Arohan Financial Services Limited

March 31, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	199.68	CARE A-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long Term Long Term Instruments	65.00	CARE A-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long Term Long Term Instruments	25.00	CARE A-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long Term Long Term Instruments	35.00	CARE A-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has re-affirmed the ratings of Arohan Financial Services Limited (AFSL) at CARE A- with a Stable outlook. The rating has been removed from watch with developing implications following the revocation of C&D order by the Reserve Bank of India (RBI) and a review of the impact of the order on its 9M FY2025 /December 2024 performance. While CARE Ratings notes a decline in assets under management (AUM) to ₹5,769 crore as on December 31, 2024, due to the C&D order, along with moderation in financial performance for 9M FY2025 due to increased credit costs, the impact has been limited and the entity reported a net profit of ₹152 crore, translating into return on average total assets (RoTA) of 2.7% and return on average tangible net worth of (RoNW) of 10.6% during 9M FY2025, as against ₹314 crore, 4.5% and 20.4%, respectively, in FY2024.

The rating continues to reflect the company's comfortable capitalisation profile with a capital adequacy ratio (CAR) of 36.63% and gearing of 2.5 times as on December 31, 2024, and an adequate liquidity position. Despite the decline in AUM, AFSL maintains a sizeable scale of operations with AUM of ₹5,769 crore as on December 31, 2024 (₹7,112 crore as on March 31, 2024). AFSL also has a well-diversified resource profile, comprising a mix of long-term loans, bank borrowings and debentures.

The rating is, however, constrained by entity's geographically concentrated operations, with the top three states constituting ~63% of the total AUM as on December 31, 2024. CARE Ratings notes an increase in its gross non-performing assets (NPA) due to stress in the microfinance sector. The rating also remains constrained due to the inherent risks involved in the microfinance industry, including unsecured lending, marginal profile of borrowers, socio-political intervention risk, and regulatory uncertainty.

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 microfinance institutions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving profitability profile with return on total asset (RoTA) of over 3.0% on a sustained basis.
- Sizable scale-up of operations while maintaining asset quality.

Negative factors

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

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

Analytical approach:
Standalone

Outlook: Stable
The Stable outlook reflects CARE Ratings' expectation that the company will continue to manage stress, while maintaining control over credit costs and asset quality metrics while maintaining adequate growth.

Detailed description of key rating drivers:

Key strengths

Healthy capitalisation

Promoted by the Aavishkaar group, AFSL's capitalisation profile remained healthy with CAR of 36.63% and gearing of 2.5 times as on December 31, 2024, as against 29.01% and 3.2 times as on March 31, 2024. The improvement in its CAR and gearing was on account of decline in its scale and internal capital accretion during 9M FY2025. In terms of solvency, its net NPA to TNW increased to 1.4% as on December 31, 2024, as against Nil as on March 31, 2024. CARE Ratings expects AFSL's healthy capitalisation profile to continue in near to medium term.

Diversified funding profile

AFSL has a well-diversified resource profile with a mix of long-term loans, bank borrowings, and debentures. As on January 31, 2025, it had funding relationships with 50 lenders. The funding profile comprises term loans with a major share of 84% as on January 31, 2025, followed by subordinated debt (8%), pass-through certificates (PTCs) and assignments (4%), and non-convertible debentures (NCDs; 4%). AFSL's ability to continuously raise funds at competitive rates shall remain a key monitorable.

Key weaknesses

Weakened asset quality and profitability

During 9M FY2025, on account of rising stress across microfinance segment, AFSL's asset quality metrics weakened as it reported a GNPA ratio at 2.86% (provisional) as on December 31, 2024, from 1.67% as on March 31, 2024. The company had also written-off 3.7% of its gross advances as on March 31, 2024, during 9M FY2025. AFSL's ability to maintain its asset quality metrics, amidst reeling stress across MFI segment remains a key monitorable. CARE Ratings expects the stress to continue for a few more quarters. 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.

With rising lending rates, the company was able to improve its profitability in FY2024 with a RoTA of 4.50% as against 1.29% in FY2023. However, during 9M FY2025 owing to rising credit cost and decline in scale, its profitability was impacted and its RoTA declined to 2.68% (annualised). CARE ratings expect profitability of AFSL to remain moderated for a few more quarters and its credit costs to rise further due to increasing delinquencies.

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 63% as on December 31, 2024, compared to 69% as on September 30, 2024. The concentration towards West Bengal (the highest exposure state) for MFI loans also remained high at 26%. 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 its strong capitalisation profile 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
AFSL had adequate liquidity in the form of cash and bank balance of ~₹1,237 crore as on December 31, 2024, and ~₹799 crore as on February 28, 2025. As per its asset liability management (ALM) statement for December 2024, there were positive cumulative mismatches across all time buckets. With scheduled collections of ₹2,380 crore over next six months (i.e. till June 30, 2025), its liquidity was adequate to cater to its debt obligations of ₹1,942 crore for the same period. Further, the entity had un availed sanction lines to the tune of ~₹320 crore as on February 28, 2025.

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]

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 ₹5,769 crore as on December 31, 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)	9MFY25 (UA)
Total operating income	1,091.00	1,634.63	1,337.52
PAT	70.72	313.82	152.19
Interest coverage (times)	1.19	1.70	1.40
Total Assets	5,897.26	8,054.86	7,090.74
Net NPA (%)	0.21	0.00	0.52
ROTA (%)	1.29	4.50	2.68

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	INE808K08046	28-Mar-2018	13.50	28-Apr-2025	65.00	CARE A-; Stable
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	35.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	45.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	01-04-2025	154.68	CARE A-; Stable

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-; Stable	1)CARE A- (RWD) (04-Feb-25) 2)CARE A- (RWD) (30-Dec-24) 3)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)

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
3	Fund-based - LT-Cash Credit	LT	45.00	CARE A-; Stable	1)CARE A- (RWD) (04-Feb-25) 2)CARE A- (RWD) (30-Dec-24) 3)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)
4	Debt-Non-convertible Debenture/Subordinate Debt	LT	65.00	CARE A-; Stable	1)CARE A- (RWD) (04-Feb-25) 2)CARE A- (RWD) (30-Dec-24) 3)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-; Stable	1)CARE A- (RWD) (04-Feb-25) 2)CARE A- (RWD) (30-Dec-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)

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
					3)CARE A (RWN) (23-Oct-24)			
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)
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)
10	Debt-Non-convertible Debenture/Subordinate Debt	LT	35.00	CARE A-; Stable	1)CARE A-(RWD) (04-Feb-25)	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short 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 the 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:
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