

## Arohan Financial Services Limited

June 23, 2021

### Ratings

| Facilities/Instruments                     | Amount (Rs. crore)                                                                            | Ratings <sup>1</sup>                                        | Rating Action                              |
|--------------------------------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------|
| Long Term Bank Facilities                  | 2,076.71<br>(Reduced from 3,682.59)                                                           | CARE A-; Negative<br>(Single A Minus; Outlook:<br>Negative) | Reaffirmed; Outlook<br>revised from Stable |
| <b>Total Bank Facilities</b>               | <b>2,076.71</b><br><b>(Rs. Two Thousand Seventy-Six Crore<br/>and Seventy-One Lakhs Only)</b> |                                                             |                                            |
| Subordinated Non-convertible<br>Debentures | 135.00                                                                                        | CARE A-; Negative<br>(Single A Minus; Outlook:<br>Negative) | Reaffirmed; Outlook<br>revised from Stable |
| Non-Convertible Debentures                 | 325.00                                                                                        | CARE A-; Negative<br>(Single A Minus; Outlook:<br>Negative) | Reaffirmed; Outlook<br>revised from Stable |
| <b>Total Long-Term Instruments</b>         | <b>460.00</b><br><b>(Rs. Four Hundred Sixty Crore Only)</b>                                   |                                                             |                                            |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities/instruments of Arohan Financial Services Ltd (Arohan) continue to draw comfort from the experience of the promoters and board of directors with professional management team, adequate risk management system and IT infrastructure, sizeable scale of operations, adequate liquidity, comfortable capitalisation and diversified funding profile in terms of lenders.

The ratings take note of the significant deterioration in the return indicators in FY21 (refers to the period April 1 to March 31). While there was a marginal deterioration in the pre-provisioning operating profit (PPOP), the provisions/write-offs witnessed significant increase on account of the sharp deterioration in asset quality and substantial amount of restructuring of the advances implemented by the company in Q3FY21. Resultantly, credit cost increased from 3.52% in FY20 to 9.56% in FY21 and the company incurred loss of Rs.160 crore in FY21 as against a profit of Rs.127 crore in FY20.

Gross Non-performing Assets (GNPA) and Net Non-performing Assets (NNPA) as a percentage of advances increased to 11.24% and 3.96% as on March 31, 2021 as against 2.47% and nil as on March 31, 2020 respectively. The deterioration in asset quality which is higher than the industry average is on account of the increased delinquencies due to the combined impact of socio-political issues and Covid-19 on the income profile of borrowers in some of states contributing significantly to the portfolio. Assam contributed to about 18% of the Assets under Management (AUM) of Arohan as on March 31, 2021 and the collection efficiency in Assam has been impacted since Q3FY20. With the introduction of the Bill for new MFI regulations by the Assam Government and elections in the state, asset quality has witnessed further deterioration. The portfolio at risk (PAR) > 30 days was substantial at around 58% of the Assam portfolio and PAR >90 was about 33%. Furthermore, there has been increase in delinquency levels in West Bengal, Bihar and Odisha. These four states contribute to about 76% of the AUM and about 85% of the PAR > 90 portfolio.

The company has provided significantly for the portfolio in FY21 and is carrying provisions to the extent of about 37% of the Assam portfolio and around 15% of the overall book. However, with the onset of the second wave of the pandemic, collection efficiency is expected to be lower in Q1FY22. CARE would continue to monitor the developments with regards to asset quality and collection efficiency.

The ratings also take note of the definite plans of the company to raise substantial equity in H1FY22 to maintain healthy capitalisation and fund future growth. The same was earlier envisaged to be completed in FY21. The company raised Rs.168 crore in February 2021 and has filed the DRHP for an Initial Public Offering (IPO) to raise about Rs.850 crore which is expected to be completed by September 2021. In spite of the loss incurred, the overall Capital Adequacy Ratio (CAR) remained comfortable at about 24% as on March 31, 2021. Further, the company is carrying significant amount of liquidity in the form of fixed deposits equivalent to at least three months of debt repayment obligations.

