

Arohan Financial Services Limited

September 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	461.24 (Reduced from 481.24)	CARE A-; Positive	Reaffirmed; Outlook revised from Negative
Long-term instruments	100.00	CARE A-; Positive	Reaffirmed; Outlook revised from Negative
Long-term instruments	25.00	CARE A-; Positive	Reaffirmed; Outlook revised from Negative
Non-convertible debentures	-	-	Withdrawn
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the long-term debentures and bank facilities of Arohan Financial Services Limited (Arohan or AFSL) continue to factor in the company's comfortable capitalisation profile and adequate liquidity position, supported by regular capital infusions, given a strong investors and promoters base. The company has raised ₹248 crore of capital during FY2023 (FY refers to the period from April 01 to March 31) and ₹266 crore of capital during Q1FY24 in the form of compulsory convertible preference shares (CCPS), which has boosted its capital profile. The company continues to have a sizeable scale of operations, with its assets under management (AUM) growing by 30% y-o-y to ₹5,357 crore as on March 31, 2023, which has further grown to ₹5,564 crore as on June 30, 2023.

However, these ratings strengths are partially offset by the moderate, albeit improving asset quality and profitability metrics. The ratings also remain constrained by the geographical concentration, with the top three states constituting 68% of the total AUM as on June 30, 2023. The ratings also factor in the inherent risk of the microfinance industry, including unsecured lending, leading to a higher risk profile.

Rating sensitivities: Factors that could individually or collectively likely to lead to rating actions

Positive factors

- Significant improvement in the profitability profile.
- Significant scale-up in the loan portfolio with continued support from the investors.

Negative factors

- Significant deterioration in the asset quality profile impacting profitability.
- Rise in the overall leverage or gearing above 6x on a sustained basis.

Analytical approach: Standalone

Outlook: Positive

The revision in the outlook to positive reflects the improvement in the overall financial profile, driven by continuous support from the investors in the form of capital infusion. The positive outlook also signifies CARE Ratings Limited's (CARE Ratings') expectation that the company will continue to grow its business operations as envisaged in a calibrated manner with improvement in the asset quality metrics and profitability. Furthermore, CARE Ratings expects continuous support from the investors in future as well.

However, the outlook may be revised back to stable in case the company is unable to grow at the envisaged growth rate or it reports moderation in its asset quality and profitability metrics.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key strengths

Sizeable scale of operations

Arohan has an established track record of more than 16 years in the microfinance industry and is considered one of the largest non-banking financial companies (NBFCs) in the microfinance sector in India. The company has a presence in 15 states through a network of 906 branches as on June 30, 2023, and caters to almost 2.02 million borrowers. After the muted growth in FY21 and FY22, the company was able to pick up the growth momentum with disbursements of ₹5,299 crore in FY2023. Consequently, its AUM has registered a growth of 30% on a y-o-y basis as on March 31, 2023, and closed at ₹5,357 crore. The growth momentum has continued, with the company reporting an AUM of ₹5,564 crore as on June 30, 2023, and CARE Ratings expects the company to continue the high pace of growth over the medium term.

Healthy capitalisation, supported by regular equity infusion from investors

The capitalisation profile of the company remains comfortable with continuous support from the investors in the form of capital infusion. Arohan has raised ₹248 crore and ₹266 crore of capital in FY2023 and Q1FY24, respectively, in the form of CCPS, which reflects investor confidence in the company's growth. This has resulted into an improvement in the gearing from 4.7x as on March 31, 2022, to 3.7x as on March 31, 2023, and further improved to 3.2x as on June 30, 2023. The tangible net worth (TNW) has also improved from ₹883 crore as on March 2022 to ₹1,509 crore as on June 30, 2023, resulting into an improved capital adequacy ratio (CAR) to 32.73% as on June 30, 2023, which is well above the minimum statutory requirement of 15%. Going forward, CARE Ratings expects Arohan's capitalisation profile to remain comfortable.

Diversified funding profile

Arohan has a well-diversified resource profile with a mix of equity, long-term loans, bank borrowings, and debentures. As on June 30, 2023, Arohan has funding relationships with over 37 lenders. The funding profile comprises term loans with a major share of 63% as on June 30, 2023, followed by pass-through certificates (PTCs) and assignments (22%), subordinated debt (8%), non-convertible debentures (NCDs; 5%), external commercial borrowings (ECBs; 2%) and cash credit (CC; 1%). During FY2023, Arohan raised ₹4,191 crore from various lenders, including ₹115 crore of subordinated debt and ₹985 crore through securitisation transactions from various lenders. During Q1FY2024, it has raised ₹1,095 crore from 12 different lenders, including ₹465 crore through securitisation and direct assignments (DAs).

Experienced promoters and management team

Arohan is promoted by the Aavishkaar group, which holds 33.5% shareholding as on June 30, 2023. Apart from this group, the company is backed by other strong institutional investors such as Nuveen (a TIAA company), Tano India Private Limited, Maj Invest Financial Inclusion, TR Capital, Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden (FMO) and Investment Fund for Developing Countries, translating into a strong passage of technical know-how for Arohan.

Improved asset quality

With the gradual improvement in collections, significant write-offs and the sale to an asset reconstruction company (ARC), the asset quality of the company has improved, with the gross stress assets (which includes gross non-performing assets [GNPA] of ₹176 crore, standard restructure assets of ₹72 crore, and security receipts of ₹90 crore as on June 30, 2023) reducing from 32% as on March 31, 2022, to 6.4% as on June 30, 2023. Furthermore, the company carries sufficient provisions against its stress assets. After adjusting the provision, the net stress assets to net advance ratio has reduced to 3.4% as on June 30, 2023, as compared to 23% as on March 31, 2022.

