

October 25, 2024

Arohan Financial Services Limited: Rating placed on Watch with Negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities – Fund based	5,603.07	5,603.07	[ICRA]A; placed on Rating Watch with Negative Implications
Non-convertible debentures	505.00	505.00	[ICRA]A; placed on Rating Watch with Negative Implications
Subordinated debt	75.00	75.00	[ICRA]A; placed on Rating Watch with Negative Implications
Total	6,183.07	6,183.07	

*Instrument details are provided in Annexure I

Rationale

Material event

The Reserve Bank of India (RBI), vide its press release dated [October 17, 2024](#), directed Arohan Financial Services Limited (Arohan) to stop sanctioning or disbursing loans effective October 21, 2024. The company can, however, continue to service its existing borrowers through the usual collection and recovery process. This move came after the RBI's material supervisory concerns on the company, wherein certain observations were made regarding usurious pricing, evergreening of loans and other compliance matters. As per ICRA's discussions with the management, Arohan is in the process of taking corrective actions to comply with these observations.

Impact of material event

Considering the restriction on fresh loan disbursements and the short tenor of these loans, the overall assets under management (AUM) shall decline. Though the company has been allowed to continue with the collection and recovery process, its ability to maintain the asset quality shall be monitorable if the restriction on disbursements continues for a prolonged period. Arohan's profitability and financial flexibility are likely to be negatively impacted, depending on the duration of the business restrictions.

As on September 30, 2024, Arohan had an unencumbered cash and liquid balance of around Rs. 1,120 crore with scheduled principal collections of Rs. 4,615 crore in the next one year ending September 30, 2025, against the scheduled debt repayment of Rs. 3,637 crore during this period. The asset-liability management (ALM) statement, as of September 30, 2024, had positive cumulative mismatches across all buckets. Given the uncertainty regarding the period of restriction and the likely impact of the same, ICRA has placed the rating on Watch with Negative Implications. ICRA will continue to monitor developments closely and will take appropriate rating action based on the resolution of the regulatory directives and its impact on the company's credit risk profile.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
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 June 30, 2024, it was operating through a network of 1,003 branches spread across 301 districts and 17 states while managing assets under management (AUM) of Rs. 7,062 crore (limited review).

Key financial indicators

Arohan Financial Services Limited	FY2023	FY2024	Q1 FY2025
As per	Ind-AS	Ind-AS	Ind-AS
Total income	1,091	1,635	479
Profit after tax	71	314	104
Total managed assets (grossed up for provisions)	6,635	8,654	8,801
Return on average managed assets	1.1%	4.1%	4.8%
Managed gearing (times)	3.6	3.3	3.2
Gross stage 3 assets	2.7%	1.7%	2.0%
CRAR	28.7%	29.0%	30.3%

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 they do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure. 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. ICRA notes that Arohan has been able to raise fresh funds despite covenant breaches in the last 2-3 years.

Rating history for past three years

Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years									
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024			Date & Rating in FY2023					Date & Rating in FY2022	
			Oct 25, 2024	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	[ICRA]A; Rating Watch with Negative Implications	[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)	[ICRA]A- (Negative)
2 NCDs	Long term	505.00	[ICRA]A; Rating Watch with Negative Implications	[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)	[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)	[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)	[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	-	-	[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	[ICRA]A; Rating Watch with Negative Implications	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	-	-	-	-	-

Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years								
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024			Date & Rating in FY2023					Date & Rating in FY2022
			Oct 25, 2024	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
8 Subordinated debt	Long term	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	-	-	-	-

Source: Company

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; Rating Watch with Negative Implications
INE808K08079	NCD	Mar-31-2022	13.65%	Jun-30-2027	200	[ICRA]A; Rating Watch with Negative Implications
INE808K07261	NCD	Jun-26-2022	11.86%	Jun-29-2027	115	[ICRA]A; Rating Watch with Negative Implications
INE808K08061	NCD	Oct-25-2019	12.85%	Oct-25-2026	25	[ICRA]A; Rating Watch with Negative Implications
INE808K08046	NCD	Mar-29-2018	13.25%	Apr-28-2025	65	[ICRA]A; Rating Watch with Negative Implications
INE808K08053	NCD	Aug-14-2018	13.25%	Sep-30-2025	35	[ICRA]A; Rating Watch with Negative Implications
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; Rating Watch with Negative Implications
NA	Subordinated debt (term loan)	Mar-07-2018	13.50%	Apr-01-2025	50	[ICRA]A; Rating Watch with Negative Implications
NA	Subordinated debt (term loan)	Mar-30-2021	14.25%	Jun-04-2027	25	[ICRA]A; Rating Watch with Negative Implications

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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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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