

April 23, 2025

Arman Financial Services Limited: Rating confirmed as final for PTCs backed by unsecured MSME loan receivables issued by Crest 2025

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Crest 2025	PTC Series A1	52.06	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2025, ICRA had assigned Provisional [ICRA]A(SO) rating to Pass-Through Certificate (PTC) Series A1, issued by Crest 2025. The PTCs are backed by a pool of unsecured MSME loan receivables originated by Arman Financial Services Limited (AFSL/Originator) with an aggregate principal outstanding of Rs. 57.84 crore (pool receivables of Rs. 75.12 crore). AFSL would be acting as the servicer for the transaction.

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. 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 the 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.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Crest 2025
Originator	Arman Financial Services Limited
Servicer	Arman Financial Services Limited
Trustee	Mitcon Credentia Trusteeship Services Limited
CC holding Bank	Federal Bank
Collection and payout account Bank	ICICI Bank

Liquidity position

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 (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 (AFSL) 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	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

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 (FY2026)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2026	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	
				April 23, 2025	March 31, 2025	-	-	
1	Crest 2025	PTC Series A1	52.06	[ICRA]A(SO)	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

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

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Manushree Sagar

+91 124 4545 316

manushrees@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Pratik Vora

+91 22 6114 3438

pratik.vora@icraindia.com

Arijit Datta

+91 22 6114 3433

arijit.datta@icraindia.com

RELATIONSHIP CONTACT

L.Shivakumar

+91 22 6114 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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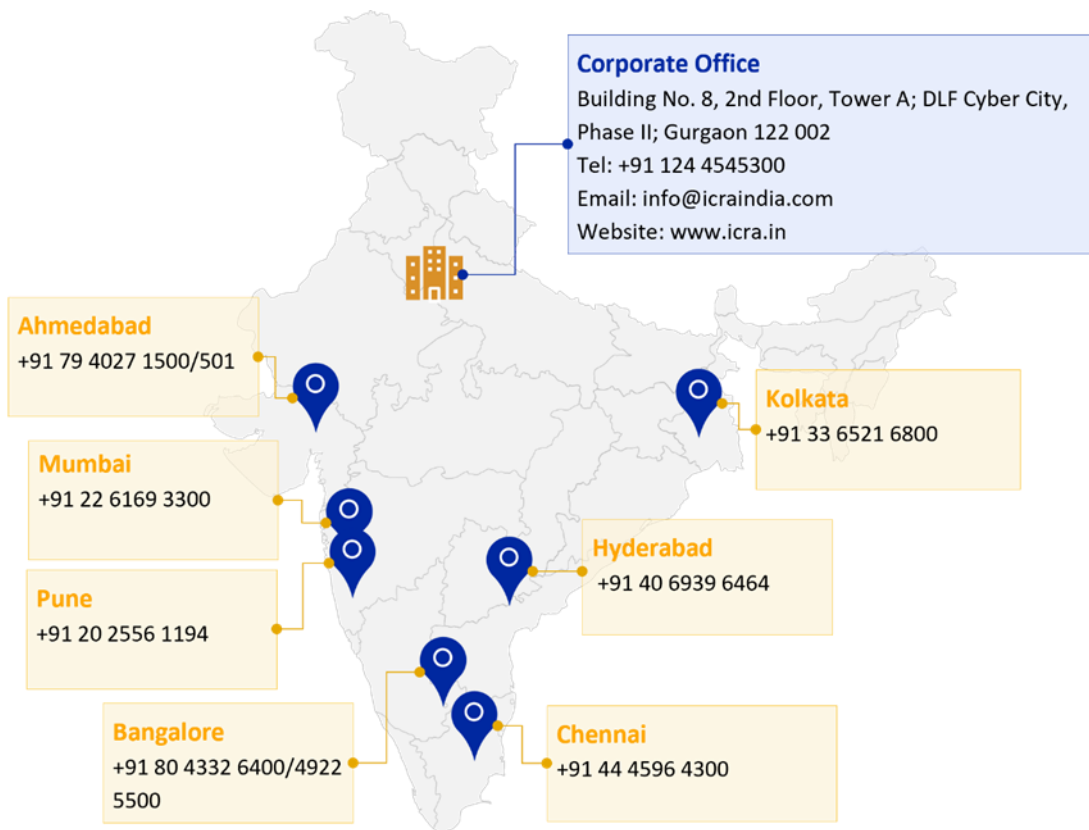
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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