

January 14, 2025

Arohan Financial Services Limited: Rating reaffirmed; removed from Rating Watch and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities – Fund based	5,603.07	5,603.07	[ICRA]A (Stable); reaffirmed, removed from Rating Watch with negative implications and Stable outlook assigned
Non-convertible debentures	325.00	325.00	[ICRA]A (Stable); reaffirmed, removed from Rating Watch with negative implications and Stable outlook assigned
Subordinated debt	75.00	75.00	[ICRA]A (Stable); reaffirmed, removed from Rating Watch with negative implications and Stable outlook assigned
Total	6,003.07	6,003.07	

*Instrument details are provided in Annexure I

Rationale

The rating action factors in the removal of the supervisory restrictions imposed by the Reserve Bank of India (RBI) on Arohan Financial Services Limited (Arohan) vide its press release dated January 03, 2025. On October 17, 2024, the RBI had directed Arohan to stop sanctioning or disbursing loans with effect from October 21, 2024. This move came after the RBI's material supervisory concerns about the company, wherein certain observations were made regarding usurious pricing, evergreening of loans and other compliance matters. Subsequently, the company initiated remedial actions and submitted its various compliances to the RBI. After being satisfied on the basis of the company's submissions and in view of its adoption of revamped processes and systems as well as its commitment to ensure adherence to the regulatory guidelines on an ongoing basis, especially for ensuring fairness in loan pricing, the RBI decided to lift the aforementioned restrictions placed on Arohan.

The rating continues to factor in Arohan's established track record of operations, comfortable capitalisation profile and adequate liquidity. It has an established track record of around 18 years in the microfinance space with assets under management (AUM) of Rs. 7,000 crore and a presence in 17 states, catering to more than 23 lakh borrowers as on September 30, 2024. ICRA takes note of the decline in the AUM in Q3 FY2025 owing to the restrictions on the sanctioning and disbursement of loans. Nonetheless, disbursements are expected to pick up from hereon. The company continues to be well capitalised with a capital adequacy ratio (CAR) of 30.2% as on September 30, 2024 while the gearing (managed) remains low at 3.0 times (3.3 times as on March 31, 2024). It plans to raise fresh equity capital in the near term, which shall further strengthen its capital profile.

The rating is, however, constrained by the deterioration in Arohan's asset quality and earnings profile in H1 FY2025. The 0+ days past due (dpd) increased to 4.9% of AUM as of September 2024 from 2.8% as of March 2024 on account of various factors including, but not limited to, adverse climatic conditions, attrition at the field level, deterioration in credit discipline and overleveraging of borrowers in the sector. Nevertheless, the company wrote off portfolio of Rs. 134 crore in H1 FY2025, which kept the gross non-performing assets (NPAs) under control at 1.5% as on September 30, 2024 (1.7% as on March 31, 2024). Further, it continues to maintain 100% provision coverage on its NPAs and reported nil net NPAs as on September 30, 2024.

Given the deterioration in the asset quality, the credit costs increased to 3.2% (annualised) of average managed assets (AMA) in H1 FY2025 from 2.3% in FY2024. Arohan's net profit stood at Rs. 149 crore in H1 FY2025 compared to Rs. 314 crore in

FY2024, translating into a return on managed assets (RoMA) of 3.4% (4.1% for FY2024) and a return on net worth (RoNW) of 14.9% (19.3% for FY2024). ICRA expects the credit costs to remain elevated in the near term, given the asset quality stress build-up in the past few months. This, along with the downward revision in lending rates, shall keep the earnings profile subdued in the near term. Thus, Arohan's ability to control its credit costs and improve the operating efficiency shall remain key, going forward. The rating continues consider the high geographical concentration as well as the risks associated with microfinance loans.

The Stable outlook considers Arohan's comfortable capital profile, which shall support portfolio growth and provide a buffer against any incremental asset quality related stress.

Key rating drivers and their description

Credit strengths

Established track record of operations – Arohan has an established track record of around 18 years in the microfinance space with a presence in 17 states, catering to more than 23 lakh borrowers as on September 30, 2024. It reported an annualised decline of 3% in H1 FY2025 with the AUM standing at Rs. 7,000 crore as on September 30, 2024 (Rs. 7,112 crore as on March 31, 2024), given the lower disbursements in H1 FY2025 amid asset quality challenges. The AUM had declined further in Q3 FY2025 owing to the lending restrictions imposed by the RBI. Nonetheless, given the removal of restrictions, disbursements are expected to pick up pace in Q4, in line with past trends. ICRA takes comfort from Arohan's long track record of operations in the microfinance sector and expects a gradual improvement in disbursements.

