

July 05, 2024

## Arohan Financial Services Limited: Rating confirmed as final for PTCs 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	[ICRA]A+(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

ICRA had assigned provisional rating to the Series A1 Pass-Through Certificates (PTCs) issued by Aavishkaar February 2024 Trust I under a securitisation transaction originated by Arohan Financial Services Limited {Arohan/Originator, rated [ICRA]A (Stable)}. The PTCs are backed by a pool of microfinance loan receivables originated by Arohan with an aggregate principal outstanding of Rs. 107.44 crore (pool receivables of Rs. 128.30 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 6.00% of the initial pool principal, amounting to Rs. 6.45 crore, provided by the Originator, (ii) subordination of 12.00% of the initial pool principal for Series A1 PTC, and (iii) the excess interest spread (EIS) of 14.27% of the initial pool principal for Series A1 PTC.

### Key rating drivers and their description

#### Credit strengths

**Granular pool supported by presence of credit enhancement** – The pool is granular, consisting of 34,164 contracts, with top 10 contracts forming only 0.1% of the initial pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

**No overdue contracts in the pool** – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool had ever been delinquent, which is a credit positive.

**Seasoned contracts in the pool** – The pool is amortised by almost 23% as on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement, thereby reflecting the borrowers' relatively better credit profile.

#### Credit challenges

**Significant geographical concentration** – The pool has high geographical concentration with the top 3 states, viz. West Bengal, Uttar Pradesh and Bihar, contributing ~69% to the initial pool principal amount as on the cut-off date. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc. Nonetheless,

the contracts are well-diversified across multiple districts with the top 10 districts forming ~25% of the initial pool amount, which alleviates the concentration risk to some extent.

**Risks associated with lending business** – The pool’s performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of loans would also be exposed to political and communal risks.

### Key rating assumptions

ICRA’s cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.75% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 2.4% to 9.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

### Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Aavishkaar February 2024 Trust I
Originator	Arohan Financial Services Limited
Servicer	Arohan Financial Services Limited
Trustee	Axis Trustee Services Limited
CC bank	Axis Bank Limited
Collection and payout account bank	Axis Bank Limited

### Liquidity position: Strong

The liquidity for PTC instrument in the transaction is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~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 build-up of the cover from the credit enhancement of the balance pool principal, 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 (Arohan) could also exert pressure on the rating.

### Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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 Aavishkaar Group in September 2012. As on March 31, 2024, it was operating through a network of 975 branches spread across 293 districts and 17 states while managing assets under management (AUM) of Rs. 7,112 crore (limited review).

### EXHIBIT 1: Key financial indicators (Rs. Crore)

	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	920	1,091	1,635
Profit after tax	61	71	314
Total managed assets (grossed up for provisions)	5,697	6,635	8,654
Gross stage 3 assets	4.5%	2.7%	1.6%
CRAR	34.6%	28.7%	29.0%

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

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Jul 05, 2024	Mar 08, 2024	-	-
Aavishkaar February 2024 Trust I	Series A1 PTC	94.55	94.55	[ICRA]A+(SO)	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 Type	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
<b>Aavishkaar February 2024 Trust I</b>	Series A1 PTC	March 25, 2024	9.65%	January 24, 2026	94.55	[ICRA]A+(SO)

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.

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For more information, visit [www.icra.in](http://www.icra.in)

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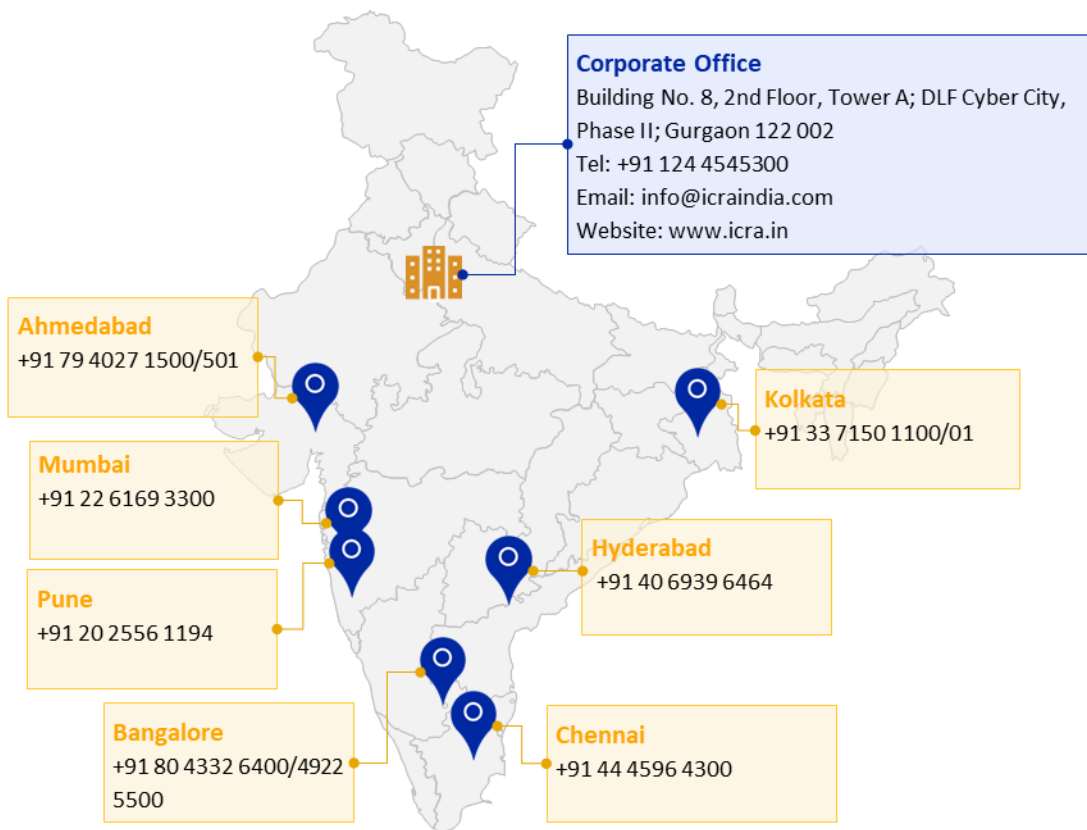
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