Belstar Microfinance Limited (Revised)

August 01, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Subordinate debt - II	85.00	CARE AA-; Stable	Reaffirmed
Non-convertible debentures - III	24.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to debt instruments of Belstar Microfinance Limited (BML) continue to derive strength from its strong parentage of Muthoot Finance Limited (MFL) and strategic advantages of being part of the Muthoot group. BML's long-standing presence in the microfinance sector and its adequate capitalisation also support ratings.

However, ratings are constrained by geographical concentration of the loan portfolio despite continuous efforts to improve the same. The company's funding sources remain moderately diversified, and it faces regulatory and political risks inherent to the microfinance (MFI) industry.

CARE Ratings Limited (CareEdge Ratings) takes note of the broader stress in the microfinance industry, which is experiencing a significant rise in delinquencies. This is largely attributed to increasing borrower indebtedness and external contributing factors such as heatwaves, general elections, and political developments, all of which have adversely impacted disbursements, asset quality and profitability across the sector.

Ratings take note of moderation in scale of operations of BML with assets under management (AUM) declining by 20% to ₹7,969 crore as of March 31, 2025, from ₹10,023 crore as of March 31, 2024, due to subdued disbursements. Asset quality has also weakened in line with trend in MFI sector. The company's gross non-performing assets (GNPA) and net NPA (NNPA) stood at 4.98% and 0.43% respectively as on March 31, 2025, against 1.82% and 0.17% respectively as on March 31, 2024. Despite this, BML maintains a strong provision coverage ratio (PCR) of 91% resulting in NNPA of less than 1%.

Due to higher delinquencies, credit cost remains elevated, and high operating expenses have collectively impacted profitability in FY25. BML reported profit after tax (PAT) of ₹46 crore in FY25 and Return on average total assets (ROTA) of 0.55% against PAT of ₹340 crore and ROTA of 4.38% in FY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Increase in the scale of operations along with geographical diversification, with no single state contributing to more than 15% of the portfolio.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Decline in the asset quality parameters and profitability.
- Decline in the capital adequacy levels, with the total capital adequacy ratio (CAR) falling below 16% on a sustained basis.
- Deterioration in the credit profile of the parent or significant moderation in the shareholding of the parent

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Analytical approach: Standalone; factoring in the linkages with the parent, Muthoot Finance Limited (MFL). BFL derives benefits in the form of operational, managerial and financial support from the parent, MFL.

Outlook: Stable

The 'stable' outlook reflects the likely continuation of a stable credit profile with adequate capitalisation levels with continued support from parent, MFL

Detailed description of key rating drivers:

Strong promoter group and benefits derived from being part of Muthoot group
BML is a subsidiary of Muthoot Finance Limited (MFL), the flagship company of the Muthoot Group. BML benefits from both managerial and financial support from the group, which has a long-standing track record in successfully operating non-banking financial companies (NBFCs). MFL, with nearly seven decades of experience, is India's largest gold loan NBFC, with a portfolio of ₹1,08,681 crore as on March 31, 2025. The 'Muthoot' brand enjoys strong recognition and trust among customers, which has facilitated BML's expansion into new geographies where MFL already has a presence.

In addition to equity and operational support, the group also extends funding assistance to BML in the form of debt, as required. As part of its diversification strategy, the Muthoot Group has ventured into microfinance through the acquisition of BML and into housing finance through Muthoot Home Fin (India) Ltd, (rated 'CARE AA+; Stable / CARE A1+'). As on March 31, 2025, MFL held a 66.13% equity stake in BML.

CareEdge Ratings expects BML to continue benefiting from its association with the Muthoot Group, particularly in terms of strategic, operational, and financial support.

Long track record of operations
BML has a well-established track record in microfinance lending, having commenced operations in April 2009 in the Haveri district of Karnataka. Since then, the company has steadily expanded its footprint across multiple states. In FY17, MFL acquired BML through a combination of share acquisition from existing investors and fresh equity infusion, making BML a subsidiary of MFL. As of March 31, 2025, BML operates across 21 states through 1281 branches.

The company is led by Dr. Kalpana Sankar, the Founder and Managing Director of BML, who brings over two decades of experience in microfinance, particularly in Tamil Nadu, and has served as a consultant on various United Nations (UN) projects. The company's Board of Directors comprises 11 members with extensive experience in non-banking finance companies (NBFCs), rural banking, and operations. This includes five independent directors, three representatives from the Muthoot Group, one representative from Dr. Kalpana Sankar's group, and one each from Affirma Capital and Maj Invest.