Comfortable capitalisation profile – The company's CAR stood at 30.2% as on September 30, 2024 (29.0% as on March 31, 2024), which was well above the regulatory requirement of 15%, while the gearing (managed) stood at 3.0 times (3.3 times as on March 31, 2024). Arohan plans to raise fresh equity capital in the near term, which shall further strengthen its capital profile. It plans to maintain the CAR well above 20% in the medium term and ICRA expects the capitalisation profile to remain comfortable.

Credit challenges

Deterioration in asset quality and earnings profile – The company reported a deterioration in its asset quality in H1 FY2025 with the 0+ dpd increasing to 4.9% as of September 2024 from 2.8% as of March 2024, amid industry-wide stress in the asset quality. The deterioration can be attributed to various factors including, but not limited to, adverse climatic conditions, attrition at the field level, deterioration in credit discipline and overleveraging of borrowers in the sector. Arohan wrote off portfolio of Rs. 134 crore in H1 FY2025, which kept the gross NPAs under control at 1.5% as on September 30, 2024 (1.7% as on March 31, 2024). Further, the company continues to maintain 100% provision coverage on its NPAs and reported nil net NPAs as on September 30, 2024. ICRA notes that the slippage rate, which remained elevated in October and November 2024, moderated in December 2024, though the sustained performance of the same remains a monitorable. While Arohan's asset quality indicators remain relatively better than some peers, ICRA expects the asset quality to remain under stress in the near term, thereby impacting the earnings profile.

Given the deterioration in the asset quality, the credit costs increased to 3.2% (annualised) of AMA in H1 FY2025 from 2.3% in FY2024. This led to a deterioration in the earnings profile with the company reporting a net profit of Rs. 149 crore in H1 FY2025 compared to Rs. 314 crore in FY2024, translating into RoMA of 3.4% (4.1% for FY2024) and RoNW of 14.9% (19.3% for FY2024). Further, Arohan reduced its lending rate by 200 basis points (bps) to 22.5% (average) with effect from January 2025 as a part of the remedial measures undertaken by it on account of the supervisory concerns raised by the RBI. Consequently, ICRA expects the earnings profile to remain subdued in the near term and the company's ability to control its credit costs and improve the operating efficiency shall be key for incremental profitability.

Geographical concentration risk – The company had a presence in 316 districts across 17 states through a network of 1,082 branches as on September 30, 2024. However, the share of microfinance portfolio¹ in West Bengal and Bihar remained high at 25% and 22%, respectively, as on September 30, 2024. The top 3 states comprised 63% of the AUM as on September 30, 2024 (68% as on September 30, 2023). ICRA notes that Arohan intends to reduce its geographical concentration and has expanded its presence to support its growth plans, whereby it started operations in Maharashtra, Haryana, Gujarat and Tamil Nadu in FY2024 and in Karnataka in H1 FY2025.

Further, there is scope for district-level diversification of the portfolio as the top 10 and 20 districts comprised 19% and 31%, respectively, of the microfinance portfolio as on September 30, 2024 (19% and 33%, respectively, as on September 30, 2023) and 64% and 104%, respectively, of the net worth as on September 30, 2024 (65% and 115%, respectively, as on September 30, 2023). Going forward, the company’s ability to improve its geographical diversification while scaling up its operations remains important from a credit perspective.

Political, communal, and other risks in the microfinance sector, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact its operations. Arohan’s ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations would be key for managing high growth rates while maintaining its credit profile.

Liquidity position: Adequate

As on November 30, 2024, Arohan had a free cash and liquid balance of Rs. 1,012 crore with scheduled debt repayments of Rs. 3,378 crore for the 12-month period ending November 2025 and scheduled principal collections of Rs. 4,356 crore during this period. Factoring in the expected collections from advances, the liquidity profile is likely to remain adequate to meet the debt obligations in a timely manner. As per the company’s asset-liability management statement as on November 30, 2024, there were no cumulative mismatches for up to 1 year at least, even if the collection efficiency was to be stressed up to 80%.

ICRA notes that Arohan also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or they do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, their liquidity profile shall face pressure.

Rating sensitivities

Positive factors – An increase in the scale, while maintaining healthy profitability (RoMA of more than 3%), a prudent capitalisation profile and an improvement in the asset quality indicators on a sustained basis, would have a positive impact on the rating.

