

April 28, 2025^(Revised)

Arohan Financial Services Limited: Provisional ratings assigned to PTCs backed by microfinance loan receivables issued by Ascent 25-26 PTC Series A1

Summary of rating action

| Trust Name | Instrument* | Current rated amount (Rs. crore) | Rating action |
|----------------------------|----------------|----------------------------------|------------------------------------|
| Ascent 25-26 PTC Series A1 | Series A1 PTC | 209.74 | Provisional [ICRA]A+(SO); Assigned |
| | Equity Tranche | 8.09 | Provisional [ICRA]A-(SO); Assigned |

*Instrument details are provided in Annexure I

| | |
|---|--|
| Rating in the absence of pending action/documents | No rating would have been assigned as it would not be meaningful |
|---|--|

Rationale

The Pass-Through Certificates (PTCs) are backed by a pool of microfinance loan receivables originated by Arohan Financial Services Limited {(Arohan / Originator; rated [ICRA]A(Stable))} with an aggregate principal outstanding of Rs 238.07 crore (pool receivables of Rs. 285.69 crore). Arohan would be the servicer for the transaction.

The provisional ratings are 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 ratings are 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. Any surplus EIS, after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. However, on the occurrence of predefined trigger events, the residual EIS every month shall be utilised for accelerating the principal payment due to Series A1 PTC. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

Equity tranche is completely subordinated to Series A1 PTC. The principal payment to Equity Tranche is expected post full redemption of Series A1 PTC. Any surplus EIS, after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. However, on the occurrence of predefined trigger events, the residual EIS every month shall be utilised for accelerating the principal payment due to Equity tranche. Any prepayment in the pool would be used for the prepayment of Equity Tranche principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 11.90 crore, to be provided by the Originator, (ii) subordination of 11.90% of the initial pool principal for Series A1 PTC, and 3.40% for Equity Tranche (iii) the excess interest spread (EIS) of 13.98% of the initial pool principal for Series A1 PTC and Equity Tranche.

Key rating drivers and their description

Credit strengths

Granular pool with available credit enhancement – The pool is granular, consisting of 58,207 contracts, with top 10 borrowers forming less than 0.05% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the Cash collateral, subordination and EIS would absorb some of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts in the pool – The pool had amortised by 28.08% as on the cut-off date with no delinquencies observed in any of the contracts, post loan disbursement, reflecting the borrowers' relatively better credit profile.

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, all the contracts in the pool have never been delinquent post loan disbursement. This reflects the borrowers' relatively better credit profile, which is a credit positive.

Healthy bureau score of borrowers – Around ~91% of the contracts in the pool belong to borrowers with a CRIF score of at least 700, which reflects their relatively better credit profile.

Adequate servicing capability of Arohan – The company has adequate processes for servicing of the loan accounts in the securitised pool. It has a considerable track record of over a decade of regular collections across geographies and multiple economic cycles.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Bihar, West Bengal and Uttar Pradesh contributing ~72% 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.

Increasing delinquencies in microfinance sector – The microfinance sector has seen a decline in collections and a consequently rise in delinquencies in the FY2025 on account of multiple factors like heat wave, general elections, borrower overleveraging and attrition in the collection teams. The sustained impact of these factors on the collections from the pool would be a key monitorable.

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 microfinance 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 4.00% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3.0% 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 ratings for the instruments.

Liquidity position:

Series A1 PTC: Superior

The liquidity for Series A1 PTC is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~6.25 times the estimated loss in the pool.

Equity Tranche PTC: Strong

The liquidity for the equity tranche PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~5.50 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 could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Arohan's portfolio till March 2025, 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 |

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) certificate
6. 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

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, 2024, it was catering to 22.0 lakh borrowers through a network of 1088 branches spread across 320 districts and 17 states while managing assets under management (AUM) of Rs. 5,769 crore.

Key financial indicators

| Arohan Financial Services Limited | FY2023 | FY2024 | 9MFY2025* |
|--|--------|--------|-----------|
| As per | Ind-AS | Ind-AS | Ind-AS |
| Total income | 1,091 | 1,635 | 1,388 |
| Profit after tax | 71 | 314 | 152 |
| Total managed assets (grossed up for provisions) | 6,635 | 8,654 | 7,596 |
| Gross stage 3 assets | 2.7% | 1.7% | 2.9% |
| CRAR | 28.7% | 29.0% | 36.6% |

Source: Company data, 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

| | Trust Name | Current Rating (FY2026) | | | | Chronology of Rating History for the Past 3 Years | | |
|---|----------------------------|-------------------------|----------------------------------|--------------------------------|--------------------------|---|-------------------------|-------------------------|
| | | Instrument | Current Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2026 | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 |
| | | | | | Apr 28, 2025 | | | |
| 1 | Ascent 25-26 PTC Series A1 | Series A1 PTC | 209.74 | 209.74 | Provisional [ICRA]A+(SO) | - | - | - |
| | | Equity Tranche | 8.09 | 8.09 | Provisional [ICRA]A-(SO) | | | |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|----------------|----------------------|
| Series A1 PTC | Moderately Complex |
| Equity Tranche | 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* | Current Amount Rated (Rs. crore) | Current Rating |
|----------------------------|----------------|-----------------------------|------------------------|-------------------|----------------------------------|--------------------------|
| Ascent 25-26 PTC Series A1 | Series A1 PTC | April 22, 2025 | 9.65% | February 19, 2027 | 209.74 | Provisional [ICRA]A+(SO) |
| | Equity Tranche | | - | February 19, 2027 | 8.09 | Provisional [ICRA]A-(SO) |

* Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum:

Document dated 28th April 2025 has been added with the revision below:

1. Credit enhancement details added in transaction structure

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Branches



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