	[ICRA]BBB- (Negative)				
NCD	Long term	8.4	[ICRA]BB+ rating watch developing implications	Jul-24-25	[ICRA]BBB- (Negative)	Dec-17-24	[ICRA]BBB- (Negative)	-	-
				Oct-24-25	[ICRA]BBB- (Negative)				
NCD	Long term	24.0	[ICRA]BB+ rating watch developing implications	Jul-24-25	[ICRA]BBB- (Negative)	-	-	-	-
		-	-	Oct-24-25	[ICRA]BBB- (Negative)	-	-	Mar-28-24	[ICRA]BBB- (Stable)
NCD	Long term	-	-	Jul-24-25	[ICRA]BBB- (Negative); withdrawn	Dec-17-24	[ICRA]BBB- (Negative)	Mar-8-24	[ICRA]BBB- (Stable)
		-	-	-	-	Dec-17-24	[ICRA]BBB- (Negative); withdrawn	Mar-8-24	[ICRA]BBB- (Stable); withdrawn
		-	-			-	-	Mar-28-24	[ICRA]BBB- (Stable)

Source: Company

Annexure I: Disclosure pursuant to the SEBI Circular SEBI/HO/DDHS/DDHS-PoD-2/I/4685/2026 dated February 10, 2026

ICRA rated Instruments fall under regulatory purview of various Financial Sector Regulators (FSR) as under:

Sr. No.	Instrument	FSR
1	Listed/Proposed to be listed Bonds/Debentures/Preference Shares (all securities)	SEBI
2	Unlisted/Proposed to be unlisted Bonds/Debentures/ Preference share (all securities)	MCA
3	Listed PTCs / Securitisation Notes (originated by entities regulated by RBI) (*)	SEBI
4	Listed PTCs / Securitisation Notes (originated by entities not regulated by RBI) (*)	SEBI
5	Unlisted PTCs / Securitisation Notes (originated by entities regulated by RBI) (*)	RBI
6	Listed Commercial Paper and NCDs with original maturity less than 1 year	RBI
7	Unlisted Commercial Paper and NCDs with original maturity less than 1 year	RBI
8	Loan Facilities (Fund/Non-Fund Based) from Bank / NBFCs/ NHB/ FIs ($)	RBI
9	External Commercial Borrowings/Loans from overseas branches of Indian Banks/other similar borrowings	RBI
10	Certificates of Deposit	RBI
11	Fixed Deposits raised by NBFCs, Banks, HFCs, FIs	RBI
12	Fixed Deposits raised by corporates other than NBFCs, Banks, HFCs, FIs	MCA
13	Inter Corporate Deposits/Loans extended by Corporates	MCA
14	Listed Security Receipts	SEBI
15	Unlisted Security Receipts	RBI
16	Unlisted PTCs / Securitisation Notes (originated by entities not regulated by RBI) (*)	Investor-side Regulator such as IRDAI, PFRDA (%)

(*) Includes securitisation transactions involving assignee payout, acquirer's payout.

($) Includes bank facilities such as liquidity facility, second loss facility that are part of securitisation transactions.

(%) These ratings were assigned prior to the introduction of SEBI CRA Circular dated Feb 10, 2026 and accordingly, investor side FSRs have been mentioned.

Other Activities offered by ICRA fall under regulatory purview of various Financial Sector Regulators (FSR) as under:

Sr. No.	Activity Name	FSR
1	Credit Ratings for Capital Protection Oriented Schemes (by Mutal Funds and AIFs)	SEBI
2	Credit quality ratings (CQRs) for Mutual Fund Schemes and Schemes of AIFs	SEBI
3	Independent Credit Evaluation (ICE)	RBI
4	Expected Loss Ratings (For Loan Facilities [Fund/Non-Fund based] from Banks/NBFCs/NHB/FIs)	RBI
5	Expected Loss Ratings (Listed / Proposed to be listed Bonds / Debentures / Preference Shares (all securities))	SEBI
6	Expected Loss Ratings (Unlisted / Proposed to be unlisted Bonds/ Debentures / Preference Shares (all securities))	MCA
7	Credit Rating of Borrowing programme	(@)
8	Issuer Ratings	(#)
9	Monitoring Agency	SEBI
10	Research activities, incidental to rating such as research for Economy & Industries (permitted by SEBI vide SEBI Master Circular for CRAs)	NA

(@) The rated instrument may involve issuance of different instruments such as debt securities (listed or otherwise), bank loans, commercial paper (listed or otherwise), etc. The regulator of the instrument can only be determined upon issuance. Accordingly, ICRA shall capture the rated quantum details along with names of respective FSR in the press release(s) after the issuance(s) of the instruments.

(#) Since no instrument is being rated, FSR is not applicable. The rating scale and definitions stipulated in SEBI Master Circular for CRAs are being followed.

Disclosure: SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI.

Complexity level of the rated instrument

Instrument	Complexity indicator
Non-convertible debentures	Simple
Bank facilities	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 II: Instrument details

ISIN	Name of instrument	Date of issuance	Coupon rate	Maturity date	Rated amount (Rs. crore)	Current rating and outlook
INE514Q07387	**NCD**	August 2025	12.25%	August 2028	29.00	[ICRA]BB+ rating watch developing implications
Yet to be issued	**NCD**	-	-	-	3.40	[ICRA]BB+ rating watch developing implications
NA	**Bank lines**	March 2023	MCLR + 2.85%	March 2026	50.00	[ICRA]BB+ rating watch developing implications; withdrawn

Source: Company

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

Annexure III: 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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