

May 20, 2024

## Arohan Financial Services Limited: Rating reaffirmed and rated amount enhanced; rating withdrawn for Rs. 4.53-crore bank facilities programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities – Fund based	4,603.07	5,603.07	[ICRA]A (Stable); reaffirmed and assigned for enhanced amount
Non-convertible debentures	505.00	505.00	[ICRA]A (Stable); reaffirmed
Subordinated debt	75.00	75.00	[ICRA]A (Stable); reaffirmed
Long-term bank facilities – Fund-based term loan	4.53	0.00	[ICRA]AA-(CE) (Stable); withdrawn
<b>Total</b>	<b>5,187.60</b>	<b>6,183.07</b>	

\*Instrument details are provided in Annexure I

Rating without explicit credit enhancement	[ICRA]A
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Note: The (CE) suffix mentioned alongside the [ICRA]AA- rating symbol indicates that the rated instrument/facility is to be backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The above table also captures ICRA's opinion on the rating without factoring in the proposed explicit credit enhancement

### Rationale

The rating factors in Arohan Financial Services Limited's (Arohan) established track record of operations, healthy profitability and comfortable capitalisation profile. The assets under management (AUM) grew by 24% (annualised) in 9M FY2024 to Rs. 6,339 crore as on December 31, 2023 from Rs. 5,357 crore as on March 31, 2023. ICRA notes that the company raised Rs. 248 crore and Rs. 266 crore in FY2023 and 9M FY2024, respectively, in the form of compulsory convertible preference shares (CCPS). This has bolstered its capitalisation profile, making it well capitalised to absorb future losses, if any, and support its growth plans. As a result, the gearing (managed)<sup>1</sup> declined to 3.2 times as on December 31, 2023 from 3.6 times as on March 31, 2023 (4.1 times as on March 31, 2022).

ICRA notes that the gross non-performing assets (GNPAs) declined to 1.4% as on December 31, 2023 (2.7% as on March 31, 2023 and 4.5% as on March 31, 2022) due to the gradual improvement in collections, write-offs and sale to an asset reconstruction company (ARC). The company had 100% provision coverage on the GNPA accounts as on December 31, 2023, leading to nil net NPAs. The gradual improvement in the asset quality and the consequent decline in the credit costs also supported Arohan's earnings profile. Further, the increase in the share of the portfolio generated at higher lending rates, after the revised regulations became applicable, led to an improvement in the profitability indicators. The return on managed assets (RoMA) increased to 3.9% in 9M FY2024 from 1.1% in FY2023 (1.0% in FY2022).

The rating, however, remains constrained by the high geographical concentration with the top 3 states, namely West Bengal, Bihar and Uttar Pradesh, constituting 68% of the microfinance portfolio as on December 31, 2023 (65% as on March 31, 2023; 64% as on March 31, 2022). The rating also factors in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks associated with microlending, which may lead to volatility in the asset quality indicators.

<sup>1</sup> Gearing (managed) = (On-book borrowings + Securitised/Assigned loan assets)/(Net worth)

The Stable outlook reflects ICRA's opinion that the company would be able to sustain a steady credit profile, while expanding its scale of operations, maintaining healthy profitability and improving its asset quality further.

ICRA has withdrawn the rating for the Rs. 4.53-crore long-term bank facilities programme as the same has been repaid by the company with no amount outstanding against the instrument. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

## Key rating drivers and their description

### Credit strengths

**Established track record of operations** – Arohan is one of the largest non-banking financial company-microfinance institutions (NBFC-MFIs) in India by AUM. It has an established track record of around 18 years in the microfinance space. It reported an annualised growth of 24% in 9M FY2024 with the AUM standing at Rs. 6,339 crore as on December 31, 2023 (Rs. 5,357 crore as on March 31, 2023, up by 30%). As on December 31, 2023, the company had a presence in 286 districts across 16 states through a network of 957 branches.

**Healthy profitability** – Arohan's profitability was impacted from FY2021 to FY2023 by the Covid-19 pandemic, primarily on account of the elevated credit costs arising from the weakening asset quality. However, with the gradual improvement in collections, write-offs and sale to an ARC, the gross NPAs reduced to 1.4% as on December 31, 2023 (2.7% as on March 31, 2023 and 4.5% as on March 31, 2022). The company had 100% provision coverage on the GNPA accounts as on December 31, 2023, leading to nil net NPAs. Given the lower credit costs and the higher disbursements with better yields, Arohan's overall profitability profile improved in 9M FY2024. It reported a net profit of Rs. 211 crore in 9M FY2024 compared to Rs. 71 crore in FY2023, translating into RoMA of 3.9% (1.1% for FY2023) and a return on net worth (RoNW) of 17.8% (6.0% for FY2023).

