

June 04, 2025

## Arohan Financial Services Limited: Provisional ratings assigned to PTCs backed by microfinance loan receivables issued by Ascent Gamma May 2025

### Summary of rating action

Trust Name	Instrument*	Current rated amount (Rs. crore)	Rating action
Ascent Gamma May 2025	Series A1 PTC	99.96	Provisional [ICRA]AA-(SO); Assigned
	Series A2 PTC	3.49	Provisional [ICRA]A+(SO); Assigned
	Equity Tranche	4.65	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
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### 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. 116.23 crore (pool receivables of Rs. 137.95 crore). Arohan would also 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, till Series A1 PTC and Series A2 PTC are outstanding, the monthly cash flow schedule comprises the promised interest payout to both tranches on the basis of respective principal outstanding. Till Series A1 PTC is outstanding, the principal is expected to be paid to it on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Post full redemption of Series A1 PTC, the principal is expected to be paid to Series A2 PTC on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Post full redemption of Series A2 PTC, the principal is expected to be paid to equity tranche 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 till its full redemption, then Series A2 PTC till its full redemption and lastly towards redemption of equity tranche.

If the portfolio at risk (PAR) 90 of the pool exceeds 8.00% of the initial principal outstanding, the EIS shall be utilised towards the repayment of Series A1 PTC till its full redemption, then Series A2 PTC till its full redemption and lastly towards redemption of equity tranche. The EIS utilisation trigger will be active only for the months for which the trigger condition is met and the same will be inactive otherwise.

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. 5.81 crore, to be provided by the Originator, (ii) principal subordination/over-collateralisation (OC) of 14.00% of the initial pool principal for Series A1 PTC in the form of Series A2 PTC, Equity Tranche and over-collateralisation (iii) the the excess interest spread (EIS) of 13.45% of the initial pool principal for Series A1 PTC.

## Key rating drivers and their description

### Credit strengths

**Granular pool with available credit enhancement** – The pool is granular, consisting of 30,736 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 CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

**Seasoned contracts in the pool** – The pool has amortised by almost ~34.57% as on the cut-off date with no delinquencies observed in any of the contracts, post loan disbursement, thereby reflecting the borrowers' relatively better credit profile.

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

**Adequate servicing capability of Arohan** – The company has adequate processes for servicing of the loan accounts in the securitised pool. It has demonstrated 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. West Bengal, Bihar and Uttar Pradesh contributing ~82% 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 consequently rise in delinquencies in the current fiscal on account of multiple factors like heat wave, general elections, borrower overleveraging and attrition in the collection teams. Any 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:

### Superior for Series A1 PTC

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 ~6.75 times the estimated loss in the pool.

### Superior for Series A2 PTC

The liquidity for Series A2 PTC is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~6.00 times the estimated loss in the pool.

### Strong for Equity Tranche

The liquidity for 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 ~5.00 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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](http://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 March 31, 2025, it was catering to 21.4 lakh borrowers through a network of 1102 branches spread across 323 districts and 17 states while managing assets under management (AUM) of Rs. 6,003 crore.

## Key financial indicators

Arohan Financial Services Limited	FY2023	FY2024	FY2025
As per	Ind-AS	Ind-AS	Ind-AS
Total income	1,091	1,635	1,695
Profit after tax	71	314	110
Total managed assets (grossed up for provisions)	6,635	8,654	NA
Gross stage 3 assets	2.7%	1.7%	2.8%
CRAR	28.7%	29.0%	34.1%

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
					June 04, 2025			
1	Ascent Gamma May 2025	Series A1 PTC	99.96	99.96	Provisional [ICRA]AA-(SO)	-	-	-
		Series A2 PTC	3.49	3.49	Provisional [ICRA]A+(SO)	-	-	-
		Equity Tranche	4.65	4.65	Provisional [ICRA]A-(SO)	-	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 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 Gamma May 2025	Series A1 PTC	May 28, 2025	9.40%	May 27, 2027	99.96	Provisional [ICRA]AA-(SO)
	Series A2 PTC		11.50%	May 27, 2027	3.49	Provisional [ICRA]A+(SO)
	Equity Tranche		-	May 27, 2027	4.65	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