BML's operations are professionally managed under the leadership of Dr. Kalpana Sankar with day-to-day operations overseen by a team of seasoned professionals. Each vertical is headed by experienced personnel possessing deep expertise in the NBFC and MFI sectors.

Adequate capitalisation levels aided by periodic equity infusion and parent support
BML has consistently secured equity funding from private equity investors and its parent company, MFL. In FY24, the company raised ₹300 crore through a rights issue from MFL. As of March 31, 2025, the Capital Adequacy Ratio (CAR) and Tier-1 CAR improved to 24.97% and 22.40%, respectively, from 20.64% and 17.78% as on March 31, 2024. This improvement was primarily driven by a reduction in the loan portfolio, reflecting subdued disbursements due to stress in the MFI sector.

Gearing improved to 3.43x as on March 31, 2025, from 4.36x in the previous year. Given the company's planned growth trajectory, gearing is expected to remain at moderate levels over the medium term. CareEdge Ratings expects MFL to continue supporting BML with capital (either in the form of equity or debt) as and when required to sustain capitalisation levels and facilitate business growth. The current capitalisation is considered adequate to support BML's medium-term growth plans, with gearing expected to remain below 5x.

Moderate scale of operations

The company's AUM declined by 20% in FY25, from ₹10,021 crore as on March 31, 2024, to ₹7,969 crore as on March 31, 2025. This contraction was primarily due to subdued disbursements, impacted by stress in the microfinance (MFI) sector. Disbursements fell to ₹6,016 crore in FY25, compared to ₹9,709 crore in FY24.

The company significantly expanded its operational footprint in FY25, increasing its presence from 1,014 branches across 278 districts in 19 states as on March 31, 2024, to 1,281 branches across 291 districts in 21 states as on March 31, 2025.

CareEdge Ratings also notes that BML commenced its gold loan business in April 2025, opening 13 dedicated branches for this segment. The gold loan portfolio is expected to grow steadily in FY26.
Going forward, the company's ability to scale operations while maintaining stable asset quality remains a key rating monitorable.

Key weaknesses

Moderate asset quality

In FY25, BML experienced a deterioration in asset quality, primarily due to sector-wide challenges that impacted overall performance metrics. As on March 31, 2025, the company reported GNPA and NNPA of 4.98% and 0.43%, respectively, compared to 1.82% and 0.17% as on March 31, 2024. Delinquency levels also rose, with 0+ Days past due (DPD) and 90+ DPD at 11.60% and 7.15%, respectively, as on March 31, 2025, against 4.50% and 2.60% in the previous year. The company's average collection efficiency remained at 91.80% in FY25 with x bucket collection efficiency improving to 99.2% in March 2025. During the year, BML wrote off loans of ₹584 crore and sold stressed assets worth ₹259 crore to Asset Reconstruction Companies (ARCs), at a 71% haircut. Nevertheless, the company maintained adequate provisioning, with the Provision Coverage Ratio (PCR) at 91% as on March 31, 2025. The company's ability to improve its asset quality profile remains a key rating monitorable.

Moderation in profitability in FY25

BML's profitability moderated in FY25, primarily due to elevated credit costs and increased operating expenses. The company reported a Profit After Tax (PAT) of ₹46 crore in FY25, a significant decline from ₹370 crore in FY24. While Net Interest Margin (NIM) remained stable , supported by higher yields from the legacy portfolio, operating expenses rose due to branch expansion and intensified collection efforts aimed at improving recoveries. Operating expenses stood at 6.6% of total average assets in FY25, compared to 6.0% in FY24. Despite the increase in operating costs, the company recorded an improvement in Pre-Provision Operating Profit (PPOP), which rose to ₹870 crore in FY25 from ₹762 crore in FY24 due to higher yields. However, higher delinquencies, write-offs, and provisioning requirements led to a sharp increase in credit costs to 9.8% in FY25, up from 4.1% in FY24. Consequently, ROTA declined to 0.55% in FY25 from 4.38% in the previous year. Credit cost is expected to remain moderate in FY26. The company's ability to enhance operating efficiency while reducing credit costs remains a key rating monitorable.

Geographically concentrated loan portfolio

As of March 31, 2025, BML had expanded its footprint to 21 states and Union Territories, having entered Telangana in FY25. The company established 267 new branches across various states in the year. Consequently, its presence extended to 291 districts through 1,281 branches, compared to 278 districts across 19 states with 1,014 branches as of March 31, 2024.

