Date: October 25, 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 retained the credit rating of "CARE A", for the Company's Long-term Bank facilities and Long-term instruments, however has placed the said Rating under the "Rating Watch with Negative Implications". Further, description of the aforementioned changes is disclosed in the rationale enclosed.

This intimation is also being uploaded on the Company's website at www.arohan.in.

This is for your kind information and records.

Thanking you,

Yours faithfully,

For Arohan Financial Services Limited

ANIRUDH SINGH G THAKUR Digitally signed by ANIRUDH SINGH G THAKUR Date: 2024.10.25 12:36:53 +05'30'

Arohan Financial Services Limited Kol-91

Anirudh Singh G. Thakur
Company Secretary & Chief Compliance Officer
Membership No: A13210

Arohan Financial Services Limited

October 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	265.00	CARE A (RWN)	Placed on Rating Watch with Negative Implications
Long-term – Long-term instruments	100.00	CARE A (RWN)	Placed on Rating Watch with Negative Implications
Long-term – Long-term instruments	25.00	CARE A (RWN)	Placed on Rating Watch with Negative 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 placed on rating watch with negative implications consequent to the issuance of executive order by Reserve Bank of India (RBI) vide press release dated October 17, 2024, directing AFSL to cease and desist from sanction and disbursal of loans, effective from close of business hours of October 21, 2024. Although the directive does not prohibit the company from servicing its existing customers and carrying out collection and recovery processes in accordance with the extant regulation, 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 operations/financials of the company.

CARE Ratings takes note of the issues highlighted by RBI such as usurious pricing, netting off loans/evergreening, and other compliance issues. CARE Ratings understands that management plans to take corrective action against these practices such as further reduction in pricing, halting netting off loans, and stricter compliance norms.

Ratings of the long-term debentures and bank facilities of AFSL 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% y-o-y to ₹7,112 crore as on March 31, 2024, which slightly moderated to ₹7,062 crore as on June 30, 2024.

However, ratings are partially offset by the moderate asset quality and profitability metrics. Ratings are also constrained by geographical concentration, with the top three states constituting 69% of the total AUM as on June 30, 2024. Ratings also factor in inherent risks of the microfinance industry, including unsecured lending, leading to a higher risk profile.

CARE Ratings notes that 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.
- Profitability profile significantly improving on a sustained basis.

Negative factors

- Any adverse impact of the RBI action on its business operations, liability franchise, and/or liquidity.
- Significant deterioration in asset quality profile, impacting profitability.
- Overall leverage/gearing increasing above 6x on a sustained basis.

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

Analytical approach: Standalone

Outlook: Not applicable

Detailed description of 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 17 states through a network of 975 branches, catering to almost 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 Q1FY25, with loan book contracting by 1% to ₹7,062 crore as on June 30, 2024. Further growth for the company depends on resolution of regulatory order by RBI and shall remain a key monitorable.

Healthy capitalisation, supported by regular equity infusion from investors

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 of capital in FY23 and FY24, respectively, in the form of CCPS, reflecting investor confidence in the company's growth. Resultantly, the gearing improved from 3.7x in FY23 to 3.2x in FY24 and further to 3.1x in Q1FY25. The tangible net worth (TNW) also improved from ₹1,217 crore in FY23 to ₹1,855 crore in FY24 and ₹1,951 crore in QIFY25, resulting in an improved capital adequacy ratio (CAR) of 29.01% as of March 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 June 30, 2024, it has funding relationships with more than 49 lenders. The funding profile comprises term loans with a major share of 80% as on June 30, 2024, followed by pass-through certificates (PTCs) and assignments (10%), subordinated debt (6%), and non-convertible debentures (NCDs; 4%).

Experienced promoters and management team

AFSL is promoted by the Aavishkaar group with a 14.33% shareholding as on June 30, 2024. 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.

Moderate asset quality

As on March 31, 2024, the asset quality of the company 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% of opening gross loans in FY24)). However, in Q1FY25, asset quality moderated with GNPA ratio rising to 1.94%. This decline is linked to increasing delinquencies driven by factors, including general elections, heatwaves, floods, and challenges to JLG model, all of which have impacted 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, though 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 4.50% in FY24 and 5.14% in Q1FY25. However, the operational expenditure (opex) cost is high at 6.47% as on June 30, 2024, owing to branch expansion.

Considering the ongoing stress in the overall MFI industry, CARE Ratings anticipates that credit costs may rise further due to increasing delinquencies. Furthermore, timely resolution of the regulatory setback also remain 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 June 30, 2024, as compared to 65% as on September 30, 2023. The concentration towards West Bengal (the highest exposure state) for MFI loans also remained stable at 29%. 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 nature of the portfolio, there is no recourse available to the company in case of default by the borrower. Although CARE Ratings believes that 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 June 30, 2024, there were positive cumulative mismatches across time buckets. The company has cash and bank balance of ~₹1,200 crore, as on October 18, 2024, against which AFSL had debt obligations of ~₹1,060 crore for the next three months. The company's ability to maintain healthy collection efficiency remains a key rating sensitivity.

Applicable criteria

Definition of Default
Financial Ratios - Financial Sector
Rating Outlook and Rating Watch
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic 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 RBI (registration in January 2014). It is mainly engaged in microfinance activity with AUM of ₹7,062 crore as on June 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)	Q1FY25 (UA)
Total operating income	1,090.99	1,634.64	479.45
PAT	70.72	313.82	104.08
Interest coverage (times)	1.19	1.70	1.79
Total assets	5,897.11	8,054.86	8,149.36
Net NPA (%)	0.21	0.00	0.00
ROTA (%)	1.29	4.50	5.14

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	Coupon Rate (%)	Maturity Date	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 (RWN)
Debt-Non-convertible Debenture/Subordinate Debt	INE808K08053	14-Aug-2018	13.50	30-Sep-2025	35.00	CARE A (RWN)
Debt-Non-convertible Debenture/Subordinate Debt	INE808K08061	24-Oct-2019	12.85	25-Oct-2026	25.00	CARE A (RWN)
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE A (RWN)
Fund-based - LT-Term Loan		-	-	01-04-2025	220.00	CARE A (RWN)

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	220.00	CARE A (RWN)	-	1)CARE A; Stable (02-Feb-24) 2)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)
2	Debt-Subordinate Debt	LT	-	-	-	-	1)Withdrawn (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 2)CARE A-; Negative (23-Jun-21)
3	Fund-based - LT-Cash Credit	LT	45.00	CARE A (RWN)	-	1)CARE A; Stable (02-Feb-24) 2)CARE A-; Positive (06-Sep-23)	1)CARE A-; Negative (30-Nov-22)	1)CARE A-; Negative (03-Dec-21) 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 (RWN)	-	1)CARE A; Stable (02-Feb-24) 2)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)
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)
6	Debt-Non-convertible Debenture/Subordinate Debt	LT	25.00	CARE A (RWN)	-	1)CARE A; Stable (02-Feb-24) 2)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)
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)
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)

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) 2)CARE A-; Negative (23-Jun-21)

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.

For detailed Rationale Report and subscription information,
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