

March 08, 2024

Arohan Financial Services Limited: Provisional [ICRA]A+(SO) assigned to Series A1 PTC backed by microfinance loan receivables issued by Aavishkaar February 2024 Trust I

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Aavishkaar February 2024 Trust I	Series A1 PTC	94.55	Provisional [ICRA]A+(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending action/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Arohan Financial Services Limited {Arohan/originator; rated [ICRA]A (Stable)}. The PTCs are backed by a pool of Rs. 107.44-crore (principal amount; receivables of Rs. 128.30 crore) microfinance loan receivables originated by Arohan.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the form of (i) a cash collateral (CC) of 6.00% of the pool principal to be provided by the originator, (ii) subordination/over-collateralisation of 12.00% of the pool principal for Series A1 PTC, and (iii) the entire excess interest spread (EIS) of 14.00% of the pool principal for Series A1 PTC in the structure, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, over-collateralisation and CC
- No overdue contracts in the pool as on the cut-off date
- Average seasoning of the pool is 8 months and pre-securitisation amortisation is ~23% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing ~69% to the pool
- Performance of the pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The underlying loans follow a monthly payment schedule. The promised monthly cash flow schedule will comprise the interest payments to the subscribers of Series A1 PTC at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date. On each payout date, all excess cash flow, after meeting the promised Series A1 PTC interest payouts, will be paid out to meet the expected Series A1 PTC (to the extent of pool principal billing). The surplus EIS available after

making the promised and expected payments shall flow back to the originator on every payout date. All prepayment amounts would be passed on to Series A1 PTC (till the Series A1 PTC principal is not fully amortised) every month and future payouts will be revised accordingly.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 12.00% of the pool principal. Further credit support is available in the form of an EIS of 14.00%. A CC of 6.00% of the initial pool principal (Rs. 6.45 crore), to be provided by Arohan, would act as further credit enhancement in the transaction. After the promised and scheduled payouts to the PTCs holders have been made every month (as per the waterfall below), the EIS will flow back to the originator.

There were no overdues in the pool as on the cut-off date. The pre-securitisation amortisation is modest at 23.2% as on the cut-off date. The pool has high geographical concentration with the top 3 states (West Bengal, Uttar Pradesh and Bihar) contributing 69.4% to the initial pool principal amount. At the district level, the top 5 districts account for 16.2% 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.

Past rated pools: ICRA has rated 18 PTC transactions backed by microloan receivables for Arohan. As on date, one transaction is live. The live pool has reported satisfactory collections with nil CC utilisation up to the February 2024 payout.

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

The liquidity for the PTC instruments in the transaction is strong after factoring in the credit enhancement available to meet the promised payouts to the investors. The total credit enhancement would be 5.75 times the estimated loss in the pool.

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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Arohan's portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

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, 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 December 31, 2023, it was catering to 22 lakh borrowers through a network of 957 branches spread across 286 districts and 16 states while managing assets under management (AUM) of Rs. 6,339 crore.

Key financial indicators

Arohan	FY2022	FY2023	H1 FY2024
	Audited	Audited	Provisional
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
Gross stage 3 assets	4.5%	2.7%	1.3%
CRAR	34.6%	28.7%	31.8%

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	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 08, 2024			
1	Aavishkaar February 2024 Trust I	Series A1 PTC	94.55	94.55	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 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 February 2024 Trust I	Series A1 PTC	February 2024	9.65%	December 2025	94.55	Provisional [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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