

July 07, 2025

Arthan Finance Private Limited: [ICRA]BB+ (Stable) assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long-term fund-based bank facilities	40.00	[ICRA]BB+ (Stable); assigned
Total	40.00	

*Instrument details are provided in Annexure I

Rationale

The assigned rating takes into consideration Arthan Finance Private Limited's (AFPL) adequate capitalisation profile for its present scale of operations, with a net worth of Rs. 60 crore and a managed gearing of 3.2 times as on March 31, 2025. AFPL has raised ~Rs. 82-crore equity capital since inception, with the latest equity infusion of Rs. 40 crore in H1 FY2025. Nonetheless, it would need to raise capital in the near to medium term, given its robust growth plans and subdued internal accruals.

The rating is constrained by AFPL's modest scale and limited track record of operations and subdued profitability indicators. Given the early stage of operations, significant investment has been made towards building the branch infrastructure, systems and teams, leading to high operating expenses. Achieving operating efficiency will remain critical for a material improvement in the earnings profile. The asset quality is expected to remain volatile due to the target borrower profile, given the limited buffers available to withstand economic shocks. AFPL's ability to grow the scale of operations while improving the profitability and maintaining the asset quality would be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – The capitalisation profile is adequate for the current scale of operations. The company had a net worth of Rs. 60 crore, a reported capital adequacy ratio of 28.1% and a managed gearing of 3.2 times as on March 31, 2025. AFPL has raised ~Rs. 82-crore equity capital since inception, with the latest equity infusion of Rs. 40 crore in H1 FY2025. Nonetheless, it would need to raise capital in the near to medium term to expand as per business plans, given its robust growth target and subdued internal accruals. In this regard, ICRA expects the company's managed gearing to remain at 4-5 times on a steady-state basis.

Credit challenges

Modest scale of operations; higher operating expenses and credit costs leading to muted earnings profile – AFPL primarily operates in the secured micro, small and medium enterprise (MSME) segment, focussing on loan against property (LAP), predominantly backed by self-occupied residential properties (SORP) across tier 3/4/5 towns in four states through 40 branches. Although improving, the scale of operations is modest with assets under management (AUM) of Rs. 196 crore as on March 31, 2025 compared with Rs. 125 crore on March 31, 2024. Given the low base, the portfolio is geographically concentrated with Andhra Pradesh accounting for 61% of the AUM as on March 31, 2025.

AFPL reported a net loss of Rs. 6.8 crore in FY2025. Given the early stage of operations, significant investment has been made towards building the branch infrastructure, systems and teams, leading to high operating expenses. Achieving operating

efficiency will remain critical for a sustained improvement in the earnings as the business scales up and shall be key from a rating perspective, going forward.

Portfolio vulnerability likely to keep asset quality volatile; limited seasoning of portfolio – AFPL’s portfolio is granular with an average ticket size of Rs. 4.5 lakh (secured) and it is largely secured (97% of AUM as on March 31, 2025), predominantly backed by SORP. Nonetheless, the asset quality is expected to remain volatile due to the target borrower profile (including businesses like kirana stores, pharmacies, hardware shops, service profiles, small manufacturers, food processors, retail/wholesale traders, agri traders, etc), given the limited buffers available to withstand economic shocks.

AFPL’s asset quality indicators are characterised by gross non-performing advances (GNPAs) of 3.8%¹ as on March 31, 2025, which improved from 5.5%² on March 31, 2024, supported by write-offs during the year. Disbursements in FY2025 accounted for majority of the outstanding AUM as on March 31, 2025, reflecting limited portfolio seasoning. Going forward, the company’s ability to keep fresh slippages under control will remain a key monitorable, especially given its high growth plans.

Liquidity position: Adequate

AFPL’s liquidity position is adequate with positive cumulative mismatches across all buckets, as per the asset-liability maturity (ALM) profile as on March 31, 2025. For the 12-month period ending March 31, 2026, the company has debt obligations of Rs. 64.9 crore against inflows from advances of Rs. 35.1 crore. Further, the liquidity position is supported by the unencumbered cash and bank balance of Rs. 38.5 crore as on March 31, 2025. It is additionally strengthened by unutilised limits of Rs. 15 crore as on March 31, 2025.

Rating sensitivities

Positive factors – The rating could be upgraded on a significant increase in the scale with an improvement in the profitability indicators while keeping the asset quality indicators under control.

