

July 24, 2023

Arohan Financial Services Limited: Ratings upgraded 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 June 2023 Payout (Rs. crore)	Rating Action
Aavishkaar March 2022 Trust II	PTC Series A1	47.96	NA	0.46	[ICRA]AAA(SO); Upgraded from [ICRA]A+(SO)
	PTC Series A2	1.37	NA	1.37	[ICRA]AAA(SO); Upgraded from [ICRA]A-(SO)

*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 upgrade factors in the sustained healthy collections witnessed in the pool. Due to the amortisation in the transaction, there has been a build-up of the credit enhancement cover over the future PTC payouts. Nonetheless, the pool's performance would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

A summary of the pool's performance after the June 2023 payout is shown in the table below.

Parameter	Aavishkaar March 2022 Trust II
Months post securitisation	15
Pool amortisation	84.32%
PTC Series A1 amortisation	99.04%
PTC Series A2 amortisation	0.00%
Average monthly collection efficiency for last three months ¹	97.87%
Loss-cum-0+ dpd ²	1.22%
Loss-cum-30+ dpd ³	1.13%
Loss-cum-90+ dpd ⁴	0.94%
Cumulative credit collateral (CC) utilisation	0.00%
CC (% of balance pool)	63.77%

Key rating drivers

Credit strengths

- Significant amortisation of the pool with no cash collateral (CC) utilisation, resulting in CC covering the entire future PTC payouts

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

- NA

Description of key rating drivers highlighted above

The performance of the pool has been strong with a cumulative collection efficiency of more than 99% post the June 2023 payouts. As the entire principal on the PTCs is promised on the final maturity date and given the healthy collections in the pool, there has been no instance of CC utilisation. Delinquencies have remained low in the pool with a loss-cum-90+ days past due (dpd) of sub-2.0% on account of healthy collections. As the pool is highly amortised, there has been 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 highly comfortable to upgrade the ratings for the PTCs.

ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA notes that the pool's performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, its performance would also be exposed to natural calamities and political and communal risks.

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.

Liquidity position: Superior

The CC available covers the future PTC investor payouts.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating is unlikely to be downgraded as the CC is covering the future PTC payouts.

Analytical approach

The rating action is based on the performance of the pool till June 2023 (payout month), the present delinquency levels, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
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 March 31, 2023, it was catering to 20.12 lakh borrowers through a network of 831 branches spread across 254 districts and 12 states while managing a portfolio of Rs. 5,357 crore.

Key financial indicators

Arohan	FY2021	FY2022	FY2023
Total income	1,014	920	1,091
Profit after tax	(160)	61	71
Gross loan portfolio	4,648	4,122	5,357
Gross non-performing assets (NPA)	11.2%	4.5%	2.7%
Net NPA	4.0%	1.4%	0.2%

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 (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					July 24, 2023	July 25, 2022	March 31, 2022	-
1	Aavishkaar March 2022 Trust II	PTC Series A1	47.96	0.46	[ICRA]AAA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-
		PTC Series A2	1.37	1.37	[ICRA]AAA(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Aavishkaar March 2022 Trust 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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Aavishkaar March 2022 Trust II	PTC Series A1	March 2022	9.00%	December 2023	0.46	[ICRA]AAA(SO)
	PTC Series A2		14.00%		1.37	[ICRA]AAA(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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About ICRA Limited:

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Branches



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