India Ratings Upgrades Early Salary Services's NCDs to 'IND A-'/Positive

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India Ratings and Research (Ind-Ra) has upgraded EarlySalary Services Pvt. Ltd's (ESPL) non-convertible debentures (NCDs) to 'IND A-' from 'IND BBB+'. The Outlook is Positive. The detailed rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR2,000	IND A-/Positive	Upgraded

* Details in annexure
# Unutilised

Analytical Approach

Ind-Ra continues to take a fully consolidated view of ESPL and its 100% parent, Social Worth Technologies Private Limited (SWTPL), to arrive at the rating. The rating factors in the strong parent support for ESPL, common directors, in-house technology and marquee investors at SWTPL level, which Ind-Ra does not expect to change over the medium term.

Detailed Rationale of the Rating Action

The upgrade reflects an improvement in the franchise scale at the consolidated level in FY25. The asset under management (AUM) grew 30% yoy in FY25, despite headwinds in the unsecured retail loan segment. The disbursement growth, which had dropped to around 3% yoy in 2HFY25, rebounded to 15% yoy in 1QFY26, and the management expects it to accelerate in 2HFY26.

Moreover, ESPL has a diversified funding base with a competitive cost of borrowing. The incremental borrowing rate has declined to 11.7%. With the recent repo rate cut, the repricing of liabilities will further reduce costs. Additionally, the company has front-loaded its investments in technology infrastructure. As its grows in size and scale, it will benefit from economies of scale. The operating expenses (opex) to AUM ratio, which stood at 8% at end-1QFY26, is likely to gradually decline. The company's consolidated credit cost remained elevated at around 10.15% at end-1QFY26; however, the management expects to end FY26 with a significantly lower credit cost.

Ind-Ra expects these factors to improve the consolidated profitability. Return on average AUM (ROAUM) stood at 3.1% at end-1QFY26, and might increase to 4% with an improving in funding cost, opex to AUM, and credit cost. The agency also highlights the inherent risks associated with unsecured lending, as well as the regulatory uncertainties in the digital lending ecosystem, where policy frameworks are still evolving.

List of Key Rating Drivers

Strengths

- Substantial franchise growth
- Sustained improvement in profitability
- Adequately capitalised; demonstrated fundraising ability

Weaknesses

- Evolving funding profile
- Asset quality needs monitoring; Newer originations show better credit quality
- Regulatory risk

Detailed Description of Key Rating Drivers

Substantial Franchise Growth: SWTPL offers a digital platform facilitating unsecured personal loans (including Impact loans) for six to 24 months to salaried/self-employed employees, majorly from Tier 1-2 cities, majorly from Tier 1-2 cities. It has built an in-house technology platform for digital lending, resulting in a shorter turnaround time and enabling rapid business scalability. Moreover, the platform regularly upgrades its underwriting model, improving customer filtration and reducing credit costs.

The consolidated AUM stood at INR55 billion at end-June 2024 (FYE25: INR52 billion), of which 60% was through own-book while the rest was through platform partners.. Ind-Ra expects the growth momentum to continue over the medium term, with improved credit selection and loan portfolio expansion, despite high competition from other fintech companies. The agency believes with further fine-tuning of the model, there could be a tightening of credit cost.

Sustained Improvement in Profitability: SWTPL, on a consolidated basis, recorded a profit of INR391 million in 1QFY26, with a ROAUM of 3.1% (FY25: 2.5%). The improvement in profitability was driven by a rebound in the disbursement run-rate, leading to higher portfolio growth. The management expects profitability to improve in FY26 as well, with AUM of around INR80 billion. This is likely to enhance the operating leverage, further reducing the opex-to-AUM (1QFY25: 8%; FY25: 8.9%; FY24: 10.8%). Credit costs remained elevated in 1QFY26 (1QFY25: 10.15%; FY25: 10.9%; FY24: 8.2%), partly due to the lower loan growth in FY25 and realignment in strategies considering evolving macroeconomic / regulatory factors, the hurdle rate & service deficiency charges were realigned.. With the resumption of loan growth, tighter underwriting, and a gradual shift toward slightly higher ticket-size lending, the management expects credit costs to decline gradually to around 7% by end-FY26. These factors are likely to spur profitability in FY26. Ind-Ra expects profitability to improve further and be sustained with scale, provided SWTPL maintains control over credit costs.

