

**Date: December 31, 2024**

To

**Listing Department,  
BSE Limited**

Phiroze Jeejeebhoy Towers,  
Dalal Street, Mumbai-400001

Dear Sir/Madam,

**Sub: Disclosure under Regulation 51(2) read with Part B of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

With reference to the captioned subject, we wish to inform you that, CARE Ratings Limited ('**Rating Agency**'), has revised the credit rating from CARE A (Rating Watch with Negative Implications) to CARE A- (Rating Watch with Developing Implications) for the Company's Long-term Bank facilities and Long-term instruments. Further, description of the aforementioned changes is disclosed in the rationale enclosed herewith.

This intimation is also being uploaded on the Company's website at [www.arohan.in](http://www.arohan.in).

This is for your kind information and records.

Thanking you,

Yours faithfully,

**For Arohan Financial Services Limited**



**Anirudh Singh G. Thakur**  
**Company Secretary & Chief Compliance Officer**  
**Membership No: A13210**  
*Enclosed: As above*

## Arohan Financial Services Limited

December 30, 2024

| Facilities/Instruments    | Amount (₹ crore)                | Rating <sup>1</sup> | Rating Action   |
|---------------------------|---------------------------------|---------------------|---|
| Long-term bank facilities | 199.68<br>(Reduced from 265.00) | CARE A-<br>(RWD)    | Downgraded from CARE A ; Revision in rating watch from Rating Watch with Negative Implications to Rating Watch with Developing Implications |
| Long-term Instruments     | 100.00                          | CARE A-<br>(RWD)    | Downgraded from CARE A ; Revision in rating watch from Rating Watch with Negative Implications to Rating Watch with Developing Implications |
| Long-term Instruments     | 25.00                           | CARE A-<br>(RWD)    | Downgraded from CARE A ; Revision in rating watch from Rating Watch with Negative Implications to Rating Watch with Developing Implications |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to the long-term bank facilities and long-term instruments of Arohan Financial Services Limited (Arohan or AFSL) have been downgraded to 'CARE A-'. The downgrade in the rating is considering delay in resolution of C&D order by the Reserve Bank of India (RBI) and expected further stress on profitability considering rise in delinquencies across the MFI sector in India. The rating has been placed under watch with developing implications considering uncertainty around resolution timeline of the RBI order, directing AFSL to cease and desist from sanction and disbursement of loans, effective from close of business hours of October 21, 2024. The impact of the directive and timeliness of resolution shall remain a key monitorable before resolving credit watch. CARE Ratings Limited (CARE Ratings) shall take a view on ratings once there is further clarity on resolution of the issue or its impact on the company's operations/financials.

CARE Ratings understands the management has highlighted corrective action taken by the company to the regulator against these practices such as further reduction in pricing, halting netting off loans, and stricter compliance norms. CARE Ratings further expects the resolution may have an impact on AFSL's profitability and financial risk profile.

Ratings of AFSL's long-term debentures and bank facilities continue to factor in the company's comfortable capitalisation profile and adequate liquidity position, supported by regular capital infusions considering its strong investors and promoter base. The company raised capital worth ₹248 crore in FY23 (refers to April 01 to March 31) and ₹266 crore in FY24 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 33% year-over-year (y-o-y) to ₹7,112 crore as on March 31, 2024, which slightly moderated to ₹7,000 crore as on September 30, 2024, and is expected to further degrow due to the RBI action.

Ratings are constrained by geographical concentration, with the top three states constituting 69% of the total AUM as on September 30, 2024. Ratings also factor in inherent risks of the microfinance industry, including unsecured lending, leading to a higher risk profile. CARE Ratings notes the MFI industry is currently experiencing significant stress, primarily due to increasing borrower indebtedness, as larger ticket sizes and multiple loans taken by low-income individuals have led to overleverage and difficulties in repayment. Compounding this issue is the weakening joint liability group (JLG) model, traditionally a cornerstone of MFI operations. Declining centre attendance, high attrition rates among field staff, rise of systematic frauds, and natural calamities have significantly affected collection efficiency of MFI players.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Loan portfolio significantly scaling up with continued support from investors.
- Timely resolution of RBI action without significant penalisation from the regulator.

#### Negative factors

- Adverse impact of the RBI action on its business operations, liability franchise, and/or liquidity or further delay in resolution of the RBI action.
- Significant deterioration in asset quality profile, impacting profitability.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

- Overall leverage/gearing increasing above 6x on a sustained basis.

