

June 30, 2022

## Arohan Financial Services Limited: Provisional [ICRA]A(SO) assigned to PTC Series A1 backed by microfinance loan receivables issued by Aavishkaar June 2022 Trust II

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aavishkaar June 2022 Trust II	PTC Series A1	74.96	Provisional [ICRA]A(SO); Assigned

\*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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### Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Arohan Financial Services Limited {Arohan; [ICRA]A- (Negative)}. The PTCs are backed by a pool of Rs. 83.29-crore (principal amount; receivables of Rs. 97.15 crore) microloan receivables originated by Arohan.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement available in the form of (i) a cash collateral (CC) of 10.0% of the initial pool principal to be provided by the originator, (ii) over-collateralisation of 10.0% of the pool principal for PTC Series A1, and (iii) subordination of the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, over-collateralisation and CC
- No overdue contracts in the pool as on the cut-off date

#### Credit challenges

- Very high geographical concentration with top 3 states contributing ~95%
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic
- Performance of pool would also remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks

### Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation of 10.0% of the pool principal. Further credit support is available in the form of an EIS of 10.1% and a CC of 10.0% of the initial pool principal (i.e. Rs. 8.33 crore) to be provided by Arohan.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment at the predetermined interest rate on the principal outstanding and the promised principal payment equal to 60% of the billed pool principal for the month to PTC Series A1. The remaining 40% of the billed pool principal shall be paid to the PTC investors on expected basis on each payout date and would be due and payable only on the final payout date/final maturity date. Any

surplus EIS after making the promised and expected payments to PTC Series A1 will flow back to the originator on a monthly basis. The CC will be utilised in case of a shortfall in the monthly promised interest and monthly promised principal payment (60% of billed pool principal) to Series A1 PTCs. Prepayments during a month will be paid towards Series A1 PTCs.

There are no overdues in the pool as on the cut-off date. The pool has very high geographical concentration with the top state (Bihar) contributing 62.5% and the top 3 states (Bihar, West Bengal and Uttar Pradesh) contributing 94.5% to the initial pool principal amount. Further, concentration is high at the district level with the top 5 districts accounting for 25.8% of the initial pool principal amount. The performance of the pool would be exposed to political and communal risks as well as natural calamities that may impact the income-generating capability of the borrower. It would also remain exposed to any fresh disruptions caused by the pandemic.

**Past rated pools:** ICRA has ratings outstanding on 14 PTC transactions originated by Arohan. The live pools have reported satisfactory collections with nil CC utilisation up to the May 2022 payouts.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.5-5.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 2.4-9.0% per annum.

## Liquidity position: Strong

As per the transaction structure, the interest amount and a part of the principal amount (60% of the billed pool principal for the month) are promised to the PTC holders on a monthly basis while the remaining principal amount (40% of billed pool principal) is promised on the scheduled maturity date of the transaction. Assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfall in the promised cash flows to the PTCs for approximately 17 months. Overall, the cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the payouts to the PTC Series A1 investors.

## Rating sensitivities

**Positive factors** – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

**Negative factors** – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

## Analytical approach

The rating action is based on the analysis of the performance of Arohan's portfolio till March 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the company

Arohan Financial Services Limited (Arohan) is a Kolkata-headquartered non-banking financial company-microfinance institution (NBFC-MFI). It was incorporated on September 27, 1991. Arohan is engaged in the business of microlending mainly to women borrowers and operates on the joint liability group (JLG) model. It was set up through the acquisition of an existing NBFC, ANG Resources Ltd, with the support of Bellwether Microfinance Fund. The company's name was changed to Arohan Financial Services Limited in March 2008. Arohan became a part of the Aavishkar Group in September 2012. As on March 31, 2022, it was catering to 16.8 lakh borrowers through a network of 749 branches spread across 224 districts and 14 states while managing a portfolio of Rs. 4,122 crore.

## Key financial indicators

	FY2020	FY2021	FY2022
Total Income	935	1,014	920
Profit after Tax	127	(160)	61
Gross Loan Portfolio	4,854	4,648	4,148
Gross Non-performing Assets (NPA)	2.3%	11.2%	4.5%
Net NPA	-	4.0%	1.4%

Source: Company data, ICRA Research; Amount in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 30, 2022			
1	Aavishkaar June 2022 Trust II	PTC Series A1	74.96	74.96	Provisional [ICRA]A(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex

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: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Aavishkaar June 2022 Trust II	PTC Series A1	June 2022	10.15%	March 2024*	74.96	Provisional [ICRA]A(SO)

\* Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

Source: Company

### Annexure-2: 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.

For more information, visit [www.icra.in](http://www.icra.in)

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### Branches



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