Adequately Capitalised; Demonstrated Fundraising Ability: Over the years, ESPL's parent company, SWTPL, has completed multiple equity funding rounds from investors, including TPG through Rise Fund, Eight Roads, Norwest Venture Partners, Chiratae Ventures, and TR Capital, raising INR15.3 billion to date. The latest infusion, in the form of Series E funding, was concluded in May 2024. Furthermore, SWTPL has infused INR9.0 billion of equity into ESPL to date, of which INR0.5 billion was infused in 1QFY26. The consolidated leverage stood at 1.1x at end-1QFY26 (FY25: 1.1%; FY24: 1.4%; ESPL including inter-corporate deposits: 2.1x), with no borrowings at the SWTPL level. The management expects the leverage ratio to remain low over the medium term, with no plans to build leverage at the SWTPL level above 2x. At the ESPL level also, the leverage ratio is not expected to exceed 3x on a steady-state basis (FY25: 2.3x; FY24: 2.1x), with negligible gearing at SWTPL.

ESPL's improved capital levels provide sufficient headroom for medium-term loan growth and franchise expansion, with capital adequacy at 26.9% as of end-1QFY26 (FYE25: 26.05%). However, the company is process to raise additional capital from International Finance Corporation which might bring reputational benefits and strengthen the company's focus on impact financing. According to Ind-Ra's stress test, the capital buffers are expected to remain adequate to absorb near- to medium-term asset quality pressures.

Evolving Funding Profile: ESPL has mobilised funds from over 45 lenders including largest private sector banks. The total standalone borrowings amounted to INR22,524 million at end-June 2025.. The company has borrowed funds from its parent, SWTPL, through inter-corporate deposits, which constitutes 17% of the funding. Furthermore, the borrowing has been funded through term loans constituting 39.4% followed by NCDs at 38.5%, working capital loans 5.5% and commercial papers 4.75%. As per the management, the average cost of funds remained in the range of 11.60%-12.6%, with the average borrowing tenor being around 22 months at end-June 2026. ESPL's incremental cost of borrowing has improved, which may continue as the company plans to raise funds from public sector banks. The management also plans to add more banks to its lending suite; and with the repo rate cut, it expects the cost of borrowing to come down gradually, albeit with a lag. Moreover, ESPL's borrowing is covered by a corporate guarantee from SWTPL.

Asset Quality Needs Monitoring; Newer Originations Show Better Credit Quality: The inherent riskiness in the portfolio remains high due to the unsecured nature of loans, although the asset quality remains moderate given the credit profile of customers. The delinquencies in the softer buckets (1-89 days past due) improved to 6.3% in 1QFY26 (FY25:7.2%; FY24: 5.2%; FY23: 5.4%), while gross non-performing advances (GNPAs) improved to 2.79% (3.07%; 2.6%, 3.3%). However, the company has made adequate provision with stage 3 provisioning at 70%.

In addition, the company's credit cost (on own book and off book) as a % of AUM (1QFY26: 10.15%; FY25: 10.9%; FY24: 8.2%; FY23: 8.9%) remains elevated due to higher provisioning and write-offs (a write-off policy of 180 days past due). Across the industry, there are concerns about overleveraging of customers which could impact its asset quality. That being said, the company has tightened its underwriting model.. Additionally, the company focusing on higher ticket personal loans which has enhanced its customer profile. This is also reflected in an improved bounce rate of 9.57% at end-1QFY26 from 11.8% in 1QFY25. Even on a cohort basis, recently originated loans are showing an improved delinquency trend. Ind-Ra expects GNPA to moderate over the near term due to enhancements in the cohort structure of the lending algorithm.