**Analytical approach:** Standalone

**Outlook:** Not applicable

### **Detailed description of key rating drivers:**

#### **Key strengths**

##### **Sizeable scale of operations; however, expected to moderate considering the RBI action**

With an established track record of over 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 17 states through a network of 975 branches, catering ~2.41 million borrowers as on March 31, 2024. After witnessing a muted growth in FY21 and FY22, AFSL picked up growth momentum with disbursements of ₹5,299 crore in FY23 and ₹6,709 crore in FY24. Its AUM registered a growth of 33% y-o-y as on March 31, 2024, and closed at ₹7,112 crore. However, amidst the stress in the industry, growth momentum slowed down in H1FY25, with loan book contracting by 2% to ₹7,000 crore as on September 30, 2024. Degrowth in the portfolio is expected considering the regulatory order by the RBI to cease and desist further sanction and disbursement.

##### **Healthy capitalisation, supported by regular equity infusion from investors**

AFSL is promoted by the Aavishkaar group with a 14.20% shareholding as on September 30, 2024. The company's capitalisation profile is comfortable with continuous support from investors in the form of capital infusion. AFSL raised ₹248 crore and ₹266 crore capital in FY23 and FY24, respectively, in the form of CCPS, reflecting investors' confidence in the company's growth. Resultantly, the gearing improved from 3.7x in FY23 to 3.2x in FY24 and further to 3.0x in H1FY25. The tangible net worth (TNW) also improved from ₹1,217 crore in FY23 to ₹1,855 crore in FY24 and ₹1,991 crore in H1FY25, resulting in an improved capital adequacy ratio (CAR) of 30.21% as on September 30, 2024, 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 long-term loans, bank borrowings, and debentures. As on September 30, 2024, it had funding relationships with over 50 lenders. The funding profile comprises term loans with a major share of 84% as on September 30, 2024, followed by pass-through certificates (PTCs) and assignments (6%), subordinated debt (6%), and non-convertible debentures (NCDs; 4%). CARE Ratings will continue to monitor lender stance and support for AFSL till further update on regulatory order.

##### **Moderate asset quality**

As on March 31, 2024, the company's asset quality improved with gross non-performing asset (GNPA) ratio improving from 2.86% as on March 31, 2023, to 1.67% due to significant write offs of ₹471 crore in FY24 (9% opening gross loans in FY24)). Additionally, in H1FY25, asset quality continues to be moderate with GNPA ratio at 1.51%. Although the collection efficiency (including overdue) has been stable in H1FY25 and November 2024, prepayment/advances have reduced significantly in November 2024. CARE Ratings also notes rising delinquencies across the sector driven by factors, including general elections, heatwaves, floods, and challenges to JLG model, which may impact the company's collection efficiencies.

CARE Ratings observes, going forward, monitoring the performance of their portfolio will be crucial, particularly given that they serve a customer base with a weaker credit profile that is more susceptible to economic and socio-political challenges.

#### **Key weaknesses**

##### **Moderate profitability**

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 further improvement in RoTA to 1.29% in FY23 and 4.50% in FY24 and 3.69% in H1FY25. However, the operational expenditure (opex) cost is high at 6.34% as for H1FY25, owing to branch expansion. CARE ratings expects profitability to be impacted going forward mainly considering rate cuts and significant reduction in income from cross sale.

Considering the ongoing stress in the overall MFI industry, CARE Ratings anticipates credit costs may rise further due to increasing delinquencies. Timely resolution of the regulatory setback also remain a key in maintaining the pace of expansion and profitability.

#### **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 69% as on September 30, 2024, compared to 65% as on September 30, 2023. The concentration towards West Bengal (the highest exposure state) for MFI loans also remained high at 32%. AFSL has a presence in 17 states across different products, 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 portfolio, there is no recourse available to the company in case of default by the borrower. Although CARE Ratings believes AFSL will withstand such economic shocks with continuous capital support from investors as and when required, material deterioration in the company's asset quality and profitability metrics or other economic shocks can put negative pressure on its ratings.

#### Liquidity: Adequate

Per the asset-liability mismatch (ALM) statement dated September 30, 2024, there were positive cumulative mismatches across time buckets. The company has unencumbered cash and bank balance of ~₹1,250 crore, as on November 30, 2024. The company's ability to maintain healthy collection efficiency remains a key rating sensitivity.

#### Applicable criteria

[Policy on Default Recognition](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

#### About the company and industry

##### Industry classification

| Macroeconomic indicator | Sector             | Industry | Basic industry            |
|-------------------------|--------------------|----------|---------------------------|
| Financial services      | Financial services | Finance  | Microfinance institutions |

AFSL commenced MFI operations in 2006 and is a Kolkata-based NBFC-MFI registered with the RBI (registration in January 2014). It is mainly engaged in microfinance activity with AUM of ₹7,000 crore as on September 30, 2024, across 17 states for MFI activity. The top three states for MFI lending are West Bengal, Uttar Pradesh, and Bihar.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | H1FY25 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income     | 1,091.00           | 1,634.63           | 935.93      |
| PAT                        | 70.72              | 313.82             | 148.70      |
| Interest coverage (times)  | 1.19               | 1.70               | 1.57        |
| Total Assets               | 5,897.26           | 8,054.86           | 8,067.32    |
| Net NPA (%)                | 0.21               | 0.00               | 0.00        |
| ROTA (%)                   | 1.29               | 4.50               | 3.69        |