Negative factors – Pressure on the rating could arise if the managed gearing exceeds 5.5 times on a continued basis or the asset quality deteriorates significantly and/or the profitability (RoMA of less than 2%) weakens on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

¹ Microfinance portfolio excluding inorganic buyout

About the company

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, 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 September 30, 2024, it was operating through a network of 1,082 branches spread across 316 districts and 17 states while managing assets under management (AUM) of Rs. 7,000 crore (limited review).

Key financial indicators

Arohan Financial Services Limited	FY2023	FY2024	H1 FY2025
As per	Ind-AS	Ind-AS	Ind-AS
Total income	1,091	1,635	936
Profit after tax	71	314	149
Total managed assets (grossed up for provisions)	6,635	8,654	8,611
Return on average managed assets	1.1%	4.1%	3.4%
Managed gearing (times)	3.6	3.3	3.0
Gross stage 3 assets	2.7%	1.7%	1.5%
CRAR	28.7%	29.0%	30.2%

Managed gearing = (On-book borrowings + Securitised/Assigned loan assets)/(Net worth)

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)					Chronology of Rating History for the Past 3 Years					
	FY2025					FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Jan-14-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term bank facilities – Fund based	Long term	5,603.07	[ICRA]A (Stable)	May 20, 2024	[ICRA]A (Stable)	Aug 14, 2023	[ICRA]A-(Positive)	Apr 06, 2022	[ICRA]A-(Negative)	Jul 20, 2021	[ICRA]A-(Negative)
				Oct 25, 2024	[ICRA]A; Rating Watch with Negative Implications	Nov 9, 2023	[ICRA]A-(Positive)	Jun 21, 2022	[ICRA]A-(Negative)	Oct 05, 2021	[ICRA]A-(Negative)
				Nov 11, 2024	[ICRA]A; Rating Watch with Negative Implications	Jan 10, 2024	[ICRA]A (Stable)	Jul 01, 2022	[ICRA]A-(Negative)	Mar 25, 2022	[ICRA]A-(Negative)
				-	-	-	-	Jul 14, 2022	[ICRA]A-(Negative)	-	-
				-	-	-	-	Sep 21, 2022	[ICRA]A-(Negative)	-	-
				-	-	-	-	Dec 26, 2022	[ICRA]A-(Stable)	-	-
NCDS	Long term	325.00	[ICRA]A (Stable)	May 20, 2024	[ICRA]A (Stable)	Aug 14, 2023	[ICRA]A-(Positive)	Apr 06, 2022	[ICRA]A-(Negative)	Jul 20, 2021	[ICRA]A-(Negative)

Instrument	Current (FY2025)					Chronology of Rating History for the Past 3 Years					
	FY2025					FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Jan-14-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
				Oct 25, 2024	[ICRA]A; Rating Watch with Negative Implications	Nov 9, 2023	[ICRA]A-(Positive)	Jun 21, 2022	[ICRA]A-(Negative)	Oct 05, 2021	[ICRA]A-(Negative)
				Nov 11, 2024	[ICRA]A; Rating Watch with Negative Implications	Jan 10, 2024	[ICRA]A (Stable)	Jul 01, 2022	[ICRA]A-(Negative)	Mar 25, 2022	[ICRA]A-(Negative)
				-	-	-	-	Jul 14, 2022	[ICRA]A-(Negative)	-	-
				-	-	-	-	Sep 21, 2022	[ICRA]A-(Negative)	-	-
				-	-	-	-	Dec 26, 2022	[ICRA]A-(Stable)	-	-
NCDs	Long term	-	-	May 20, 2024	[ICRA]A (Stable)	Aug 14, 2023	[ICRA]A-(Positive)	Apr 06, 2022	[ICRA]A-(Negative)	Jul 20, 2021	[ICRA]A-(Negative)
				Oct 25, 2024	[ICRA]A; Rating Watch with Negative Implications	Nov 9, 2023	[ICRA]A-(Positive)	Jun 21, 2022	[ICRA]A-(Negative)	Oct 05, 2021	[ICRA]A-(Negative)
				Nov 11, 2024	[ICRA]A; Rating Watch with Negative Implications	Jan 10, 2024	[ICRA]A (Stable)	Jul 01, 2022	[ICRA]A-(Negative)	Mar 25, 2022	[ICRA]A-(Negative)

