

February 17, 2023

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 November 2022 Trust I	Series A1 PTC	100.00	[ICRA]AA-(SO); provisional rating confirmed as final
	Series A2 PTC	2.86	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In November 2022, ICRA had assigned Provisional [ICRA]AA-(SO) rating to Series A1 Pass-Through Certificates (PTCs) and Provisional [ICRA]A(SO) rating to Series A2 PTCs issued by Aavishkaar November 2022 Trust I. The PTCs are backed by a pool of Rs. 114.29 crore (principal amount; receivables of Rs. 136.83 crore) of microfinance loan receivables originated by Arohan Financial Services Limited (Arohan; rated [ICRA]A-(Stable)). 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 January 2023 payout is shown in the table below.

Parameter	Aavishkaar November 2022 Trust I
Months post securitisation	2
Pool amortisation	9.32%
Series A1 PTC amortisation	10.70%
Cumulative collection efficiency (including advance collections)	99.91%
Cumulative prepayment rate	0.21%
Loss-cum-0+ days past due (dpd)	0.51%
Loss-cum-30+ dpd	0.13%
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 (OC) 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 ~58%
- 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

According to the transaction structure, the loan pool receivables were assigned at par to the PTC investors. The collections from the pool, after making the promised interest payouts to Series A1 PTC, are used to make the expected principal payouts to Series A1 PTC (to the extent of monthly pool principal billed), followed by the expected interest payout to Series A2 PTC. Post the maturity of Series A1 PTC, interest payouts will be promised to Series A2 PTC and the excess cash flows, after meeting the promised Series A2 PTC interest payouts, will be passed on for the expected Series A2 PTC principal payout (to the extent of monthly pool principal billed). The entire principal repayment to Series A1 PTC and Series A2 PTC is promised on the scheduled maturity date. The EIS available after meeting the scheduled PTC payments shall flow back to the originator on each payout date.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination/over-collateralisation of 12.50% of the pool principal (includes the principal payable to Series A2 PTC). After Series A1 PTC has been fully paid, over-collateralisation of 10.00% of the pool principal could be available for Series A2 PTC. Further credit support is available in the form of an EIS for Series A1 PTC and Series A2 PTC. A CC of 10.00% of the initial pool principal (Rs. 11.43 crore), provided by Arohan, acts as further credit enhancement in the transaction. 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.

There were no overdues in the pool as on the cut-off date. The pre-securitisation amortisation was modest at 17.2% as on the cut-off date. The pool has high geographical concentration with the top 3 states (West Bengal, Uttar Pradesh and Bihar) contributing 58.2% to the initial pool principal amount. At the district level, the top 5 districts account for 13.3% 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.

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, only the interest amount is promised to the Series A1 PTC holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. After Series A1 PTC is fully paid, the interest amount is promised to the Series A2 PTC 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 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/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 September, 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. 4,699 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

Trust Name	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				February 17, 2023	November 30, 2022			
1	Aavishkaar November 2022 Trust I	Series A1 PTC	100.00	100.00	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-
		Series A2 PTC	2.86	2.86	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	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 November 2022 Trust I	Series A1 PTC	November 2022	9.65%	August 2024	100.00	[ICRA]AA-(SO)
	Series A2 PTC	November 2022	13.00%	August 2024	2.86	[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.

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