Negative factors – Pressure on the rating could emerge on a significant increase in the leverage and/or a sustained deterioration in the asset quality, leading to weakening in the earnings profile. A deterioration in the liquidity profile shall also impact the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA’s Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Arthan Finance Private Limited (AFPL) was incorporated on December 11, 2018. It was founded as a non-deposit taking non-banking financial company (NBFC) by ex-RBL Bank employees with expertise in sales in the retail segment, MSME lending, business correspondent (BC) partnerships, credit and strategy. AFPL operates in the secured MSME segment across India’s tier 3/4/5 towns in four states through 40 branches as on March 31, 2025. It primarily provides loan against property, predominantly backed by SORP, to businesses like kirana stores, pharmacies, hardware shops, service profiles, small manufacturers, food processors, retail/wholesale traders, agri traders, etc.

¹ GNPA as a percentage of AUM stood at 3.06% as on March 31, 2025

² GNPA as a percentage of AUM stood at 4.43% as on March 31, 2024

Key financial indicators

Arthan Finance	FY2024	FY2025
	Actual	Actual
Total income	33.3	40.1
Profit after tax	-3.3	-6.8
Total managed assets	162.7	262.0
Return on managed assets	-11.0%	-15.3%
Gearing (managed; times)	4.5	3.2
GNPA/Gross stage 3*	5.5%	3.8%
CRAR	16.4%	28.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * GNPA as a percentage of AUM stood at 3.06% and 4.43% as on March 31, 2025 and March 31, 2024 respectively.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2026)				Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	July 07, 2025	FY2026		FY2025		FY2024		FY2023		
				Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Long-term fund-based bank facilities	Long term	40.00	[ICRA]BB+ (Stable)	-	-	-	-	-	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based bank facilities	Very 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	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Long-term fund-based bank facilities	NA	NA	NA	26.08	[ICRA]BB+ (Stable)
NA	Long-term fund-based bank facilities [^]	NA	NA	NA	13.92	[ICRA]BB+ (Stable)

Source: Company; [^]Unutilised/yet to be placed

[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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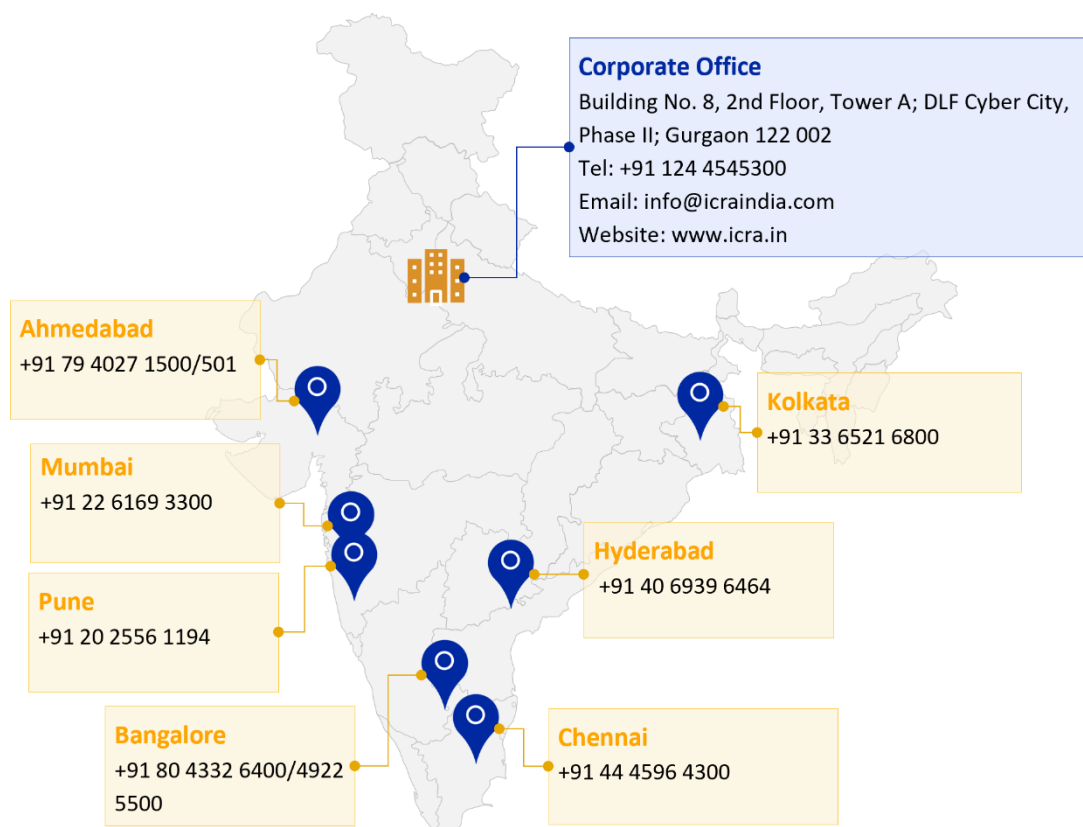
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