

August 21, 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 July 2023 Payout (Rs. crore)	Rating Action
Aavishkaar May 2022 Trust I	PTC Series A	191.40	NA	23.82	[ICRA]AA(SO); Upgraded from [ICRA]A-(SO)
Aavishkaar June 2022 Trust II	PTC Series A1	74.96	NA	10.34	[ICRA]AA+(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- (Positive)}. The ratings upgrade factors in the sustained healthy collections witnessed in the pools. Due to the amortisation in the transactions, there has been a significant build-up of the credit enhancement cover available for the balance PTC payouts. Nonetheless, the pools' performance would remain exposed to macro-economic shocks/business disruptions.

### Pool performance summary

A summary of the pools' performance after the July 2023 payout is shown in the table below.

Parameter	Aavishkaar May 2022 Trust I	Aavishkaar June 2022 Trust II
Months post securitisation	14	13
Pool amortisation	86.35%	75.65%
PTC Series A1 amortisation	87.56%	86.20%
Average monthly collection efficiency for last three months <sup>1</sup>	96.95%	97.96%
Loss-cum-0+ dpd <sup>2</sup>	2.14%	1.36%
Loss-cum-30+ dpd <sup>3</sup>	2.02%	1.26%
Loss-cum-90+ dpd <sup>4</sup>	1.76%	1.04%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
CC (% of balance pool)	36.62%	41.07%

### 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

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

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

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

<sup>4</sup> 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 the pools would remain exposed to macro-economic shocks/business disruptions.

## Description of key rating drivers highlighted above

The performance of the pools has been strong with a cumulative collection efficiency of more than 99% till the July 2023 payouts. There has been no instance of credit collateral (CC) utilisation owing to the healthy collections in the pools. Moreover, the entire principal on the PTCs is promised on the final maturity date. Delinquencies have remained low in the pools with loss-cum-90+ days past due (dpd) of sub-2.0% on account of the healthy collections. As the pools are 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 for upgrading the ratings for the PTCs.

ICRA will continue to monitor the performance of the 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 pools' performance would remain exposed to macro-economic shocks/business disruptions. Given the marginal borrower profile, the 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.

After making these adjustments, the expected mean shortfall in principal collection and prepayments during the balance tenure of the pools are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Aavishkaar May 2022 Trust I	0.50-1.50%	2.4-9.0% p.a.
2	Aavishkaar June 2022 Trust II	0.75-1.75%	2.4-9.0% p.a.

## Liquidity position:

### For Aavishkaar May 2022 Trust I – Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A holders on a monthly basis while the entire principal amount is promised on the final maturity date of the transaction. Further, any excess amount (including over-collateral and excess interest spread) after making the promised interest and expected principal payments to PTC Series A will flow back to the originator on a monthly basis. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

## For Aavishkaar June 2022 Trust II – Strong

As per the transaction structure, the interest amount and a part of the principal amount (60% of the billed pool principal for the month) are promised to the PTC holders on a monthly basis while the remaining principal amount (40% of billed pool principal) is promised on the scheduled maturity date of the transaction. Assuming the monthly collection efficiency declines to 50% in the underlying pool of contracts in a stress scenario, the available CC would cover the entire shortfall in the PTC payouts. Overall, the cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the payouts to the PTC Series A1 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 of contracts (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 performance of both pools till July 2023 (payout month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

### About the originator

Kolkata-headquartered Arohan Financial Services Limited (Arohan) is a non-banking financial company – microfinance institution (NBFC-MFI), which was incorporated on September 27, 1991. It is engaged in the business of microlending, mainly to women borrowers, and operates on the joint liability group 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 June 30, 2023, it was catering to 20.2 lakh borrowers through a network of 906 branches spread across 271 districts and 15 states while managing a portfolio of Rs. 5,564 crore.

### Key financial indicators

Arohan	FY2022	FY2023	Q1 FY2024*
	Audited	Audited	Provisional
Total income	920	1,091	354
Profit after tax	61	71	25
Gross loan portfolio	4,122	5,357	5,564
Gross non-performing assets (NPA)	4.5%	2.9%	1.7%
Net NPA	1.4%	0.2%	0.0%

Source: Company data, ICRA Research; Amount in Rs. Crore

\* Provisional numbers

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
					Aug 21, 2023	Aug 26, 2022	May 30, 2022	-	-
1	Aavishkaar May 2022 Trust I	PTC Series A	191.40	23.82	[ICRA]AA(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

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
					Aug 21, 2023	Sep 21, 2022	Jun 30, 2022	-	-
2	Aavishkaar June 2022 Trust II	PTC Series A1	74.96	10.34	[ICRA]AA+(SO)	[ICRA]A(SO)	Provisional[ICRA]A(SO)	-	-

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Aavishkaar May 2022 Trust I	PTC Series A	Moderately Complex
Aavishkaar June 2022 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
<b>Aavishkaar May 2022 Trust I</b>	PTC Series A	May 2022	10.25%	February 2024	23.82	[ICRA]AA(SO)
<b>Aavishkaar June 2022 Trust II</b>	PTC Series A1	June 2022	10.25%	March 2024	10.34	[ICRA]AA+(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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