Despite this expansion, the company's loan portfolio remains geographically concentrated. Tamil Nadu, BML's home state, continues to be the most concentrated region, accounting for 43% of the AUM as of March 31, 2025, down from 47% in the previous year, while the company has gradually increased its presence in West Bengal. Collectively, top three states—Tamil Nadu, Karnataka, and West Bengal—represented 61% of the AUM as of March 31, 2025, compared to 62% in the previous year.

Moderately diversified resource profile

As on March 31, 2025, bank borrowings constituted 82.87% of BML's total borrowings, up from 73.71% in the previous year. Borrowings from NBFCs and financial institutions stood at 11.75% as on March 31,2025, compared to 12.24% as on March 31, 2024. The share of non-convertible debentures (NCDs) and market-linked debentures (MLDs) remained at 0.96% as on March 31,2025, a significant decline from 10.19% in the previous year. Subordinated debt increased to 5.01% as on March 31, 2025, from 3.86% a year earlier.

BML also raised funds on a need basis from Muthoot Group companies. As on March 31, 2025, outstanding debt from the Muthoot Group stood at ₹43.95 crore, forming ~1% of the total borrowings. Additionally, the company actively participated in direct assignment (DA) transactions, primarily with public sector banks. DA outstanding stood at ₹784 crore as on March 31, 2025, compared to ₹1,462 crore as on March 31, 2024.

Liquidity: Adequate

The asset and liability management (ALM) remains adequate considering short-term products with a tenure of ~2-3 years. The funding profile is concentrated with long-term funds of similar tenor, resulting in an adequate liquidity profile. As on March 31, 2025, ALM remains comfortable, with no cumulative negative mismatches across time buckets up to one year. Unencumbered cash and bank balance stood at ₹527 crore as on March 31, 2025. The company's undrawn sanctions, undrawn working capital limits and the support from the Muthoot group adds comfort.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Microfinance institutions

BML was incorporated in January 1988 and registered with RBI as a non-deposit taking, nonbanking financial company (NBFC-ND) in March 2001. In September 2008, BML was acquired by Dr. Kalpana Sankar, her family and some colleagues to provide scalable microfinance loans to entrepreneurs. In 2017 BML was acquired by Muthoot Finance Limited with 53% stake. BML started its microfinance operations at Haveri district, Karnataka. Subsequently, it extended to other states and as on March 31, 2025, the company has presence in 19 states. BML provides loans towards agriculture, animal husbandry, education, and micro-enterprises in the urban and semi-urban districts under SHG/JLG-based lending model. As on March 31, 2025, BML was operating with 1,281 branches in 291 districts across 20 states and had AUM of ₹7,969 crore. As on March 31, 2025, 66.13% stake of BML was held by MFL, 13.94% by Arum Holdings Limited, 7.15% by Sarvam Financial Inclusion Trust, 8.74% stake held by Maj Invest Financial Inclusion Fund II K/S, and 4.02% by Augusta Investments Zero PTE limited.

Brief Financials (₹ crore)	31-03-2024	31-03-2024	31-03-2025
Standalone	A	A	A
Total income	1,038	1,851	2,125
PAT	130	340	46
Interest coverage (times)	1.46	1.75	1.07
Total assets	6,209	9,299	7,455
Net NPA (%)	0.66	0.17	0.43
ROTA (%)	2.43	4.38	0.55

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non-Convertible Debentures - III	INE443L08107	03-Dec-19	14.50	03-Dec-25	24.00	CARE AA-; Stable
Debt-Subordinate Debt - II	INE443L08115	30-Mar-20	14.50	15-May-26	15.00	CARE AA-; Stable
Debt-Subordinate Debt- II	INE443L08123	14-Sep-20	14.00	11-Sep-25	20.00	CARE AA-; Stable
Debt-Subordinate Debt- II	INE443L08131	30-Sep-20	14.50	30-Sep-27	50.00	CARE AA-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Debt-Subordinate Debt	LT	85.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Aug-24)	1)CARE AA-; Stable (08-Aug-23)	1)CARE AA-; Stable (10-Aug-22)
2	Debentures-Non-Convertible Debentures	LT	24.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Aug-24)	1)CARE AA-; Stable (08-Aug-23)	1)CARE AA-; Stable (10-Aug-22)
3	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (10-Aug-22)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Debt-Subordinate Debt	Complex

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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