

November 21, 2022

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aavishkaar July 2022 Trust I	Series A1 SN	80.15	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In August 2022, ICRA had assigned a Provisional [ICRA]A(SO) rating to securitisation notes (SNs) issued by Aavishkaar July 2022 Trust I. The SNs are backed by a pool of Rs. 86.18-crore (principal amount; receivables of Rs. 97.81 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 October 2022 payout is shown in the table below.

Parameter	Aavishkaar July 2022 Trust I
Months post securitisation	3
Pool amortisation	23.36%
Series A1 SN amortisation	25.26%
Cumulative collection efficiency (including advance collections)	106.45%
Cumulative prepayment rate	1.20%
Loss-cum-0+ days past due (dpd)	0.36%
Loss-cum-30+ dpd	0.00%
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 in the initial pool with top 3 states contributing ~83%
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any
- 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 were assigned at par to the SN investors. The monthly cash flow schedule comprises the promised interest payment to Series A1 SN at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date. The surplus EIS and over-collateralisation available after meeting the promised and expected payouts to the SNs will be passed on to the originator every month.

In the event of a shortfall in meeting the promised SN 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 Series A1 SN. Following such prepayment, the future payment schedule for the SNs will be revised.

The first line of support for Series A1 SN in the transaction is in the form of over-collateralisation of 7.0% of the initial pool principal. Further credit support is available in the form of an EIS of 8.29% of the initial pool principal and a CC of 12.0% of the initial pool principal (i.e. Rs. 10.34 crore) to be provided by Arohan.

There were no overdues in the pool as on the cut-off date. It had high geographical concentration with the top 3 states (Bihar, West Bengal and Uttar Pradesh) contributing 83.2% to the initial pool principal amount. Concentration was modest at the district level with the top 5 districts accounting for 17.2% 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. It would also remain exposed to macro-economic shocks / business disruptions, if any.

Past rated pools: ICRA has rated 17 securitisation transactions backed by micro loan receivables for Arohan. The live pools have reported satisfactory collections with nil CC utilisation up to the October 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 4.25%-5.25% 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, only the interest amount is promised to the SN holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. Overall, the cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the payouts to the Series A1 SN 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/tandalone	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	4,121
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
				Nov 21, 2022	Aug 04, 2022	-	-	-
1 Aavishkaar July 2022 Trust I	Series A1 SN	80.15	80.15	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SN	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Aavishkaar July 2022 Trust I	Series A1 SN	July 2022	9.55%	April 2024	80.15	[ICRA]A(SO)

* Scheduled SN 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:

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Branches



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