

January 19, 2023

Arohan Financial Services Limited: Ratings reaffirmed / withdrawn for PTCs backed by microfinance loan receivables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 December 2022 Payout (Rs. crore)	Rating Action
Aavishkaar December 2021 Trust I	PTC Series A1	86.46	N.A.	12.37	[ICRA]A-(SO); Reaffirmed
Aavishkaar December 2021 Trust III	PTC Series A1	65.97	N.A.	5.11	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	6.60	N.A.	6.60	[ICRA]A(SO); Reaffirmed
Aavishkaar December 2021 Trust IV	PTC Series A1	47.34	N.A.	8.22	[ICRA]A+(SO); Reaffirmed
	PTC Series A2	1.35	N.A.	1.35	[ICRA]A-(SO); Reaffirmed
Aavishkaar January 2022 Trust I	PTC Series A	115.73	N.A.	40.83	[ICRA]A-(SO); Reaffirmed
Aavishkaar December 2021 Trust II	PTC Series A1	173.56	N.A.	0.00	[ICRA]A(SO); Withdrawn

*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-(Stable)}. The ratings reaffirmation for four transactions factors in the sustained healthy collections witnessed in all the pools. Due to the amortisation in all the transactions, there has been a build-up of the credit enhancement cover over the future PTC payouts. Nonetheless, the ratings would remain exposed to any macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower, leading to lower-than-expected collections.

ICRA has also withdrawn the rating for PTCs issued under one transaction viz. Aavishkaar December 2021 Trust II as all the payouts to the investors in this instrument have been made and no further payments are due to the investors.

Pool performance summary¹

Parameter	Aavishkaar December 2021 Trust I	Aavishkaar December 2021 Trust III	Aavishkaar December 2021 Trust IV	Aavishkaar January 2022 Trust I
Months post securitisation	13	12	12	11
Pool amortisation	82.55%	73.14%	71.81%	63.52%
PTC Series A1 amortisation	85.70%	92.25%	82.65%	64.72%
PTC Series A2 amortisation	N.A.	0.00%	0.00%	N.A.
Average monthly collection efficiency for last three months ²	92.45%	99.12%	92.69%	97.50%

¹ For four transactions where ratings have been reaffirmed

² Average of (Total current and Overdue collections for the month as a % of Total Billing for the month) for 3 months

Parameter	Aavishkaar December 2021 Trust I	Aavishkaar December 2021 Trust III	Aavishkaar December 2021 Trust IV	Aavishkaar January 2022 Trust I
Loss-cum-0+ dpd ³ (% of initial pool)	1.99%	1.64%	2.85%	2.01%
Loss-cum-30+ dpd ⁴ (% of initial pool)	1.84%	1.42%	2.51%	1.68%
Loss-cum-90+ dpd ⁵ (% of initial pool)	1.53%	1.06%	1.97%	1.20%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%	0.00%	0.00%
CC (% of balance pool)	45.85%	37.23%	35.48%	13.70%

Key rating drivers

Credit strengths

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

Credit challenges

- Exposed to inherent credit risk in the asset class, given the unsecured nature of the product and the marginal borrower profile; performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower

Description of key rating drivers highlighted above

The performance of the pools has been strong with a cumulative collection efficiency of more than 99% post December 2022 payouts. There has been no instance of CC utilisation owing to healthy collections in the pools as well as the entire principal on the PTCs being promised on the final maturity date. Due to healthy collections, the delinquencies are low with 90+ rating between 1.0% to 2.0% 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 rating 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 cashflows, ICRA has not undertaken the 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)
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³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 0 days, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

⁵ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

1	Aavishkaar December 2021 Trust I	1.5%-2.5%
2	Aavishkaar December 2021 Trust III	1.5%-2.5%
3	Aavishkaar December 2021 Trust IV	2.0%-3.0%
4	Aavishkaar January 2022 Trust I	2.0%-3.0%

Liquidity position

For all the transactions, only the interest amount is promised to the PTC Series A1/A holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. For December 2021 Trust III and December 2021 Trust IV, 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 pools and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 and PTC Series A2 investors.

Rating sensitivities

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

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

Analytical approach

The rating action is based on the performance of the pools till December 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
	ICRA's Policy on Withdrawal of Credit Rating
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Originator

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 September 30, 2022, it was catering to 19.98 lakh borrowers through a network of 761 branches spread across 238 districts and 15 states while managing a portfolio of Rs. 4,699 crore.

Key financial indicators

Arohan	FY2021	FY2022	H1 FY2023
Total income	1,014	920	526
Profit after tax	(160)	61	40
Gross loan portfolio	4,648	4,121	4,699
Gross non-performing assets (NPA)%	11.2%	4.5%	3.09%
Net NPA%	4.0%	1.4%	0.79%

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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					January 19, 2023	February 28, 2022	December 03, 2021	-	-
1	Aavishkaar December 2021 Trust I	PTC Series A1	86.46	12.37	[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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					January 19, 2023	February 28, 2022	January 4, 2022	-	-
2	Aavishkaar December 2021 Trust III	PTC Series A1	65.97	5.11	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-
		PTC Series A2	6.60	6.60	[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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					January 19, 2023	February 28, 2022	January 4, 2022	-	-
3	Aavishkaar December 2021 Trust IV	PTC Series A1	47.34	8.22	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		PTC Series A2	1.35	1.35	[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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					January 19, 2023	March 28, 2022	January 17, 2022	-	-
4	Aavishkaar January 2022 Trust I	PTC Series A	115.73	40.83	[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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					January 19, 2023	February 28, 2022^	December 21, 2021*	--	--
5	Aavishkaar December 2021 Trust II	PTC Series A1	173.56	0.00	[ICRA]A(SO); Withdrawn	[ICRA]A(SO)	Provisional [ICRA]A(SO)	--	--

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Aavishkaar December 2021 Trust I	PTC Series A1	Moderately Complex
Aavishkaar December 2021 Trust III	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
Aavishkaar December 2021 Trust IV	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
Aavishkaar January 2022 Trust I	PTC Series A	Moderately Complex
Aavishkaar December 2021 Trust II	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Aavishkaar December 2021 Trust I	PTC Series A1	December 2021	9.65%	July 2023	12.37	[ICRA]A-(SO)
Aavishkaar December 2021 Trust III	PTC Series A1	December 2021	8.75%	September 2023	5.11	[ICRA]AA(SO)
	PTC Series A2		12.50%		6.60	[ICRA]A(SO)
Aavishkaar December 2021 Trust IV	PTC Series A1	December 2021	9.00%	September 2023	8.22	[ICRA]A+(SO)
	PTC Series A2		14.00%		1.35	[ICRA]A-(SO)
Aavishkaar January 2022 Trust I	PTC Series A	January 2022	10.00%	October 2023	40.83	[ICRA]A-(SO)
Aavishkaar December 2021 Trust II	PTC Series A1	December 2021	9.80%	July 2023	0.00	[ICRA]A(SO); Withdrawn

* 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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