

March 31, 2025

Arman Financial Services Limited: Provisional [ICRA]A(SO) assigned to PTC Series A1 issued by Crest 2025, backed by a pool of unsecured MSME loan receivables

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Crest 2025	PTC Series A1	52.06	Provisional [ICRA]A(SO); Assigned

*Instrument details are provided in Annexure I

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

The pass-through certificates (PTCs) are backed by a pool of unsecured MSME loan receivables originated by Arman Financial Services Limited (Arman/Originator) with an aggregate principal outstanding of Rs. 57.84-crore (pool principal; receivables of Rs. 75.12 crore). Arman would be acting as the servicer for the transaction.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

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. The residual cash flows from the pool, after meeting the promised and expected payouts, will be flow back to the originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal. The transaction has certain trigger events defined, on occurrence of which the residual cash flows would be passed on to PTC Series A1 investors.

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. 3.47 crore, to be provided by the Originator, (ii) principal subordination of 10.00% of the initial pool principal for PTC Series A1 and (iii) the excess interest spread (EIS) of 20.87% of the initial pool principal for PTC Series A1.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular in nature, with top 10 obligors forming only 0.23% 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 investor payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Also, none of the contracts have never been overdue since origination which is a credit positive.

Adequate servicing capability of the originator – The originator has adequate processes for servicing of the loan accounts in the securitised pool. It has a demonstrated track record of almost a decade of regular collections across multiple geographies.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Gujarat, Madhya Pradesh and Rajasthan contributing 94% to the initial pool principal amount. The pool’s performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The performance of the pool 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. Further, pool will be exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

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 5.75% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 5% to 18% 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.

Liquidity position: Strong

The liquidity for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be 4.5 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 of contracts (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 (Arman) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Arman’s loan portfolio till December 2024, 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
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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 a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Power of Attorney
4. Legal opinion
5. Trustee letter
6. KYC Chartered Accountant's certificate
7. 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

Arman Financial Services Limited (Arman) is a publicly listed Non-Banking Finance Company (NBFC). Established on November 26, 1992, as Arman Lease & Finance Ltd., the company has evolved into a diversified NBFC focusing on rural and semi-urban financing. The company provides a wide spectrum of financial services, including MSME financing, vehicle financing, LAP and microfinance services. As on December 31, 2024, Arman's consolidated portfolio comprises approximately 77% Microfinance (JLG) loans, 18% MSME loans, and 5% Two-wheeler, LAP and Individual Business loans. The company's microfinance operations are conducted through its wholly owned subsidiary, Namra Finance Limited. Arman has presence in 11 states, catering to 7.7 lakh customers through a network of 486 branches spread across 167 districts as on December 31, 2024.

Key Financial Indicators (standalone)

Particular for	FY2023 (Audited)	FY2024 (Audited)	9MFY2025 (Unaudited)
Operating income	94.4	133.5	131.3
PAT	28.4	37.9	30.4
AUM	315.3	446.2	512.2
GNPA	2.6%	2.6%	3.4%
CRAR	32.6%	62.7%	39.5%

Source: 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

Sr. No.	Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				March 31, 2025			
1	Crest 2025	PTC Series A1	52.06	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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

ISIN	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Crest 2025	PTC Series A1	March 25, 2025	11.25%	December 24, 2026	52.06	Provisional [ICRA]A(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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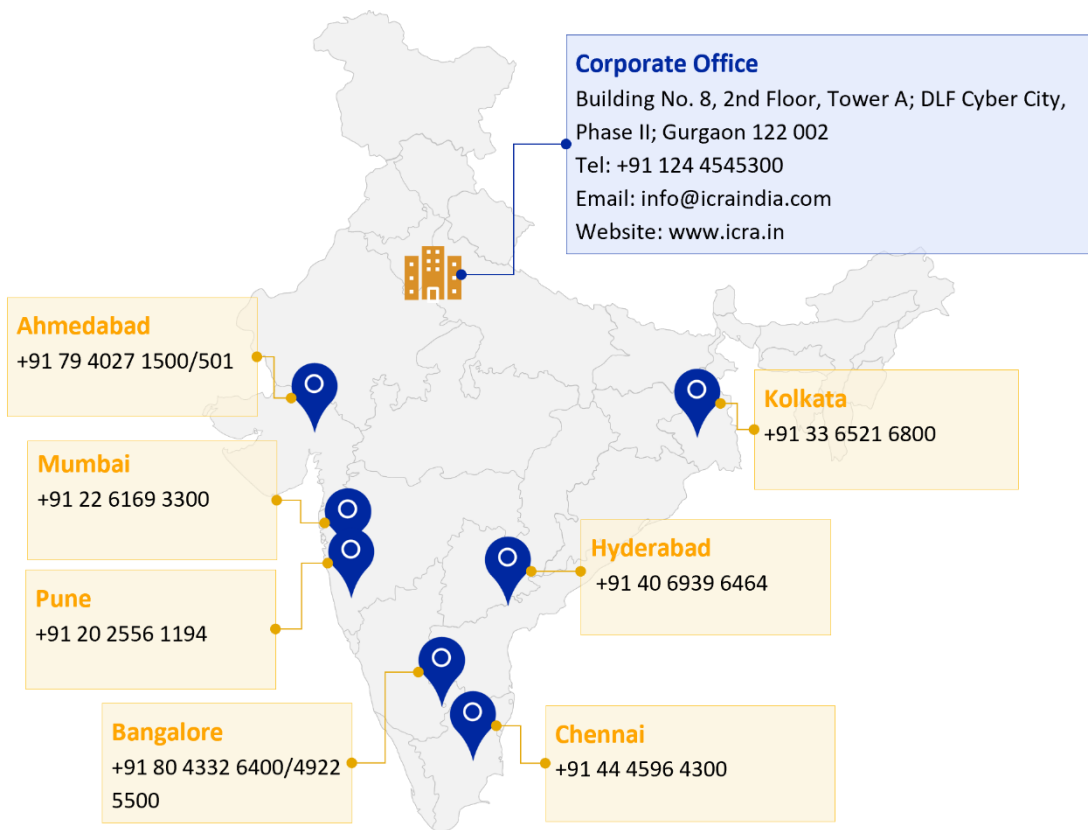
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