

Arohan Financial Services Limited

February 16, 2026

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term instruments	25.00	CARE A-; Stable	Reaffirmed
Long-term bank facilities	-	-	Reaffirmed at CARE A-; Stable and Withdrawn
Long-term instruments	-	-	Withdrawn
Long-term instruments	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation for debt instruments of Arohan Financial Services Limited (AFSL) factors in its long operational track record, adequate capitalisation and liquidity, and its diversified funding profile.

However, ratings are constrained by weakened profitability in FY25 and H1FY26 considering deterioration in its asset quality, and associated increase in credit costs. Ratings continue to be constrained by geographical concentration risk. Ratings also remain constrained due to inherent risks involved in the microfinance industry, including unsecured lending, marginal profile of borrowers, socio-political intervention risk, and regulatory uncertainty.

Simultaneously, CARE Ratings Limited (CareEdge Ratings) has withdrawn outstanding ratings assigned to non-convertible debentures (NCDs) bearing ISINs: INE808K08053 and INE808K08046 of AFSL with immediate effect, owing to full redemption and in line with CareEdge Ratings' policy on withdrawal of credit ratings. CareEdge Ratings has also reaffirmed and simultaneously withdrawn ratings assigned to bank facilities aggregating to ₹134.68 crore on submission of withdrawal request by the company and "No objection certificates" from respective lenders, in line with CareEdge Ratings' policy on withdrawal of credit ratings. CareEdge Ratings has also withdrawn ratings assigned to bank facilities aggregating ₹60.00 crore on full repayment of the loans in line with CareEdge Ratings' policy on withdrawal of ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving profitability profile with return on managed asset (RoMA) of over 3.0% on a sustained basis.
- Sizable scale-up of operations while keeping asset quality under control.

Negative factors

- Significant deterioration in asset quality profile, impacting profitability.
- Overall leverage/gearing remaining above 6x on a sustained basis.

Analytical approach:

Standalone

Outlook: Stable

The Stable outlook reflects CareEdge Ratings' expectation that the company will continue to report adequate business growth, while keeping credit costs under control and maintaining adequate capitalisation levels.

Detailed description of key rating drivers:

Key strengths

Adequate capitalisation

AFSL continues to be adequately capitalised with CAR at 34.09% as on September 30, 2025, against CAR of 30.21% as on September 30, 2024. Gearing reduced to 2.49x as on September 30, 2025, compared to 2.96x as on September 30, 2024. The company has a healthy capital base with net worth of ₹1,974 crore (net off deferred tax assets and intangible assets). Its capitalisation is supported by de-growth in past few quarters, leading to reduction in debt. CareEdge Ratings expects AFSL to

¹Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

raise fresh equity in the near-to-medium term to support the envisaged growth while maintaining adequate gearing and capitalisation levels.

Established track record with healthy scale of operations

AFSL's scale of operations continued to be healthy despite several setbacks in FY25. The company's AUM declined in FY25 considering cease and desist (C&D) order by RBI (which was revoked subsequently) and additionally, due to stress in microfinance institution (MFI) industry leading to self-regulatory organisation (SRO) initiated guardrails. AFSL's AUM stood at ₹6,009 crore as on September 30, 2025, compared to ₹6,003 crore as on March 31, 2025.

Diversified resource profile

The company has total outstanding borrowing of ₹5,167 crore (including off book exposure) from diversified sources such as banks, financial institutions and through bonds. Its cost of funds stood at ~9.4% (annualised) for H1FY26, helping it maintain adequate margins. The company has lending relationships with 43 lenders comprising private sector banks, public sector banks, non-banking financial companies (NBFCs) and financial institutions (Fis). The company demonstrated sufficient resource raising ability at competitive rates even in the phase where the industry faced significant stress in terms of asset quality. The funding profile comprises term loans with a major share of ~80% as on September 30, 2025, followed by subordinated debt (3%), pass-through certificates (PTCs) and direct assignments (12%) and cash credit (5%). AFSL's ability to continuously raise funds at competitive rates shall continue to remain a key monitorable.

Key weaknesses

Weakened earning profile

In FY25 and H1FY26, AFSL's earnings profile weakened primarily considering elevated credit cost following the ongoing stress across MFI segment. In the last 18-odd months, the MFI segment has faced significant stress, which led to moderation in earnings profile of NBFC-MFIs. As a result, AFSL also reported elevated credit cost which stood at ~5.3% (in relation to average total assets (ATA)) in FY25 and remained largely unchanged at ~5.2% (annualised; provisional) in H1FY26. From April 2024 – March 2025, AFSL wrote off ~9.2% of its gross loan portfolio as on March 31, 2024, as against ~14.1% for NBFC-MFIs across the industry, signifying stress on its portfolio. Despite elevated credit costs, the company continued to be profitable with RoMA of ~1.4% in FY25, which moderated further in H1FY26 to 0.6%. Its margin continued to remain healthy and marginal reduction in its opex helped it balance the increase in credit cost to a certain extent. CareEdge Ratings expects the earnings profile to remain moderate in FY2026 and its ability to turnaround in FY27 will remain a key monitorable.

