



Arohan Financial Services Private Limited (Arohan)

ICRA has upgraded the rating assigned to the Pass Through Certificates (PTCs) under a securitization transaction backed by micro loan pool receivables originated by Arohan Financial Services Private Limited (Arohan)[†]. The rating upgrade reflects the good collection performance on the underlying pool so far, and enhanced credit enhancement cover for the rated instrument over the shorter residual tenure.

The summary of the rating action taken by ICRA is given below.

Table 1: Summary of rating action

Issue name	Instrument description	Initial amount (Rs. Cr)	Amount after Payout (Rs. Cr)	O/s Dec-11	Rating action
Demeter 2011	PTC Series A1	7.18	1.74		Revised from [ICRA]A2(SO)! to [ICRA]A1(SO)!

! indicates the rating is conditional pending receipt of the transaction documents

The selected pool underlying this transaction comprised of unsecured micro loans (less than or equal to Rs. 17,500 each), with low initial tenure of contracts (not more than 15 months), high initial seasoning and no overdue. Moreover, the pool comprised of Group Loans[†] only.

In case of the abovementioned transaction, a pool of receivables was assigned by Arohan to an SPV at par, which issued a single series of PTCs viz. PTC Series A1 backed by the same. Every month, only the interest payment is promised to PTC A1 whereas the principal repayment is promised on the last payout date. However, the balance monthly excess cashflow - excess of collections from the loan pool over the scheduled PTC A1 payouts – are used to accelerate the principal amortisation of PTC A1. Any payment to the Originator will be made only after all the PTC A1 payouts are fully made. A brief performance summary for the pool is as given below.

Table 2: Performance Summary

Number of months post securitisation	4
Pool amortisation	61.89%
PTC A1 amortisation	75.70%
Cumulative Collection Efficiency [‡]	100.00%
Loss-cum-0+ (% of initial pool principal) [§]	0.00%
Cumulative Cash Collateral Utilisation	0.00%
<i>Credit Enhancement available (for PTC Series A1) as % of balance pool principal</i>	
Excess interest spread ^{**}	5.15%
Principal Subordination ^{††}	46.14%
Aggregate cash collateral	28.21%

As can be seen from the table above, the cumulative collection efficiency for the pool has been 100% and no delinquencies have been reported so far. As a result, no cash collateral has been utilised till

[†] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

^{*} 100 lakh = 1 crore = 10 million

[†] The Group Loans are given to borrowers who are organised in groups of five, where each group member is responsible for repayment by the other group members.

[‡] Cumulative collections / (Cumulative billings + opening overdue at the time of securitization) There are no opening overdue in case of this pool

[§] Principal outstanding (POS) on contracts aged 0+ dpd / POS on the pool at the time of securitisation

^{**} (Pool Cashflows – Cashflows to PTC A1– originator's residual share) / Pool POS

^{††} (Pool POS – PTC A1 POS) / Pool POS



date. Given the structure of this transaction, wherein the pool collections in excess of promised payouts to PTC A1 are used to accelerate the principal of PTC A1, the principal amortization for PTC A1 has been at a much faster pace when compared to that of the pool. Due to this, the expected balance tenure for PTC A1 in this transaction is very short i.e. 3 months. The credit enhancement available in the transaction is sufficient to support the revised rating level of the PTCs.

While the performance of the underlying pool has been good, the relatively weak credit profile of the borrower segment with a greater vulnerability to external shocks, and the unsecured nature of the loans do pose a relatively high potential credit risk in the transaction and uncertainty regarding sustenance of the performance in the future. Further, the operations-intensive nature of the micro lending activity makes the servicing role very critical. In this regard, ICRA will continue to monitor the performance of this transaction. Any further rating action this pool will be based on the performance of the pool, the availability of credit enhancement and the credit profile of the Servicer.

About the Originator

Arohan Financial Services Pvt. Ltd. (Arohan) is a Microfinance Institution (MFI) that was set up in January 2006 as an NBFC and started its operations in April 2006 in Kolkata. It was founded by Mr. Shubhankar Sengupta, who is the Managing Director of the company at present. Since its inception, Arohan has raised funds from social investors (institutional and individuals) including Caspian Advisors Private Limited, Michael & Susan Dell Foundation (MSDF) and Lok Capital. Unlike many other MFIs that primarily cater to the rural population, Arohan's focus was to provide financial services to the urban and semi-urban poor, however, since the beginning of Calendar Year (CY) 2010, Arohan has been lending to borrowers in rural areas as well. As on October 2011, Arohan had operations in 127 branches across 19 districts of West Bengal, Bihar and Assam, with a portfolio size of Rs. 76.2 crore. Arohan offers credit to economically backward women by offering varied products to suit their requirements. Its key focus is the group loan, for which it replicates the Grameen Bank model of lending. As on October 2011, about 98% of Arohan's portfolio comprised of Group loan products viz. Saral Loans and Bazaar Loans, whereas the share of the recently started individual loan product viz. Pragati Loans remains small at about 2%.

