Arohan Financial Services Limited

February 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	265.00 (Reduced from 461.24)	CARE A; Stable	Revised from CARE A-; Positive
Long-term instruments	100.00	CARE A; Stable	Revised from CARE A-; Positive
Long-term instruments	25.00	CARE A; Stable	Revised from CARE A-; Positive

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings of the long-term debentures and bank facilities of Arohan Financial Services Limited (Arohan or AFSL) have been revised, factoring in the company's comfortable capitalisation profile and adequate liquidity position, supported by regular capital infusions considering its strong investors and promoters base. The company raised capital worth ₹248 crore in FY23 (FY refers to April 01 to March 31) and ₹266 crore in Q1FY24 in the form of compulsorily convertible preference shares (CCPS), thus boosting its capital profile. AFSL continues to have a sizeable scale of operations with assets under management (AUM) growing by 30% y-o-y to ₹5,357 crore as on March 31, 2023, further grown to ₹6,023 crore as on September 30, 2023.

However, the ratings are partially offset by the moderate, albeit improving asset quality and profitability metrics. The ratings are also constrained by geographical concentration, with the top three states constituting 65% of the total AUM as on September 30, 2023. The ratings also factor in inherent risks 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
- Profitability profile significantly improving.
- Loan portfolio significantly scaling up with continued support from investors.

Negative factors
- Asset quality profile significantly declining, impacting profitability.
- Overall leverage/gearing increasing above 6x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations of continuous support from investors, enabling AFSL to grow its business operations as envisaged in a calibrated manner, going forward.

Detailed description of the key rating drivers

Key strengths

Sizeable scale of operations

With an established track record of more than 18 years in the microfinance industry, AFSL is considered one of the largest non-banking financial companies (NBFCs) in the microfinance sector in India. The company's presence spans across 15 states through a network of 939 branches, catering to almost 2.12 million borrowers as on September 30, 2023. After witnessing a muted growth in FY21 and FY22, AFSL picked up growth momentum with disbursements of ₹5,299 crore in FY23 and ₹3,096 crore in H1FY24. Its AUM 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 ₹6,023 crore as on September 30, 2023. CARE Ratings expects the high pace of AFSL's growth to continue over the medium term.

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

Healthy capitalisation, supported by regular equity infusion from investors
The capitalisation profile of the company is comfortable, with continuous support from investors in the form of capital infusion. AFSL raised ₹248 crore and ₹266 crore of capital in FY23 and Q1FY24, respectively, in the form of CCPS, reflecting investor confidence in the company's growth. Resultantly, the gearing improved from 4.7x in FY22 to 3.7x in FY23 and further to 3.1x in H1FY24. The tangible net worth (TNW) also improved from ₹883 crore in FY22 to ₹1,217 crore in FY23 and ₹1,645 crore in HIFY24, resulting in an improved capital adequacy ratio (CAR) of 31.80% in H1FY24, well above the minimum statutory requirement of 15%. CARE Ratings expects AFSL's capitalisation profile to be comfortable going forward as well.

Diversified funding profile
AFSL has a well-diversified resource profile with a mix of equity, long-term loans, bank borrowings, and debentures. As on September 30, 2023, it has funding relationships with more than 37 lenders. The funding profile comprises term loans with a major share of 67% as on September 30, 2023, followed bypass-through certificates (PTCs) and assignments (16%), subordinated debt (8%), non-convertible debentures (NCDs; 7%), external commercial borrowings (ECBs; 1%), and cash credit (CC; 1%). In H1FY24, AFSL raised ₹2,313 crore from lenders, including ₹823 crore through securitisation and direct assignment (DA) transactions.

Experienced promoters and management team
AFSL is promoted by the Aavishkaar group with a 33.5% shareholding as on September 30, 2023. The company is also 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 (FMO), translating into a strong passage of technical know-how for AFSL.