Regulatory Risk: Digital lending has been subject to significant scrutiny since the start of 2023. While the default loss guarantee guidelines implemented in June 2023 provide more clarity around this, and Ind-Ra believes the economics of digital lenders may improve over the near to medium term, much will depend on how bilateral contracts are constructed. Given this may involve several regulated and non-regulated entities, and the fact that its relatively a new area of lending, the regulation will be evolving. However, given the high growth seen in the unsecured segment, the regulator's move on increasing risk weights on consumer loans has led to the tightening of credit underwriting by NBFCs, thereby impacting growth, capital buffers and margins for fintechs. The rapid growth, supported by financial institutions through co-lending/partner with new age-fintechs, will moderate as the move has led to a substantial recalibration by lender partners. At the same time, digital lending could move into personal loan adjacencies, asset-backed finance segments slowly, which may also attract more scrutiny. Furthermore, the regulator's amendment on video Know Your Customer has increased verification layers for lending entities, impacting the overall operating expense further. There are possibilities that subsequent regulations could have an adverse (or positive) impact on the economics and compliance requirements of the business seen in the current form.

Liquidity

Adequate: ESPL's asset liability profile is supported by the adequate buffers available between the funding duration of over two years and assets-side duration of about less than one-and-a-half-years. At end-July 2025, SWTPL's consolidated unencumbered cash and cash equivalents and liquid investments was around INR3,233.5million including an unutilised bank line; this is more than sufficient to meet the debt obligations of INR1,792 million (total outflows) over the next two months, assuming nil collections and disbursements. The management intends to maintain cash and liquid investments equivalent to two to three months of debt repayments against the board approved liquidity policy of one month of debt repayments.

Rating Sensitivities

Positive: The following developments collectively could result in a positive rating action:

- substantial growth in the franchisee along with an improvement in the credit cost
- a sustained improvement in the profitability
- further diversification of the funding profile and a reduction in the borrowing cost, comparable to peers

Negative: The following developments, individually or collectively, could lead to a stable outlook:

- delays in equity infusion leading to the consolidated leverage (debt/tangible equity) exceeding 2x and ESPL's leverage exceeding 3.0x on a sustained basis
- challenges in raising funds and dilution in the liquidity buffers
- deterioration in the profitability and asset quality

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ESPL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

ESPL a non-deposit taking, systemically important mid-layer NBFC, which provides unsecured personal loans to salaried employees. SWTPL is a technology-enabled underwriting platform that integrates an algorithm-based credit assessment and disburses loans though its application Fibe. The company has an entirely branchless lending model with its corporate office in Pune.

Key Financial Indicators

Particulars (INR billion)	1QFY26	FY25	FY24
Total tangible assets^	38.5	37.5	27.57
Total tangible net worth^	17.0	165.2	10.0
Return on average AUM (%)	3.1	2.5	3.6
Debt to tangible equity (x)	1.1	1.1	1.4
Source: SWTPL company filings, Ind-Ra's analysis ^adjusted for intangible assets and deferred tax assets			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating/Outlook	9 October 2024	23 September 2024	27 October 2023
Non-convertible debenture	Long-term	INR2,000	IND A-/Positive	IND BBB+/Positive	IND BBB+/Positive	IND BBB+/Positive

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Annexure

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE01YL07268	20 March 2024	11.50	6 October 2025	INR500	IND A-/Positive
INE01YL07284	22 May 2024	11.00	5 December 2025	INR500	IND A-/Positive

INE01YL07292	30 September 2024	10.9%	27 March 2026	INR500	IND A-/Positive
INE01YL07300	25 October 2024	11.82	27 December 2026	INR320	IND A-/Positive
Utilised				INR1,820	
Unutilised				INR180	IND A-/Positive
Total				INR2,000	
Source: ESPL; NSDL					

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process