

July 25, 2022

## Arohan Financial Services Limited: Rating confirmed as final for PTCs issued under a securitisation transaction backed by microfinance loan receivables issued by Aavishkaar March 2022 Trust I

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aavishkaar March 2022 Trust I	PTC Series A1	115.52	[ICRA]AA(SO); provisional rating confirmed as final
	PTC Series A2	11.55	[ICRA]A(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-1

### Rationale

In March 2022, ICRA had assigned Provisional [ICRA]AA(SO) rating to pass through certificates (PTC) Series A1 and Provisional [ICRA]A(SO) rating to PTC Series A2 issued by Aavishkaar March 2022 Trust I. The PTCs are backed by a pool of Rs. 144.39-crore (principal amount; receivables of Rs. 167.39 crore) of microfinance loan receivables originated by Arohan Financial Services Limited {Arohan; rated [ICRA]A-(Negative)}. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the June 2022 payout is shown in the table below.

Parameter	Aavishkaar March 2022 Trust I
Months post securitisation	3
Pool amortisation	17.27%
PTC Amortisation Series A1	21.66%
PTC Amortisation Series A2	0.00%
Cumulative Collection (including advance collections)	100.03%
Loss-cum-0+ dpd	0.42%
Loss cum 30+ dpd	0.20%
Loss cum 90+ dpd	0.01%
Cumulative Prepayment rate	0.70%
Cumulative cash collateral (CC) utilisation	0.00%

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), over-collateralisation/subordination and CC
- No overdue contracts in the pool as on the cut-off date

#### Credit challenges

- High geographical concentration with top three states contributing ~84% to the initial pool principal amount

- Pool performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic
- Performance of the 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

According to the transaction structure, the loan pool receivables have been assigned at par to the PTC investors. The collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1 (to the extent of monthly pool principal billed), followed by the expected interest payout to PTC Series A2. Post the maturity of PTC Series A1, interest payouts will be promised to PTC Series A2 and excess cash flows, after meeting the promised interest PTC Series A2 payouts, will be passed on for the expected PTC Series A2 principal payout (to the extent of monthly pool principal billed). The entire principal repayment to PTC Series A1 and PTC Series A2 is promised on the scheduled maturity date. The EIS available after meeting the scheduled PTC payments shall flow back to the originator on every payout date.

The first line of support for PTC Series A1 in the transaction is in the form of a subordination/over-collateralisation of 20.00% of the pool principal (includes the principal payable to PTC Series A2). After PTC Series A1 has been fully paid, over-collateralisation of 12.00% of the pool principal could be available for PTC Series A2. Further credit support is available in the form of an EIS. A CC of 10.00% of the initial pool principal (Rs. 14.44 crore), provided by Arohan, would act as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is modest at 17.9% as on the cut-off date. The pool has high geographical concentration with the top three states (Bihar, West Bengal and Uttar Pradesh) contributing 84.3% to the initial pool principal amount. At the district level, the top 5 districts account for 15.5% of the initial pool principal amount. The performance of the pool would be exposed to natural calamities that may impact the income-generating capability of the borrower, and political and communal risks. Also, it would remain exposed to any fresh disruptions that may arise due to the pandemic.

**Past rated pools:** ICRA has ratings outstanding on 15 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 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 6.0-9.0% per annum.

## Liquidity position

### Strong for PTC Series A1 and PTC Series A2

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the entire principal amount is promised on the final maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC 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 Trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

## 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	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 25, 2022	March 31, 2022	-	-
1	Aavishkaar March 2022 Trust I	PTC Series A1	115.52	115.52	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-
		PTC Series A2	11.55	11.55	[ICRA]A(SO)	Provisional [ICRA]A(SO)		

### Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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 March 2022 Trust I	PTC Series A1	March 2022	8.75%	December 2023	115.52	[ICRA]AA(SO)
	PTC Series A2	March 2022	12.50%	December 2023	11.55	[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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