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## ICRA Limited

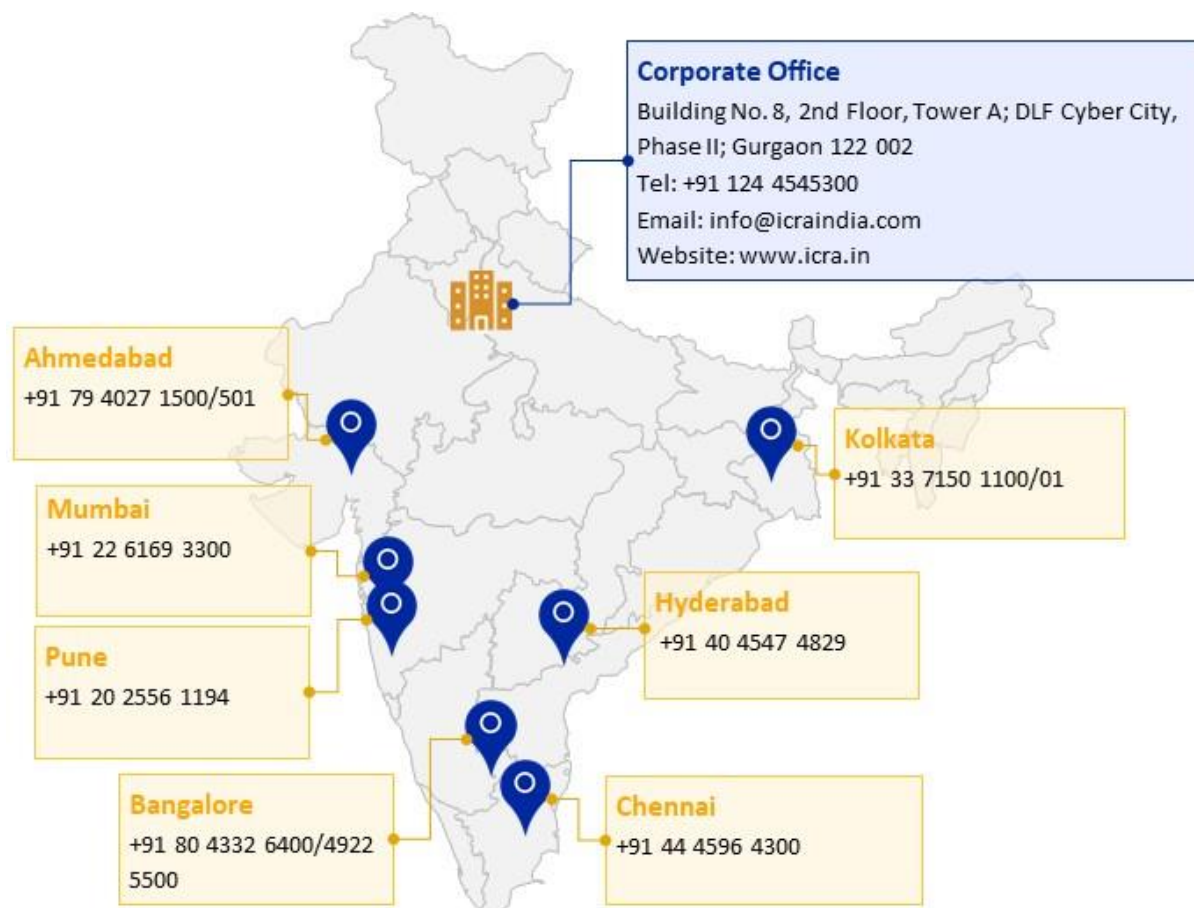


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