The ratings remain constrained by the geographical concentration of portfolio and inherent risks in the micro finance industry including unsecured lending, marginal profile of borrowers, regulatory risks, socio-political intervention and operational risks related to cash-based transaction. Further, the ratings take note of the operational challenges being faced on account of the outbreak of Covid-19. Considering the uncertainty with respect to achieving normalcy, the company's ability to manage the impact on business growth, client retention, credit cost, asset quality and profitability would remain

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

critical from a rating perspective, going forward.

### Rating Sensitivities

*Positive factors – Factors that could lead to positive rating action/upgrade*

- Sustaining capitalisation level and Tier I CAR being maintained at minimum 18% on a sustained basis.
- GNPA remaining below 1% on a sustained basis.
- Substantial improvement in Return on total Assets (ROTA).
- Further reduction in geographical concentration and growth in portfolio.

*Negative factors - Factors that could lead to negative rating action/downgrade*

- Tier I CAR going below 12% on a sustained basis.
- ROTA reducing to lower than 2% on a sustained basis.
- Significant increase in GNPA going forward and/or deterioration in collection efficiency or liquidity profile on a sustained basis.

### Outlook: Negative

The outlook has been revised to 'Negative' on the expectation of continued pressure on asset quality and profitability considering the impact of the second wave of Covid-19 on the collections which may also impact capitalisation. The company is in the process of raising significant amount of equity through the IPO to maintain healthy capitalisation and fund the growth in portfolio. CARE would continue to monitor the developments with respect to asset quality and profitability and may consider revising the outlook to stable if the company is able to infuse substantial equity as envisaged in a timely manner.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Experienced promoters***

Arohan is promoted by Aavishkaar-Intellectap Group, headed by Mr. Vineet Rai. In September 2012, the group acquired majority stake in Arohan from previous promoters i.e. Mr. Subhankar Sengupta and other institution investors. Mr. Vineet Rai has around two decades of experience in early-stage investing, small business incubation and microfinance business.

##### ***Experienced and professional management team***

Arohan's board comprises of 12 members, having significant experience in the banking and financial sectors. The board is headed by Mr. D.K. Mittal (Chairman), a former IAS officer who has served the Government of India in various capacities. Mr. Manoj Nambiar (Managing Director) has about 30 years of experience in consumer finance and retail banking. He was elected as the Chairman of MFIN in July 2019.

The senior management team is also considerably experienced with clear demarcation of roles and responsibilities.

##### ***Sizeable scale of operations, though degrowth witnessed in FY21 due to impact of Covid-19***

Arohan commenced micro-financing operations from 2006. The scale of operation has significantly increased post takeover by the new management in September 2012. The Assets under Management (AUM) of the company has been increasing continuously with a CAGR of around 70% for the last 3 years (FY17-FY20). AUM witnessed a growth of about 20% in FY20 from Rs.4045 crore as on March 31, 2019 to Rs.4854 crore as on March 31, 2020. However, as on March 31, 2021, the AUM witnessed degrowth to Rs.4,648 crore due to lower disbursements during the year on account of Covid-19. The company disbursed Rs.3,923 crore in FY21 as against Rs.4,957 crore in FY20.

##### ***Adequate risk management system and adequate IT infrastructure***

The company has migrated to FIS (Core Banking System) from Omni in July 2017. FIS Profile is a real-time, multi-currency deposit and loan core banking system, developed by Fidelity National Information Services Inc. (FIS), provider of financial services technology and outsourcing services. The data of all the connected outlets/branches are located at one centralized location; the management information system (MIS) functions can be undertaken more effectively, without much dependency on service outlets/branches, for the required quantum of data. The system is connected in real time to all of the branches as well as to the smartphone-based loan processing applications used by the field officers. Each branch has a terminal that provides facilities for branch data entry, loan processing and cash collections.