**Comfortable capitalisation profile** – The company's capital adequacy ratio (CAR) stood at 31.7% as on December 31, 2023 (28.7% as on March 31, 2023), which was well above the regulatory requirement of 15%, while the gearing (managed) was 3.2 times (3.6 times as on March 31, 2023; 4.1 times as on March 31, 2022). The management plans to maintain the CAR well above 20% in the medium term. ICRA notes that Arohan raised Rs. 248 crore and Rs. 266 crore in FY2023 and 9M FY2024, respectively, in the form of CCPS. This has bolstered its capitalisation profile, making it well capitalised to absorb future losses, if any, and support its growth plans. Going forward, ICRA expects Arohan's capitalisation profile to remain comfortable.

### Credit challenges

**Geographical concentration risk** – The company had a presence in 286 districts across 16 states through a network of 957 branches as on December 31, 2023. However, the share of the microfinance portfolio in West Bengal and Bihar remained high at 26% and 24%, respectively, as on December 31, 2023. The top 3 states comprised 68% of the microfinance portfolio as on December 31, 2023 (65% as on March 31, 2023; 64% as on March 31, 2022). ICRA notes that Arohan intends to reduce its geographical concentration and has expanded its presence to support its growth plans, whereby it started operations in Maharashtra, Haryana, Gujarat and Tamil Nadu in 9M FY2024.

Further, there is scope for district-level diversification of the portfolio as the top 10 and 20 districts comprised 19% and 33%, respectively, of the microfinance portfolio as on December 31, 2023 (19% and 34%, respectively, as on March 31, 2023) and 68% and 116%, respectively, of the net worth as on December 31, 2023 (75% and 134%, respectively, as on March 31, 2023). Going forward, the company's ability to improve its geographical diversification while scaling up its operations remains important from a credit perspective.

**Political, communal, and other risks in the microfinance sector, given the marginal borrower profile** – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance

industry is prone to socio-political, climatic and operational risks, which could negatively impact its operations. Arohan's ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations would be key for managing high growth rates while maintaining its credit profile.

### Liquidity position: Adequate

As on December 31, 2023, Arohan had a free cash and liquid balance of Rs. 895 crore with scheduled debt repayments of Rs. 1,649 crore for the six-month period ending June 2024 and scheduled principal collections of Rs. 2,168 crore during this period. Factoring in the expected collections from advances, the liquidity profile is likely to remain adequate to meet the debt obligations in a timely manner.

### Rating sensitivities

**Positive factors** – An increase in the scale, while maintaining healthy profitability (RoMA of more than 3%), a prudent capitalisation profile and a further improvement in the asset quality indicators on a sustained basis, would have a positive impact on the rating.

**Negative factors** – Pressure on the rating could arise if the managed gearing exceeds 5.5 times on a sustained basis or the asset quality deteriorates significantly and/or the profitability (RoMA of less than 2%) weakens on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Non-banking Finance Companies</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

### 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 December 31, 2023, it was operating through a network of 957 branches spread across 286 districts and 16 states while managing assets under management (AUM) of Rs. 6,339 crore (limited review).

### Key financial indicators

Arohan Financial Services Limited	FY2022	FY2023	9M FY2024
As per	Ind-AS	Ind-AS	Ind-AS
Total income	920	1,091	1,185
Profit after tax	61	71	211
Total managed assets (grossed up for provisions)	5,697	6,635	7,861
Return on average managed assets	1.0%	1.1%	3.9%
Managed gearing (times)	4.1	3.6	3.2
Gross stage 3 assets	4.5%	2.7%	1.4%
CRAR	34.6%	28.7%	31.7%

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

#### Any other information:

ICRA notes that Arohan also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure. ICRA notes that Arohan has been able to raise fresh funds despite covenant breaches in the last two to three years. The management has guided that Arohan has requested for waivers from lenders/investors for such breaches and no negative comments/adverse actions have been taken for the same.

### Rating history for past three years

Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years									
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2024 (Rs. crore)*	Date & Rating in FY2025	Date & Rating in FY2024			Date & Rating in FY2023					Date & Rating in FY2022	
				May 20, 2024	Jan 10, 2024	Nov 9, 2023	Aug 14, 2023	Dec 26, 2022	Sep 21, 2022	Jul 01, 2022 Jul 14, 2022	Jun 21, 2022	Apr 06, 2022	Mar 25, 2022 Oct 05, 2021 Jul 20, 2021	
1 Long-term bank facilities – Fund based	Long term	5,603.07	5,499.83 <sup>^</sup>	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	
2 NCDs	Long term	505.00	472.50	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	
3 NCDs	Long term	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	
4 NCDs	Long term	-	-	-	-	-	[ICRA]A- (Positive); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	
5 NCDs	Long term	-	-	-	-	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	-	
6 Long-term bank facilities – Fund-based term loan	Long term	4.53	-	[ICRA]AA- (CE) (Stable); withdrawn	[ICRA]AA- (CE) (Stable)	[ICRA]A (CE) (Positive)	[ICRA]A (CE) (Positive)	[ICRA]A (CE) (Stable)	[ICRA]A (CE) (Negative)	[ICRA]A (CE) (Negative)	Provisional [ICRA]A (CE) (Negative)	Provisional [ICRA]A (CE) (Negative)	-	
7 Subordinated debt	Long term	75.00	75.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	-	-	-	-	
8 Subordinated debt	Long term	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	-	-	-	-	