Improved asset quality
With gradual improvement in collections, significant write offs, and sale to asset reconstruction company (ARC), the asset quality of AFSL improved, with gross stressed assets (including gross non-performing assets [GNPAs], standard restructure assets, and security receipts [SRs]) reducing from 32% as on March 31, 2022 to 4.6% as on September 30, 2023. AFSL carries sufficient provisions against its stressed assets. After adjusting the provision, the net stressed assets/net advance ratio reduced to 2.7% as on September 30, 2023, as compared to 23% as on March 31, 2022.

The 0+ delinquency also improved from 11.7% as on December 31, 2022, to 2.95% as on September 30, 2023. CARE Ratings expects this ratio to remain range bound in the short to medium term.

Key weaknesses
Moderate profitability, albeit improving
After reporting losses in FY21 due to COVID-19, AFSL improved its overall profitability with return on total assets (RoTA) of 1.17% in FY22. With rising lending rates, the company reported a further improvement in RoTA to 1.29% in FY23 and 4.06% in H1FY24. However, the operational expenditure (opex) cost is high at 6.5% as on September 30, 2023, owing to branch expansion.

Going forward, CARE Ratings expects AFSL's profitability to remain at similar levels in the rest of the fiscal owing to the increasing share of higher yield-generating portfolio and reduction in credit cost.

Geographical concentration
The concentration of the top three states in the outstanding of microfinance institution (MFI) loans (West Bengal, Bihar, and Uttar Pradesh) remains high, although stable at 65% as on September 30, 2023, as compared to 66% as on June 30, 2022. The concentration towards West Bengal (the highest exposure state) for MFI loans also remained stable at 26%. AFSL has a presence in 15 states across different products, ie, microfinance loans and corporate advances.

Business susceptibility due to 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. Due to the unsecured nature of the portfolio, there is no recourse available to the company in case of default by the borrower. Although we at CARE Ratings believe that AFSL will withstand such economic shocks with continuous capital support from investors as and when required, any material deterioration in the company's asset quality and profitability metrics or other economic shocks can put negative pressure on its ratings.

Liquidity: Adequate

As per the asset-liability mismatch (ALM) statement dated September 30, 2023, there were positive cumulative mismatches across all the time buckets supported by a cash and bank balance of ₹952 crore, against which AFSL had debt obligations of ₹862 crore for the next three months. The ability of the company to maintain 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

AFSL, which commenced MFI operations in 2006, is a Kolkata-based NBFC-MFI registered with the Reserve Bank of India (RBI) (registration in January 2014). It is mainly engaged in microfinance activity with AUM of ₹6,023 crore as on September 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)	H1FY2024 (UA)
Total operating income	920.43	1,090.99	760.10
PAT	60.95	70.72	129.90
Interest coverage (times)	1.21	1.19	1.64
Total Assets	5,088.35	5,897.11	6,911.20
Net NPA (%)	1.37	0.21	0.00
ROTA (%)	1.17	1.29	4.06

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 last three years: Please refer Annexure-2

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

Complexity level of 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
Debt-Non-convertible debenture/Subordinate debt	INE808K08046	28-Mar-2018	13.50	28-Apr-2025	65.00	CARE A; Stable
Debt-Non-convertible Debenture/Subordinate debt	INE808K08053	14-Aug-2018	13.50	30-Sep-2025	35.00	CARE A; Stable
Debt-Non-convertible debenture/Subordinate debt	INE808K08061	24-Oct-2019	12.85	25-Oct-2026	25.00	CARE A; Stable
Fund-based - LT-Cash credit		-	-	-	45.00	CARE A; Stable
Fund-based - LT-Term loan		-	-	01-04-2025	220.00	CARE A; Stable

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	220.00	CARE A; Stable	1)CARE A-; Positive (06-Sep-23)	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)
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; Stable	1)CARE A-; Positive (06-Sep-23)	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)
4	Debt-Non-convertible debenture/Subordinate debt	LT	100.00	CARE A; Stable	1)CARE A-; Positive (06-Sep-23)	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; Stable	1)CARE A-; Positive (06-Sep-23)	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)Withdrawn (06-Sep-23)	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)Withdrawn (06-Sep-23)	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 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	Debt-Non-convertible debenture/Subordinate debt	Complex
2	Fund-based - LT-Cash credit	Simple
3	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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