##### ***Diversified funding profile***

Arohan has a moderately diversified resource profile with a mix of equity, long term loans, bank borrowings and debentures. However, it has a large lender base. The company raised additional debt of about Rs.1,414 crore through NCDs and term loans in the H2FY21.

##### ***Adequate capitalisation***

Arohan's CAR remained largely stable at 24.27% as on March 31, 2021 (as against 24.80% as on March 31, 2020) and remained well above regulatory requirement of 15%. The Tier I CAR stood at 19.36% as on March 31, 2021 (as against 19.93% as March 31, 2020). However, the overall gearing deteriorated from 4.59x as on March 31, 2020 to 5.59x as on March 31, 2021 due to the combined effect of increase in borrowings and lower net worth. The company has been maintaining significant amount of liquidity and adjusting for the same, the net overall gearing was 3.88x as on March 31, 2021 as against 3.67x as on March 31, 2020.

**Key Rating Weaknesses****Significant increase in credit cost in FY21**

Interest income of Arohan grew by about 12% y-o-y to Rs.946 crore in FY21. Net Interest Margin moderated from 10.25% in FY20 to 9.06% with higher interest cost owing to higher debt raised in FY21. The company carried significant liquidity throughout the year at about 3 months of debt repayment obligations and the same has resulted in negative impact on the income profile to an extent. Operating expense/Average total assets (ATA) improved to 4.92% in FY21 as against 5.05% in FY20. PPOP was marginally impacted and stood at Rs.286 crore in FY21 as against Rs.327 crore in FY20. However, the company incurred loss of Rs.160 crore on account of the significant provisions created on the portfolio due to deterioration in asset quality leading to negative ROTA.

**Sharp deterioration in asset quality**

The GNPA and NNPA as on March 31, 2021 deteriorated significantly and stood at 11.24% and 3.96% respectively. The deterioration in asset quality is due to the combined impact of socio-political issues and Covid-19 on the income profile of borrowers in major states contributing to the portfolio. Assam contributed to about 18% of the Assets under Management (AUM) of Arohan as on March 31, 2021 and the collection efficiency in Assam has been impacted since Q3FY20. With the introduction of the Bill for new MFI regulations by the Assam government and elections in the state, asset quality has witnessed further deterioration. However, the company is carrying significant amount of provisions on the portfolio and the government of Assam is in the process of finalising relief measures for stressed borrowers including loan waiver. This should result in recovery of overdues to an extent.

The company has restructured total exposure of about Rs.1,466 crore in FY21. Increase in provisions on account of restructuring is Rs.275 crore. However, the company has maintained the stage wise classification of the restructured assets. CARE will continue to monitor the developments with respect to asset quality.

**Geographical concentration of portfolio**

The concentration of top three states in MFI loans outstanding (West Bengal, Bihar and Assam) remained stable at 65% as on March 31, 2021 as compared to 67% as on March 31, 2020. The concentration to West Bengal (highest exposure state) for MFI loans also remained stable at 28%. The company has presence in MFI business in 11 states. Further, in the MSME business, the company is disbursing loans in Maharashtra, Karnataka and Telangana where it does not have any MFI presence.

**Inherent risks in the micro finance industry with increasing competition**

Arohan faces competition from larger MFIs who have better access to resources and enjoy the economies of large-scale operations. Further, banks and NBFCs are also trying to increase their direct presence in rural areas to meet the priority sector lending requirement. However, the proposed harmonisation guidelines issued by the RBI recently are expected to benefit the NBFC-MFIs, especially in terms of removal of the margin cap and create a level playing field.

Post the Andhra Pradesh crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, it remains exposed to event-based risks and marginal profile of borrowers. The ability to withstand event risks and avoid further deterioration in the asset quality leading to impact on the overall profitability will be the key considerations.

The credit view will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash based transactions.

**Liquidity: Adequate**

The ALM of Arohan as on March 31, 2021 indicates no cumulative mismatches in any of the short-term time buckets. The cash and liquid investments including total unpledged fixed deposits (FDs) as on March 31, 2021 stood at around Rs.1,158 crore vis-à-vis debt repayment obligation of Rs.3,114 for FY22.