\*Source: Company; <sup>^</sup> As on May 7, 2024

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt	Simple
NCD	Simple
Long-term bank facilities – Fund based	Simple

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**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE808K07246	NCD	Dec-14-2020	11.40%	Jun-14-2024	65	[ICRA]A (Stable)
INE808K08079	NCD	Mar-31-2022	13.65%	Jun-30-2027	200	[ICRA]A (Stable)
INE808K07261	NCD	Jun-26-2022	11.86%	Jun-29-2027	115	[ICRA]A (Stable)
INE808K08061	NCD	Oct-25-2019	12.85%	Oct-25-2026	25	[ICRA]A (Stable)
INE808K08046	NCD	Mar-29-2018	13.25%	Apr-28-2025	65	[ICRA]A (Stable)
INE808K08053	NCD	Aug-14-2018	13.25%	Sep-30-2025	35	[ICRA]A (Stable)
NA	Long-term bank facilities – Fund based	Jun-08-2018 to Apr-02-2024	5.15-11.75%	Jul-10-2023 to Apr-30-2027	5,603.07	[ICRA]A (Stable)
NA	Subordinated debt (term loan)	Mar-07-2018	13.50%	Apr-01-2025	50	[ICRA]A (Stable)
NA	Subordinated debt (term loan)	Mar-30-2021	14.25%	Jun-04-2027	25	[ICRA]A (Stable)
NA	Long-term bank facilities – Fund-based term loan	Mar-31-2022	10.00%	Mar-31-2024	4.53	[ICRA]AA-(CE) (Stable); withdrawn

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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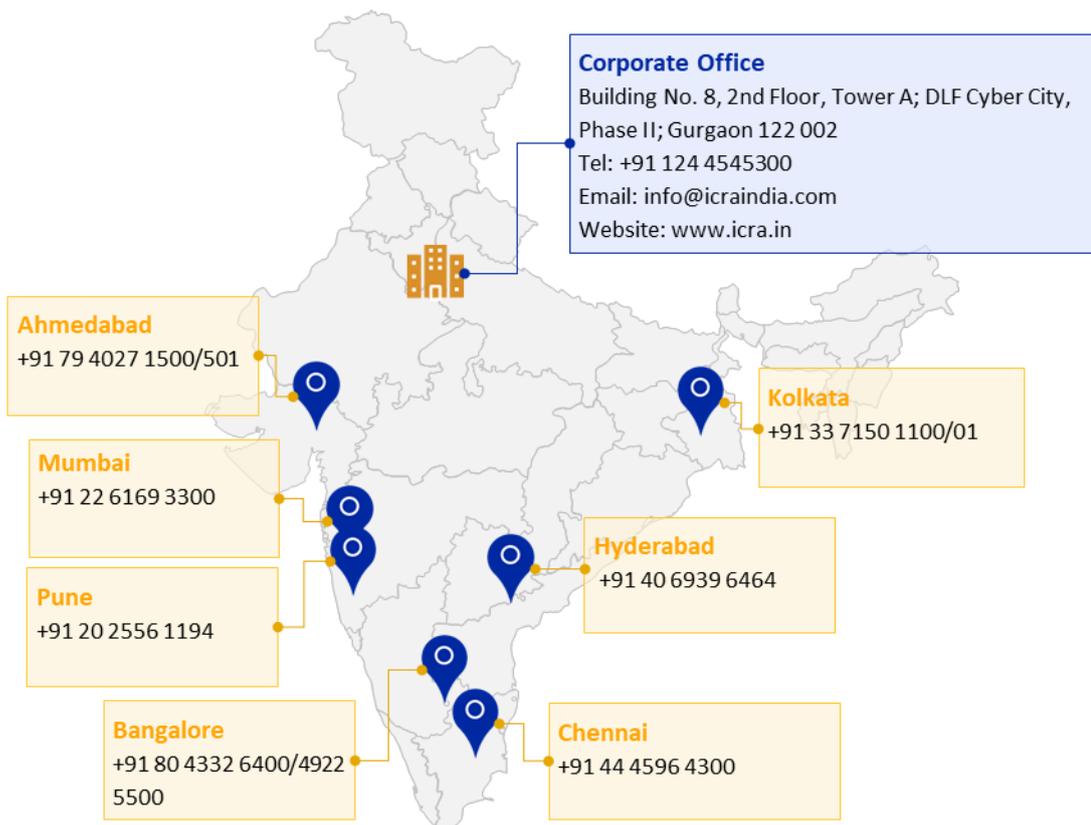
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