

August 26, 2022

Arohan Financial Services Limited: Rating confirmed as final for PTCs issued under a microfinance loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aavishkaar May 2022 Trust I	PTC Series A	191.40	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In May 2022, ICRA had assigned a Provisional [ICRA]A-(SO) rating to pass through certificates (PTC) Series A issued by Aavishkaar May 2022 Trust I. The pass-through certificates (PTCs) are backed by a pool of Rs. 220.00-crore (principal amount; receivables of Rs. 254.22 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 July 2022 payout is shown in the table below.

Parameter	Aavishkaar May 2022 Trust I
Months post securitisation	2
Pool amortisation	11.61%
PTC Series A1 amortisation	11.61%
Cumulative collection efficiency (including advance collections)	99.55%
Cumulative prepayment rate	0.37%
Loss-cum-0+ days past due (dpd)	0.41%
Loss-cum-30+ dpd	0.14%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

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

Credit challenges

- High geographical concentration with top 3 states contributing ~70%
- 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

According to the transaction structure, the loan pool receivables were assigned at par to the PTC investors. The monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date. The expected principal to be paid to PTC Series A every month would be 87% of the principal billed on the underlying loans in the pool. The surplus EIS and over-collateral available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

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. The principal amount collected upon the pre-termination of contracts will be paid to PTC Series A (in the ratio of initial aggregate Series A PTC investment to initial aggregate pool principal, i.e., 87% of the pool principal). Following such prepayment, the future payment schedule for the PTCs will be revised.

The first line of support for PTC Series A in the transaction was in the form of over-collateralisation of 13.0% of the pool principal. Further credit support is available in the form of an EIS and a CC of 5.0% of the initial pool principal (i.e., Rs. 11.00 crore) provided by Arohan.

There are no overdues in the pool as on the cut-off date. It has high geographical concentration with the top 3 states (West Bengal, Bihar and Uttar Pradesh) contributing 69.9% to the initial pool principal amount. Concentration is modest at the district level with the top 5 districts accounting for 15.4% of the initial pool principal amount. The performance of the pool would be exposed to political and communal risks and natural calamities that may impact the income-generating capability of the borrower. Also, it would remain exposed to any fresh disruptions that may arise due to the pandemic.

Past rated pools: ICRA has rated 17 PTC transactions backed by microloan receivables for Arohan. The live pools have reported satisfactory collections with nil CC utilisation up to the July 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 6.0%-9.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. Further, any excess amount (including over-collateral and EIS) after making the promised interest and expected principal payments to PTC Series A will flow back to the originator on a monthly basis. 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	Rating Methodology for Securitisation Transactions
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 19 lakh borrowers through a network of 749 branches spread across 225 districts and 14 states while managing a portfolio of Rs. 4,121 crore.

Key financial indicators

Arohan	FY2020	FY2021	FY2022
Total Income	935	1,014	920
Profit after Tax	127	(160)	61
Gross Loan Portfolio	4,854	4,648	4,418
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
					August 26, 2022	May 30, 2022			
1	Aavishkaar May 2022 Trust I	PTC Series A	191.40	191.40	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Aavishkaar May 2022 Trust I	PTC Series A	May 2022	10.25%	February 2024	191.40	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Diptajyoti Banik

+91 22 6114 3412

diptajyoti.banik@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2022 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. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. 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, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While 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. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. 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.