Geographical concentration risk

AFSL's concentration of top three states in outstanding MFI loans (West Bengal, Bihar, and Uttar Pradesh) remains high, although at ~58% of AUM as on September 30, 2025, compared to 69% as on September 30, 2024. The concentration towards West Bengal (the highest exposure state) for MFI loans also remained high at ~27% as on September 30, 2025. AFSL has a presence in 17 states across different products, microfinance loans, and corporate advances. Despite branches across states, concentration of AUM in few geographies remains a concern, especially if there is adverse change in regulations in these geographies.

Inherent industry risks

Given the unsecured nature of microfinance loans to marginal profile borrowers who are vulnerable to economic downturns, the microfinance sector continues to be impacted by the inherent industry risks. These include socio-political intervention risk and regulatory uncertainty and operational risks related to cash-based transactions and heavy ground feet reliance. In the recent past, the industry witnessed significant increase in attrition rate at branch level, which necessitated MFIs to increase their bench strength to avoid additional operational hiccups and to strengthen their collection process.

Liquidity: Adequate

As on December 31, 2025, AFSL's liquidity profile remained adequate, with cash and cash equivalents of ~₹1024 crore. Per the asset liability management (ALM) statement dated September 30, 2025, there were positive cumulative mismatches across time buckets till one year. AFSL has scheduled collections of ₹3,947 crore in the next one year against debt obligations of ₹3,109 crore in the similar period. AFSL's liquidity profile is expected to remain comfortable given AFSL's adequate financial flexibility, diversified funding profile and undrawn sanctioned bank lines.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)

[Withdrawal Policy](#)

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 ₹6,009 crore as on September 30, 2025, across 17 states for MFI activity. Top three states for MFI lending are West Bengal, Uttar Pradesh, and Bihar.

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	H1FY2026 (UA)
Total income	1,634.6	1,695.3	746.6
Profit after tax (PAT)	313.8	109.7	24.3
Assets under management (AUM)	7,112.0	6,003.0	6,009.0
On-book gearing (x)	3.24	2.42	2.49
AUM / tangible net-worth (TNW) (x)	3.83	3.09	3.04
Gross non-performing assets (NPA) / gross stage 3 (%)	1.67	2.85	2.06
Return on managed assets (ROMA) (%)	4.04	1.39	0.60
Capital adequacy ratio (CAR) (%)	29.01	34.09	34.52

A: Audited UA: Unaudited; 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	INE808K08061	24-Oct-2019	12.85%	25-Oct-2026	25.00	CARE A-; Stable
Debt-Non-convertible Debenture/Subordinate Debt	INE808K08053	14-Aug-2018	13.50%	30-Sep-2025	0.00	Withdrawn
Debt-Non-convertible Debenture/Subordinate Debt	INE808K08046	28-Mar-2018	13.50%	28-Apr-2025	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	01-04-2025	0.00	Withdrawn

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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	-	-	1) CARE A-; Stable (February 16, 2026)	1)CARE A-; Stable (31-Mar-25) 2)CARE A-(RWD) (04-Feb-25) 3)CARE A-(RWD) (30-Dec-24) 4)CARE A (RWN) (23-Oct-24)	1)CARE A; Stable (02-Feb-24) 2)CARE A-; Positive (06-Sep-23)	1)CARE A-; Negative (30-Nov-22)
2	Debt-Subordinate Debt	LT	-	-	-	-	-	1)Withdrawn (30-Nov-22)
3	Fund-based - LT-Cash Credit	LT	-	-	1) CARE A-; Stable (February 16, 2026)	1)CARE A-; Stable (31-Mar-25) 2)CARE A-(RWD) (04-Feb-25) 3)CARE A-(RWD) (30-Dec-24) 4)CARE A (RWN) (23-Oct-24)	1)CARE A; Stable (02-Feb-24) 2)CARE A-; Positive (06-Sep-23)	1)CARE A-; Negative (30-Nov-22)
4	Debt-Non-convertible Debenture/Subordinate Debt	LT	-	-	-	1)CARE A-; Stable (31-Mar-25) 2)CARE A-(RWD)	1)CARE A; Stable (02-Feb-24) 2)CARE A-; Positive (06-Sep-23)	1)CARE A-; Negative (30-Nov-22)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	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
						(04-Feb-25) 3)CARE A-(RWD) (30-Dec-24) 4)CARE A (RWN) (23-Oct-24)		
5	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	-	1)Withdrawn (30-Nov-22)
6	Debt-Non-convertible Debenture/Subordinate Debt	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (31-Mar-25) 2)CARE A-(RWD) (04-Feb-25) 3)CARE A-(RWD) (30-Dec-24) 4)CARE A (RWN) (23-Oct-24)	1)CARE A; Stable (02-Feb-24) 2)CARE A-; Positive (06-Sep-23)	1)CARE A-; Negative (30-Nov-22)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (06-Sep-23)	1)CARE A-; Negative (30-Nov-22)
8	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Nov-22)
9	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (06-Sep-23)	1)CARE A-; Negative (30-Nov-22)
10	Debt-Non-convertible Debenture/Subordinate Debt	LT	-	-	-	1)CARE A-; Stable (31-Mar-25)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	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
						2)CARE A-(RWD) (04-Feb-25)		

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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Debt-Non-convertible Debenture/Subordinate Debt	Complex

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CareEdge 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.

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