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook |
|---|--------------|-------------------------------|-----------------|----------------------------|-----------------------------|------------------------------------|
| Debt-Non-convertible Debenture/Subordinate Debt | INE808K08046 | 28-Mar-2018                   | 13.50           | 28-Apr-2025                | 65.00                       | CARE A- (RWD)                      |
| Debt-Non-convertible Debenture/Subordinate Debt | INE808K08053 | 14-Aug-2018                   | 13.50           | 30-Sep-2025                | 35.00                       | CARE A- (RWD)                      |
| Debt-Non-convertible Debenture/Subordinate Debt | INE808K08061 | 24-Oct-2019                   | 12.85           | 25-Oct-2026                | 25.00                       | CARE A- (RWD)                      |
| Fund-based - LT-Cash Credit                     |              | -                             | -               | -                          | 45.00                       | CARE A- (RWD)                      |
| Fund-based - LT-Term Loan                       |              | -                             | -               | 01-04-2025                 | 154.68                      | CARE A- (RWD)                      |

**Annexure-2: Rating history for 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 2024-2025 | 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                        |
| 1       | Fund-based - LT-Term Loan              | LT              | 154.68                       | CARE A- (RWD) | 1)CARE A (RWN) (23-Oct-24)                  | 1)CARE A; Stable (02-Feb-24)<br>2)CARE A-; Positive (06-Sep-23) | 1)CARE A-; Negative (30-Nov-22)             | 1)CARE A-; Negative (03-Dec-21)<br>2)CARE A-; Negative (23-Jun-21) |
| 2       | Debt-Subordinate Debt                  | LT              | -                            | -             | -   | -   | 1)Withdrawn (30-Nov-22)                     | 1)CARE A-; Negative (03-Dec-21)<br>2)CARE A-; Negative (23-Jun-21) |
| 3       | Fund-based - LT-Cash Credit            | LT              | 45.00                        | CARE A- (RWD) | 1)CARE A (RWN) (23-Oct-24)                  | 1)CARE A; Stable (02-Feb-24)<br>2)CARE A-; Positive (06-Sep-23) | 1)CARE A-; Negative (30-Nov-22)             | 1)CARE A-; Negative (03-Dec-21)<br>2)CARE A-; Negative             |

| Sr. No. | Name of the Instrument/Bank Facilities          | Current Ratings |                              |               | Rating History                              |   |   |  |
|---------|---|-----------------|------------------------------|---------------|---|---|---|--|
|         |   | Type            | Amount Outstanding (₹ crore) | Rating        | Date(s) and Rating(s) assigned in 2024-2025 | 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                        |
|         |   |                 |                              |               |   |   |   | (23-Jun-21)  |
| 4       | Debt-Non-convertible Debenture/Subordinate Debt | LT              | 100.00                       | CARE A- (RWD) | 1)CARE A (RWN) (23-Oct-24)                  | 1)CARE A; Stable (02-Feb-24)<br>2)CARE A-; Positive (06-Sep-23) | 1)CARE A-; Negative (30-Nov-22)             | 1)CARE A-; Negative (03-Dec-21)<br>2)CARE A-; Negative (23-Jun-21) |
| 5       | Fund-based - LT-Bank Overdraft                  | LT              | -                            | -             | -   | -   | 1)Withdrawn (30-Nov-22)                     | 1)CARE A-; Negative (03-Dec-21)<br>2)CARE A-; Negative (23-Jun-21) |
| 6       | Debt-Non-convertible Debenture/Subordinate Debt | LT              | 25.00                        | CARE A- (RWD) | 1)CARE A (RWN) (23-Oct-24)                  | 1)CARE A; Stable (02-Feb-24)<br>2)CARE A-; Positive (06-Sep-23) | 1)CARE A-; Negative (30-Nov-22)             | 1)CARE A-; Negative (03-Dec-21)<br>2)CARE A-; Negative (23-Jun-21) |
| 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)<br>2)CARE A-; Negative (23-Jun-21) |
| 8       | Debentures-Non-convertible debentures           | LT              | -                            | -             | -   | -   | 1)Withdrawn (30-Nov-22)                     | 1)CARE A-; Negative (03-Dec-21)<br>2)CARE A-; Negative (23-Jun-21) |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                              |        | Rating History                              |   |   |  |
|---------|--|-----------------|------------------------------|--------|---|---|---|--|
|         |  | Type            | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | 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                        |
| 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)<br>2)CARE A-; Negative (23-Jun-21) |

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

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

## Contact us

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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.

### Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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