Furthermore, the 0+ delinquency of the company has also improved from 11.7% as on December 31, 2022, to 4% as on June 30, 2023. Going forward, CARE Ratings expects the asset quality to remain under control.

Key rating weaknesses

Moderate profitability, albeit improving

After reporting losses in FY21 due to the impact of the COVID-19 pandemic, Arohan was able to improve its overall profitability, reporting a return on total assets (ROTA) of 1.17% in FY22. With rising lending rates, Arohan reported further improvement in its ROTA to 1.29% in FY23 and 1.64% in Q1FY24. However, the credit cost remains high at 5.7% as on June 30, 2023, owing to the higher provision carried by the company.

Going forward, CARE Ratings expects the profitability to improve further in the rest of the fiscal owing to the increasing share of the higher yield-generating portfolio and the reduction in credit cost.

Geographical concentration of the portfolio

The concentration of the top three states in microfinance institution (MFI) loans outstanding (West Bengal, Bihar, and Uttar Pradesh) remained high, although stable at 65% as on June 30, 2023, as compared with 66% as on June 30, 2022. The concentration towards West Bengal (the highest exposure state) for MFI loans also remained stable at 26%. The company has a presence in 15 states across different products, ie, microfinance loans and corporate advances. However, to reduce the concentration further, company has entered new states like Rajasthan, Maharashtra, Gujarat, Haryana, & Uttarakhand in last six months.

Susceptibility of business on account of event-based risks

The company's business operations are highly susceptible to event-based risks such as socio-political disruptions, regulatory risks, and natural calamities. Besides, due to the unsecured nature of the portfolio, there is no recourse available to the company, in case of default by the borrower. Although CARE Ratings believes that Arohan should be able to withstand such economic shocks on the basis of the continuous capital support coming from the investors as and when required, any material deterioration in Arohan's asset quality and profitability metrics, if any, or any other economic shocks, can put negative pressure on its ratings.

Liquidity: Adequate

As per the asset-liability mismatch (ALM) statement dated June 30, 2023, there were positive cumulative mismatches across all the time buckets, supported by a cash and bank balance of ₹1,075 crore, against which Arohan had debt obligations of ₹1,553 crore for the next six months. Consequently, the ability of the company to maintain a healthy collection efficiency while growing its loan portfolio significantly remains a key rating sensitivity.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Non Banking Financial Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Microfinance Institutions

Arohan, which started MFI operations in 2006, is a Kolkata-based NBFC-MFI registered with the Reserve Bank of India (RBI) (registration in January 2014). Arohan is mainly engaged in microfinance activity and managed AUM of ₹5,564 crore as on June 30, 2023, across 15 states for MFI activity. The top three states for MFI lending are West Bengal, Uttar Pradesh, and Bihar.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY2024 (UA)
Total operating income	920.43	1,090.99	353.76
PAT	60.95	70.72	25.40
Interest coverage (times)	1.21	1.19	1.24
Total Assets	5,088.35	5,897.11	6,466.58
Net NPA (%)	1.37	0.21	0.00
ROTA (%)	1.17	1.29	1.64

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE A-; Positive
Fund-based - LT-Term Loan		-	-	01-04-2025	416.24	CARE A-; Positive
Non convertible debenture	INE808K07139	17-Jun-2020	11.00	16-Jun-2023	-	Withdrawn
Non convertible debenture	INE808K07147	08-Jul-2020	11.50	10-Jul-2023	-	Withdrawn
Non convertible debenture	INE808K07162	25-Jul-2020	11.00	29-Jul-2023	-	Withdrawn
Subordinate debt	INE808K08046	28-Mar-2018	13.50	28-Apr-2025	65.00	CARE A-; Positive
Subordinate debt	INE808K08053	14-Aug-2018	13.50	30-Sep-2025	35.00	CARE A-; Positive
Subordinate debt	INE808K08061	24-Oct-2019	12.85	25-Oct-2026	25.00	CARE A-; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	416.24	CARE A-; Positive	-	1)CARE A-; Negative (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative	1)CARE A-; Stable (06-Aug-20) 2)CARE A-; Stable

							(23-Jun-21)	(05-May-20)
2	Debt-Subordinate Debt	LT	-	-	-	1)Withdrawn (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (06-Aug-20) 2)CARE A-; Stable (05-May-20)
3	Fund-based - LT-Cash Credit	LT	45.00	CARE A-; Positive	-	1)CARE A-; Negative (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (06-Aug-20) 2)CARE A-; Stable (05-May-20)
4	Debt-Non-convertible Debenture/Subordinate Debt	LT	100.00	CARE A-; Positive	-	1)CARE A-; Negative (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (06-Aug-20) 2)CARE A-; Stable (05-May-20)
5	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)Withdrawn (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (06-Aug-20) 2)CARE A-; Stable (05-May-20)
6	Debt-Non-convertible Debenture/Subordinate Debt	LT	25.00	CARE A-; Positive	-	1)CARE A-; Negative (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (06-Aug-20) 2)CARE A-; Stable (05-May-20)
7	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A-; Negative (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (06-Aug-20) 2)CARE A-; Stable (03-Jun-20)

8	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (06-Aug-20)
9	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A-; Negative (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)	1)CARE A-; Stable (12-Nov-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Debt-Non-convertible debenture/Subordinate Debt	Complex
3	Fund-based - LT-Cash credit	Simple
4	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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