**Analytical approach:** Standalone.

**Applicable Criteria**

Criteria on assigning Outlook and credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios –Financial Sector

Rating Methodology- Non-Banking Financial Companies

**About the company**

Arohan (erstwhile Arohan Financial Services Pvt. Ltd), which started MFI operations in 2006, is a Kolkata-based Non-Banking Finance Company-Microfinance Institution (NBFC-MFI), registered with the Reserve Bank of India (registration in January 2014).

Arohan is majorly engaged in microfinance activity and managed AUM of Rs.4,648 crore as on March 31, 2021 across 11 States for MFI activity and 3 states for MSME lending. The top 3 states for MFI lending are West Bengal, Assam and Bihar.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) |
|------------------------------|----------|----------|
| Total operating income       | 938.36   | 1013.68  |
| PAT                          | 126.80   | -159.95  |
| Interest coverage (times)    | 1.86     | 1.61     |
| Total Assets                 | 5232.70  | 5312.77  |
| Net NPA (%)                  | 0.00     | 3.96     |
| ROTA (%)                     | 2.80     | -3.03    |

*A-Audited*

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

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of the rated instrument / facilities** - Please refer Annexure-3

**Complexity level of various instruments** - Please refer Annexure-4

#### **Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument                          | Date of Issuance   | ISIN         | Coupon Rate | Maturity Date      | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-------------------------------------------------|--------------------|--------------|-------------|--------------------|-------------------------------|-------------------------------------------|
| Fund-based - LT-Term Loan                       | -                  | -            | -           | March 2023         | 1991.31                       | CARE A-; Negative                         |
| Fund-based - LT-Cash Credit                     | -                  | -            | -           | -                  | 85.00                         | CARE A-; Negative                         |
| Fund-based - LT-Bank Overdraft                  | -                  | -            | -           | -                  | 0.40                          | CARE A-; Negative                         |
| Debt-Subordinate Debt                           | September 20, 2016 | INE808K08012 | 14.25%      | September 20, 2022 | 10.00                         | CARE A-; Negative                         |
| Debt-Non-convertible Debenture/Subordinate Debt | March 28, 2018     | INE808K08046 | 13.50%      | April 28, 2025     | 65.00                         | CARE A-; Negative                         |
| Debt-Non-convertible Debenture/Subordinate Debt | August 14, 2018    | INE808K08053 | 13.50%      | September 30, 2025 | 35.00                         | CARE A-; Negative                         |
| Debt-Non-convertible Debenture/Subordinate Debt | October 24, 2019   | INE808K08061 | 12.85%      | October 25, 2026   | 25.00                         | CARE A-; Negative                         |
| Debentures-Non-Convertible Debentures           | June 17, 2020      | INE808K07139 | 11.00%      | June 16, 2023      | 25.00                         | CARE A-; Negative                         |
| Debentures-Non-Convertible Debentures           | July 08, 2020      | INE808K07147 | 11.50%      | July 10, 2023      | 25.00                         | CARE A-; Negative                         |
| Debentures-Non-Convertible Debentures           | July 13, 2020      | INE808K07154 | 10.50%      | January 17, 2022   | 100.00                        | CARE A-; Negative                         |
| Debentures-Non-Convertible Debentures           | July 25, 2020      | INE808K07162 | 11.00%      | July 29, 2023      | 25.00                         | CARE A-; Negative                         |
| Debentures-Non-Convertible Debentures           | November 10, 2020  | INE808K07238 | 10.45%      | May 19, 2022       | 150.00                        | CARE A-; Negative                         |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                                |                   | Rating history                            |                                                                |                                                                                                       |                                                                    |
|---------|----------------------------------------|-----------------|--------------------------------|-------------------|-------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
|         |                                        | Type            | Amount Outstanding (Rs. crore) | Rating            | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021                      | Date(s) & Rating(s) assigned in 2019-2020                                                             | Date(s) & Rating(s) assigned in 2018-2019                          |
| 1.      | Fund-based - LT-Term Loan              | LT              | 1991.31                        | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)<br>2)CARE A-; Stable (05-May-20) | 1)CARE A-; Positive (25-Feb-20)<br>2)CARE A-; Positive (10-Oct-19)<br>3)CARE A-; Positive (05-Apr-19) | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |
| 2.      | Debentures-Non-Convertible Debentures  | LT              | -                              | -                 | -                                         | -                                                              | 1)Withdrawn (10-Oct-19)                                                                               | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |
| 3.      | Debentures-Non-Convertible Debentures  | LT              | -                              | -                 | -                                         | -                                                              | -                                                                                                     | 1)Withdrawn (08-Oct-18)                                            |
| 4.      | Debentures-Non-Convertible Debentures  | LT              | -                              | -                 | -                                         | -                                                              | 1)Withdrawn (10-Oct-19)                                                                               | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |
| 5.      | Debentures-Non-Convertible Debentures  | LT              | -                              | -                 | -                                         | -                                                              | 1)Withdrawn (10-Oct-19)                                                                               | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |
| 6.      | Debt-Subordinate Debt                  | LT              | 10.00                          | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)<br>2)CARE A-; Stable (05-May-20) | 1)CARE A-; Positive (10-Oct-19)                                                                       | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |
| 7.      | Debentures-Non-Convertible Debentures  | LT              | -                              | -                 | -                                         | -                                                              | 1)Withdrawn (25-Feb-20)<br>2)CARE A-; Positive (10-Oct-19)                                            | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |
| 8.      | Fund-based - LT-Cash Credit            | LT              | 85.00                          | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)<br>2)CARE A-; Stable (05-May-20) | 1)CARE A-; Positive (25-Feb-20)<br>2)CARE A-; Positive (10-Oct-19)<br>3)CARE A-;                      | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |

| Sr. No. | Name of the Instrument/Bank Facilities          | Current Ratings |                                |                   | Rating history                            |                                                                |                                                                    |                                                                    |
|---------|-------------------------------------------------|-----------------|--------------------------------|-------------------|-------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
|         |                                                 | Type            | Amount Outstanding (Rs. crore) | Rating            | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021                      | Date(s) & Rating(s) assigned in 2019-2020                          | Date(s) & Rating(s) assigned in 2018-2019                          |
|         |                                                 |                 |                                |                   |                                           |                                                                | Positive (05-Apr-19)                                               |                                                                    |
| 9.      | Debt-Non-convertible Debenture/Subordinate Debt | LT              | 100.00                         | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)<br>2)CARE A-; Stable (05-May-20) | 1)CARE A-; Positive (10-Oct-19)                                    | 1)CARE A-; Positive (05-Feb-19)<br>2)CARE A-; Positive (08-Oct-18) |
| 10.     | Fund-based - LT-Bank Overdraft                  | LT              | 0.40                           | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)<br>2)CARE A-; Stable (05-May-20) | 1)CARE A-; Positive (25-Feb-20)<br>2)CARE A-; Positive (10-Oct-19) | -                                                                  |
| 11.     | Debt-Non-convertible Debenture/Subordinate Debt | LT              | 25.00                          | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)<br>2)CARE A-; Stable (05-May-20) | 1)CARE A-; Positive (24-Oct-19)                                    | -                                                                  |
| 12.     | Debentures-Non-Convertible Debentures           | LT              | 25.00                          | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)<br>2)CARE A-; Stable (03-Jun-20) | -                                                                  | -                                                                  |
| 13.     | Debentures-Non-Convertible Debentures           | LT              | 150.00                         | CARE A-; Negative | -                                         | 1)CARE A-; Stable (06-Aug-20)                                  | -                                                                  | -                                                                  |
| 14.     | Debentures-Non-Convertible Debentures           | LT              | 150.00                         | CARE A-; Negative | -                                         | 1)CARE A-; Stable (12-Nov-20)                                  | -                                                                  | -                                                                  |

