

September 21, 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 June 2022 Trust II	PTC Series A1	74.96	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In June 2022, ICRA had assigned a Provisional [ICRA]A(SO) rating to pass through certificates (PTC) Series A1 issued by Aavishkaar June 2022 Trust II. The PTCs are backed by a pool of Rs. 83.29-crore (principal amount; receivables of Rs. 97.15 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 August 2022 payout is shown in the table below.

Parameter	Aavishkaar June 2022 Trust II
Months post securitisation	2
Pool amortisation	10.20%
PTC Series A1 amortisation	11.39%
Cumulative collection efficiency (including advance collections)	100.04%
Cumulative prepayment rate	0.14%
Loss-cum-0+ days past due (dpd)	0.32%
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 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 ~95%
- Pool's 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

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.

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) provided by Arohan.

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 rated 17 PTC transactions backed by micro loan receivables for Arohan. The live pools have reported satisfactory collections with nil CC utilisation up to the August 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 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

Current Rating (FY2023)						Chronology of Rating History for the Past 3 Years		
Trust Name	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
				Sep 21, 2022	Jun 30, 2022			
1 Aavishkaar June 2022 Trust II	PTC Series A1	74.96	74.96	[ICRA]A(SO)	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

Annexure I: 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	10.25%	March 2024	74.96	[ICRA]A(SO)

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

Source: Company

Annexure II: 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

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