Instrument	Current (FY2025)					Chronology of Rating History for the Past 3 Years					
	FY2025					FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Jan-14-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
				-	-	-	-	Jul 14, 2022	[ICRA]A-(Negative)	-	-
				-	-	-	-	Sep 21, 2022	[ICRA]A-(Negative)	-	-
				-	-	-	-	Dec 26, 2022	[ICRA]A-(Stable)	-	-
Subordinated debt	Long term	75.00	[ICRA]A (Stable)	May 20, 2024	[ICRA]A (Stable)	Aug 14, 2023	[ICRA]A-(Positive)	Sep 21, 2022	[ICRA]A-(Negative)	-	-
				Oct 25, 2024	[ICRA]A; Rating Watch with Negative Implications	Nov 9, 2023	[ICRA]A-(Positive)	Dec 26, 2022	[ICRA]A-(Stable)	-	-
				Nov 11, 2024	[ICRA]A; Rating Watch with Negative Implications	Jan 10, 2024	[ICRA]A (Stable)	-	-	-	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated debt	Simple
NCD	Simple
Long-term bank facilities – Fund based	Simple

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE808K08079	NCD	Mar-31-2022	13.65%	Jun-30-2027	200	[ICRA]A (Stable)
INE808K08061	NCD	Oct-25-2019	12.85%	Oct-25-2026	25	[ICRA]A (Stable)
INE808K08046	NCD	Mar-29-2018	13.25%	Apr-28-2025	65	[ICRA]A (Stable)
INE808K08053	NCD	Aug-14-2018	13.25%	Sep-30-2025	35	[ICRA]A (Stable)
NA	Long-term bank facilities – Fund based	Jun-08-2018 to Apr-02-2024	5.15-11.75%	Jul-10-2023 to Apr-30-2027	5,603.07	[ICRA]A (Stable)
NA	Subordinated debt (term loan)	Mar-07-2018	13.50%	Apr-01-2025	50	[ICRA]A (Stable)
NA	Subordinated debt (term loan)	Mar-30-2021	14.25%	Jun-04-2027	25	[ICRA]A (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

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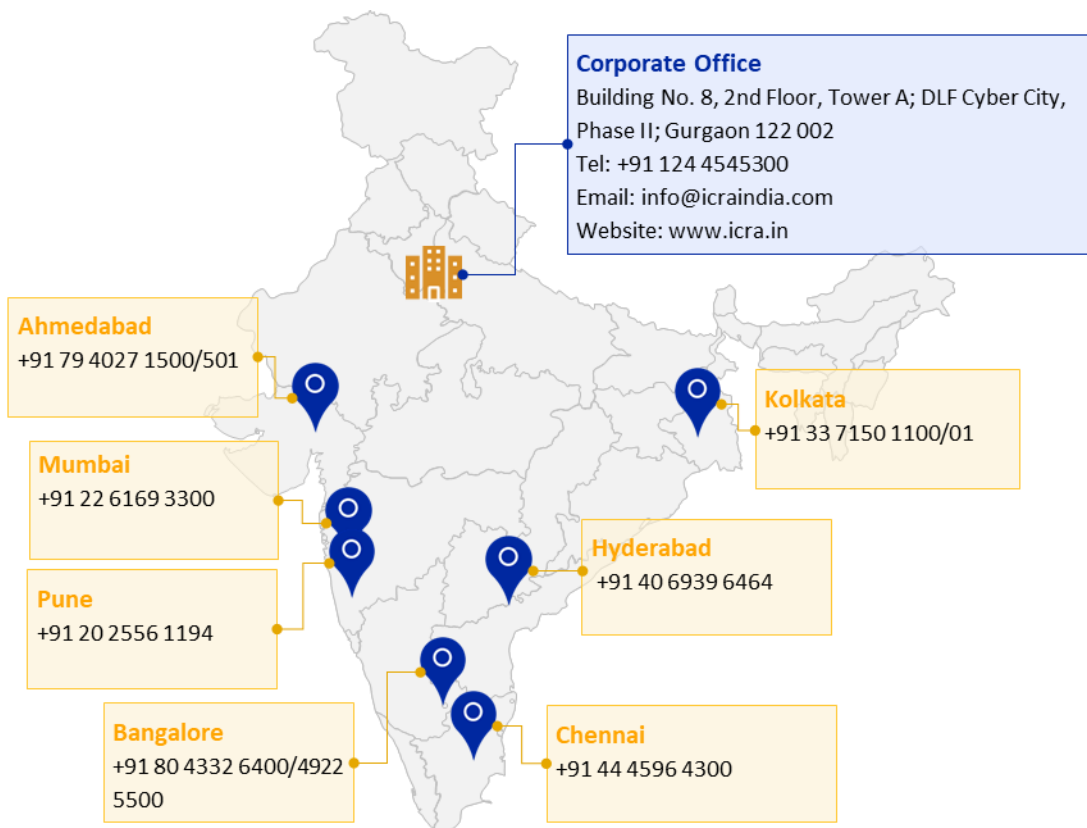
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