Arohan Financial Services Limited

December 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	199.68 (Reduced from 265.00)	CARE A- (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- (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- (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 disbursal 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.

[1]Complete definition of ratings assigned are available at 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) 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- (RWD)	1)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)	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- (RWD)	1)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)	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- (RWD)	1)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)	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)

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.

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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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