

February 26, 2024

## 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 February 2024 Payout (Rs. crore)	Rating Action
Aavishkaar November 2022 Trust I	PTC Series A1	100.00	NA	2.82	[ICRA]AAA(SO); Upgraded from [ICRA]AA-(SO)
	PTC Series A2	2.86	NA	2.86	[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 February 2024 payout is shown in the table below.

Parameter	Aavishkaar November 2022 Trust I
Months post securitisation	15
Pool amortisation	83.64%
PTC Series A1 amortisation	98.55%
PTC Series A2 amortisation	0.00%
Average monthly collection efficiency for last three months <sup>1</sup>	96.90%
Loss-cum-0+ dpd <sup>2</sup>	2.81%
Loss-cum-30+ dpd <sup>3</sup>	2.69%
Loss-cum-90+ dpd <sup>4</sup>	2.31%
Cumulative credit collateral (CC) utilisation	0.00%
CC (% of balance pool)	61.11%

### Key rating drivers

#### Credit strengths

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

<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

- NA

## Description of key rating drivers highlighted above

The performance of the pool has been strong with a cumulative collection efficiency of more than 98% post the February 2024 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-3.0% 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 February 2024 (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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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, 2023, it was catering to 21.2 lakh borrowers through a network of 939 branches spread across 281 districts and 15 states while managing assets under management (AUM) of Rs. 6,023 crore (limited review).

#### Key financial indicators

Arohan Financial Services Limited	FY2022	FY2023	H1 FY2024
Total income	920	1,091	760
Profit after tax	61	71	130
Total managed assets (grossed up for provisions)	5,697	6,635	7,538
Return on average managed assets	1.0%	1.1%	3.7%
Managed gearing (times)	4.1	3.6	3.2
Gross stage 3 assets	4.5%	2.7%	1.3%
Capital to risk (weighted) adequacy ratio (CRAR)	34.6%	28.7%	31.8%

Managed gearing = (On-book borrowings + Securitised/assigned loan assets)/(Net worth)

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Amounts 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
					Feb 26, 2024	Feb 17, 2023	Nov 30, 2022	-
1	Aavishkaar November 2022 Trust I	PTC Series A1	100.00	2.82	[ICRA]AAA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-
		PTC Series A2	2.86	2.86	[ICRA]AAA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-

#### Complexity level of the rated instrument

Instrument	Complexity Indicator
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 November 2022 Trust I	PTC Series A1	November 2022	9.65%	August 2024	2.82	[ICRA]AAA(SO)
	PTC Series A2		13.00%		2.86	[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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### Branches



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