For the first half of FY 2012, Arohan reported net loss of Rs. 2.8 crore on total managed assets of Rs. 88.93 crore. The regulatory capital adequacy was comfortable at 40.73% as of September 2011 as against that of 30.73% as of March 2011. The 30+ delinquency level for overall the portfolio of Arohan was 4.41% as on 31 October 2011. There had been an increase in the delinquency levels in initial months of FY2012 on account of overleveraging issues in some of the districts of West Bengal, nevertheless the delinquency levels have stabilized in recent months.

The key financial indicators of Arohan are placed in Table 3 below.

Table 3: Key Financial Indicators

Amounts in Rs. crore	Sep-11 (6 M)	Mar-11 (12 M)	Mar-10 (12 M)
Equity Capital	9.0	9.0	4.7
Net Worth (Reported)	25.4	28.2	15.2
Net HP, Loan & Lease receivables (Net of Advances Received)	67.0	83.9	94.2
Total Assets	78.7	104.5	110.5
Total Income	9.5	30.0	19.9
Net Interest Income (Net of BO Costs & Profits from Securitisation)	5.2	16.9	12.1
PBT (reported)	(2.8)	0.5	2.6
PAT (reported)	(2.8)	0.3	1.6
Yield on Average Earning Assets (%)	18.49%	27.16%	25.65%
Cost of average interest bearing funds (%)	10.30%	13.96%	11.54%
Gross Interest Spread (%)	8.18%	13.20%	14.11%



Net Interest Margin (%)	11.32%	15.75%	15.68%
Operating Expenses /Average total Assets (%)	17.12%	15.45%	11.72%
Provisions & Write offs / Average Total Assets (%)	1.58%	0.53%	0.83%
Cost to Income Ratio (%)	148.55%	97.85%	74.61%
PBT (excluding extraordinary items) / Average Total Assets (%)	-6.01%	0.49%	3.32%
PAT (excluding extraordinary items) / Average Total Assets (%)	-6.01%	0.32%	2.05%
Return on Average Net worth (%)	-20.54%	1.58%	13.06%
Dividend/PAT (reported) (%)	0.00%	0.00%	0.00%
Dividend rate (%)	0.00%	0.00%	0.00%
Total Debt/Net Worth (reported)(times)	2.0	2.6	6.2
Capital / Risk Assets (%)	40.73%	30.70%	15.60%
Tier I Capital / Risk Assets (%)	40.73%	29.00%	14.10%
Gross NPAs / Gross Hire Purchase & Loan Receivables (%)	0.00%	2.23%	0.00%
Net NPAs / Net Hire Purchase & Loan Receivables (%)	0.00%	0.00%	0.00%
Yield on Average Earning Assets (%)	18.49%	27.16%	25.65%
Cost of average interest bearing funds (%)	10.30%	13.96%	11.54%

January 2012

For further details please contact:

Analyst Contacts:

Mr. Kalpesh Gada (Tel. No. +91 22 30470013)
Head - Structured Finance
Kalpesh@icraindia.com

Relationship Contacts:

Ms. Anuradha Ray, (Tel. No. +91-33-22876617 / 22800008)
anuradha@icraindia.com

© Copyright, 2011, ICRA Limited. All Rights Reserved.
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**Mobile: **9871221122**Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91-124-4545350

Mumbai**Mr. L. Shivakumar**Mobile: **91-22-30470005/9821086490**Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion, Appasaheb Marathe Marg,
Prabhadevi, Mumbai - 400 025
Ph : +91-22-2433 1046/ 1053/ 1062/ 1074/ 1086/ 1087
Fax : +91-22-2433 1390

Kolkata**Ms. Anuradha Ray**Mobile: **91-33-22813158/9831086462**Email: anuradha@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna, 234/ 3A, A.J.C. Bose
Road, Kolkata-700020.
Tel: +91-33-2287 6617/ 8839/ 2280 0008
Fax: +91-33-2287 0728

Chennai**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre, 498 Anna Salai, Nandanam,
Chennai-600035.
Tel: +91-44-2433 3293/ 94, 2434 0043/ 9659/ 8080, 2433
0724, Fax:91-44-24343663

Bangalore**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

2 nd Floor. ,Vayudhoot Chambers, Trinity Circle, 15-16
M.G.Road, Bangalore-560001.
Tel:91-80-25597401/ 4049 Fax:91-80-25594065

Ahmedabad**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585494, 26582008,26585049, 26584924
TeleFax:+91-79- 2648 4924

Pune**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills
Road, Shivajinagar,Pune-411 020
Tel : (91 20) 2556 1194 -96; Fax : (91 20) 2556 1231

Hyderabad**Mr. M.S.K. Aditya**Mobile: **9963253777**Email: adityamsk@icraindia.com

301, CONCOURSE, 3rd Floor, No. 7-1-58, Ameerpet,
Hyderabad 500 016.
Tel: +91-40-2373 5061 /7251 Fax: +91-40- 2373 5152