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

| 1. Unsecured Subordinated NCD- 10 crore                   | Detailed explanation                                                                               |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Major Financial covenants</b>                          |                                                                                                    |
| - CAR                                                     | CAR shall be above 15% at all point in time                                                        |
| - PAR 30                                                  | <=3%                                                                                               |
| <b>Major Non-financial covenants</b>                      |                                                                                                    |
| - Standard reporting, affirmative and negative covenants. | Quarterly reports within 45 days, annual reports within 120 days and event-based reports in 5 days |
| <b>2. Unsecured Subordinated NCD- Rs.100 crore</b>        |                                                                                                    |
| <b>Financial covenants</b>                                |                                                                                                    |
| - CAR                                                     | Tier I CAR>10% and overall CAR>15%                                                                 |
| - Gross NPL to gross loan portfolio                       | <=2%                                                                                               |
| - Gross NPL netted off for overall loan loss provision    | <=20% of Net worth                                                                                 |

|                                                                                                               |                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| - Net profit after tax on quarterly basis                                                                     | Positive                                                                                                                                                                                                                                           |
| <b>Non-financial covenants</b>                                                                                |                                                                                                                                                                                                                                                    |
| - Standard reporting, affirmative and negative covenants.                                                     | Quarterly reports within 45 days, annual reports within 120 days and event-based reports in 5 days                                                                                                                                                 |
| <b>3. Unsecured Subordinated NCD- Rs.25 crore</b>                                                             |                                                                                                                                                                                                                                                    |
| <b>Major Financial covenants</b>                                                                              |                                                                                                                                                                                                                                                    |
| - CAR                                                                                                         | CAR to be maintained at a minimum level (currently 15%) as stipulated by RBI                                                                                                                                                                       |
| - Gross NPA                                                                                                   | <=3%                                                                                                                                                                                                                                               |
| <b>Major Non-financial covenants</b>                                                                          |                                                                                                                                                                                                                                                    |
| - Standard reporting, affirmative and negative covenants. No rating revision trigger clause in the term sheet | Quarterly reports within 45 days, annual reports within 120 days and event-based reports in 5 days                                                                                                                                                 |
| <b>4. Secured NCD-</b>                                                                                        |                                                                                                                                                                                                                                                    |
| <b>Major Financial covenants</b>                                                                              |                                                                                                                                                                                                                                                    |
| - CAR                                                                                                         | CAR should not fall below 20%                                                                                                                                                                                                                      |
| - Liquidity                                                                                                   | Cumulative ALM should always be within the limits prescribed by RBI/Company's ALM policy                                                                                                                                                           |
| - PAR 90 days                                                                                                 | Not more than 6%                                                                                                                                                                                                                                   |
| - Operational self-sufficiency                                                                                | Min 110%                                                                                                                                                                                                                                           |
| - Operating cost ratio                                                                                        | Not more than 15%                                                                                                                                                                                                                                  |
| - TOL: TNW                                                                                                    | Max 10x                                                                                                                                                                                                                                            |
| - Debt Equity Ratio                                                                                           | It should be maintained below 6 times                                                                                                                                                                                                              |
| <b>Non-financial covenants</b>                                                                                |                                                                                                                                                                                                                                                    |
| - Rating downgrade/upgrade event                                                                              | In the event that the rating of the Issuer is downgraded by one notch from its current rating, the applicable coupon rate shall be increased by 0.25%.<br>The bank shall have a right of early redemption in case the ratings fall by two notches. |

**Annexure-4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument                          | Complexity Level |
|---------|-------------------------------------------------|------------------|
| 1.      | Debentures-Non-Convertible Debentures           | Simple           |
| 2.      | Debt-Non-convertible Debenture/Subordinate Debt | Complex          |
| 3.      | Debt-Subordinate Debt                           | Complex          |
| 4.      | Fund-based - LT-Bank Overdraft                  | Simple           |
| 5.      | Fund-based - LT-Cash Credit                     | Simple           |
| 6.      | Fund-based - LT-Term Loan                       | Simple           |

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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