

October 25, 2022

Arohan Financial Services Limited: Ratings reaffirmed for PTCs backed by microfinance loan receivables

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount Outstanding after Last Surveillance (Rs. crore)	Current Outstanding Amount after September 2022 Payout (Rs. crore)	Rating Action
Aavishkaar July 2021 Trust	PTC Series A1	90.42	NA	17.53	[ICRA]A-(SO); Reaffirmed
Aavishkaar September 2021 Trust I	PTC Series A1	249.43	NA	80.31	[ICRA]A-(SO); Reaffirmed
Aavishkaar September 2021 Trust Series II	PTC Series A1	133.35	NA	30.58	[ICRA]A(SO); Reaffirmed
	PTC Series A2	5.96	NA	5.96	[ICRA]BBB+(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) tabulated above are backed by microfinance loan receivables originated by Arohan Financial Services Limited {Arohan; rated [ICRA]A- (Negative)}. The ratings reaffirmation factors in the sustained healthy collections witnessed in all the pools. There has been a build-up of the credit enhancement cover over the future PTC payouts due to the amortisation in all the transactions. Nonetheless, the ratings would remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic, leading to lower-than-expected collections.

Pool performance summary

Parameter	Aavishkaar July 2021 Trust	Aavishkaar September 2021 Trust I	Aavishkaar September 2021 Trust Series II
Months post securitisation	14	12	12
Pool amortisation	78.71%	67.23%	68.08%
PTC Series A1 amortisation	80.62%	67.80%	77.07%
PTC Series A2 amortisation	NA	NA	0.00%
Average monthly collection efficiency for last three months ¹	98.58%	98.16%	120.62%
Loss-cum-0+ dpd ² (% of initial pool)	1.72%	2.09%	1.85%
Loss-cum-30+ dpd ³ (% of initial pool)	1.48%	1.74%	1.59%
Loss-cum-90+ dpd ⁴ (% of initial pool)	1.20%	1.42%	1.29%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%	0.00%
CC (% of balance pool)	37.58%	15.26%	31.33%

Key rating drivers

Credit strengths

- High amortisation of PTCs, resulting in build-up of credit enhancement cover available for balance PTC payouts
- Healthy collections and low delinquencies observed in the pools

¹ Average of (Total current and Overdue collections for the month as a % of Total Billing for the month) for 3 months

² Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 0 days, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

Credit challenges

- Performance of pools would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pools' performance would be exposed to political and communal risks
- Performance of pools will remain exposed to any fresh disruptions that may arise due to the pandemic

Description of key rating drivers highlighted above

The performance of the pools has been strong with a cumulative collection efficiency of more than 98% after the September 2022 payouts. There has been no instance of cash collateral (CC) utilisation owing to healthy collections in the pools. Moreover, the entire principal on the PTCs is promised on the final maturity date. Due to healthy collections, the delinquencies are low with the 90+ dpd between 1.0% and 1.5% for these pools. As these pools are highly amortised, there has been a significant build-up in the CC and subordination cover for the balance PTC payouts. Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to reaffirm the ratings for the PTCs.

ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA notes that the performance of the pools would remain exposed to any fresh disruptions that may arise due to the pandemic, leading to lower-than-expected collections.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. However, due to the unavailability of revised future pool cash flows, ICRA has not undertaken cash flow modelling. The assumptions for the loss are, nonetheless, arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the performance and 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 loss and prepayments during the balance tenure of the pools are provided in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)
1	Aavishkaar July 2021 Trust	1.5%-2.5%
2	Aavishkaar September 2021 Trust I	2.0%-3.0%
3	Aavishkaar September 2021 Trust Series II	1.5%-2.5%

Liquidity position

For PTC Series A1 of Aavishkaar July 2021 Trust, Aavishkaar September 2021 Trust I and Aavishkaar September 2021 Trust Series II: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. Further, for Aavishkaar July 2021 Trust, Aavishkaar September 2021 Trust I and Aavishkaar September 2021 Trust Series II, any excess amount (including over-collateralisation and excess interest spread) after making the promised interest and expected principal payments to the PTC Series A1 will flow back to the originator on a monthly basis. Overall, the cash flows from the pools and the available credit enhancement are expected to be comfortable to meet the payouts to the PTC Series A1 investors.

For PTC Series A2 of Aavishkaar September 2021 Trust Series II: Adequate

As per the transaction structure, PTC Series A2 payouts are completely subordinated to PTC Series A1. 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 scheduled 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 Series A2 investors.

Rating sensitivities

Positive factors – The ratings could be upgraded when the cash collateral covers the entire balance PTC payouts.

Negative factors – Given the short balance tenure of the PTCs, the ratings are unlikely to be downgraded.

Analytical approach

The rating action is based on the performance of the pools till September 2022 (payout month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

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. 4,418 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

S. No.	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
					October 25, 2022	October 18, 2021	August 5, 2021	-	-
1	Aavishkaar July 2021 Trust	PTC Series A1	90.42	17.53	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

S. No.	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
					October 25, 2022	December 20, 2021	September 27, 2021	-	-
2	Aavishkaar September 2021 Trust I	PTC Series A1	249.43	80.31	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

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					October 25, 2022	December 20, 2021	October 01, 2021	-	-
3	Aavishkaar September 2021 Trust Series II	PTC Series A1	133.35	30.58	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
		PTC Series A2	5.96	5.96	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Aavishkaar July 2021 Trust	PTC Series A1	Moderately Complex
Aavishkaar September 2021 Trust I	PTC Series A1	Moderately Complex
Aavishkaar September 2021 Trust Series II	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

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Aavishkaar July 2021 Trust	PTC Series A1	August 2021	9.65%	April 2023	17.53	[ICRA]A-(SO)
Aavishkaar September 2021 Trust I	PTC Series A1	September 2021	10.00%	June 2023	80.31	[ICRA]A-(SO)
Aavishkaar September 2021 Trust II	PTC Series A1	September 2021	9.00%	May 2023	30.58	[ICRA]A(SO)
	PTC Series A2		14.00%		5.96	[ICRA]BBB+(SO)

* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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