

January 12, 2015

Confidential

Dear Sir,

Grading of Micro Financing Institution (MFI)

Please refer to our letter dated December 31, 2014 on the captioned subject.

2. As already advised, our Rating Committee has assigned a grading of 'MFI 2+' (MFI Two Plus) to your organisation.
3. The rationale for the grading is enclosed as an **Annexure - I** to this letter.
4. CARE's grading is an opinion of CARE on the relative capability of the organisation to undertake micro-financing activity and does not constitute a recommendation to buy, hold or sell any financial instrument issued by the organisation or to make loans/ donations/ grants to the said organisation.

Thanking you,

Yours faithfully,

P. Singhania
(Punit Singhania)
Dy. Manager

Utkarsh Nopany
(Utkarsh Nopany)
Manager

Encl. – As above

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Annexure-I

Arohan Financial Services Pvt. Ltd
MFI Grading Report

Year of incorporation	2006 as NBFC	'MFI 2+' (MFI Two Plus) Second on the eight point scale with "MFI 1" being the highest and "MFI 5" being the lowest
Legal status	NBFC-MFI	
Year of commencement of microfinance operations	2006	
Lending model	Group based individual lending	
Managing Director	Shri Manoj Nambiar	
Number of states of operation	4 states (as on Sep.30, 2014)	
Branches	84 (as on Sep.30, 2014)	
Employees	664 (as on Sep.30, 2014)	

CARE has assigned grading of 'MFI 2+' to Arohan Financial Services Pvt. Ltd (Arohan). The grading is assigned on a eight point scale with 'MFI 1' being the highest and 'MFI 5' being the lowest. There is no individual definition for each grading. CARE's MFI grading is a measure of overall performance of the MFI based on TOSS framework.

Credit Analysis and Research Ltd

January 12, 2015

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CREDIT ANALYSIS & RESEARCH LTD.

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata 700 071.
Tel: +91-33-4018 1600 / 02 | Fax: +91-33-4018 1603 | Email: care@careratings.com | www.careratings.com

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TOSS FRAMEWORK

Transparency		
		High
<ul style="list-style-type: none"> ○ Constituted as a private limited company. ○ Registered as NBFC-MFI. Legal form is subjected to greater regulatory norms and reporting. ○ Experienced BoD with two independent directors out of eight. One of the Independent director is ex-CMD of United Bank of India & another independent director is Ex-MD of CESC and board member of RPG Group. ○ Existence of monitoring committees like audit, HR & compensation, credit committee, etc. ○ Credit policies are well-established, documented and communicated. ○ Transparency in lending process & usage of funds is good. ○ Overall disclosures are high. ○ Internal audit team is present; audit is carried out on a quarterly basis. ○ Arohan is a member of several credit bureaus – High Mark & Equifax. 		
Operational Setup		
		Strong
<ul style="list-style-type: none"> ○ Shareholding is distributed among foreign and domestic institutions who own 52.3% and 47.7% shareholding respectively. ○ Arohan's existing promoters led mainly by Aavishkaar Goodwell & Michael & Susan Dell Foundation have infused equity to the tune of Rs.22.1 crore in FY14. ○ Well defined organization structure with separate departments with clear demarcated roles and responsibilities. ○ Experience promoters ○ The company follows a group based approach to extend loans to individuals. While the loan given to a member of a group is not guaranteed by other members of the group, peer pressure among the group members acts as a strong recovery tool. ○ Adequate loan appraisal & monitoring systems. ○ Adequate system for tracking over-dues and collection of delinquent loans after escalation depending on duration of overdue. ○ High degree of computerization at HO and other branch offices; accounting and record maintenance is done through its tailor-made Core Banking System type software named Omni developed by Infracore Technologies which includes modules like treasury, loan, HR and financial accounting. ○ Well established and documented HR policies. ○ Risk management systems are in place & commensurate with the size of the operation. Takes insurance cover for employees for infidelity, cash in transit and cash in safe. Insurance cover is also taken for borrowers & their spouses. ○ Separate training department which handles all training documents and co-ordinates with senior management in providing compulsory induction training to new employees. Employees also participate in external training programs and workshops. 		
Scale of Operations		
		Medium
<ul style="list-style-type: none"> ○ Moderate borrower base. As on Sep. 30, 2014 covered about 239,192 active borrowers (as against 161,568 as on Sep.30, 2013) ○ In terms of gross loan portfolio, amongst medium size MFIs in India. Loan portfolio outstanding of Rs.271.80 crore as on Sep.30, 2014 (as against Rs.137.61 crore as on Sep.30, 2013) ○ Operates in 27 districts spanning across 4 states of India through its network of 84 branches. ○ Moderate presence across geographical areas. Concentration of operation in West Bengal & Bihar was about 60% and 26% respectively of the outstanding portfolio as on Sep.30, 2014. However, Arohan's exposure in West Bengal has reduced from 65% as on Sep.30, 2013 to 60% as 		

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on Sep.30, 2014. Arohan has entered in Jharkhand market in Jun. 2014.	
o Arohan provides a variety of loan products catering to different market segments.	
Sustainability	
	High
<ul style="list-style-type: none"> o Legal form allows equity infusion from investors. o Comfortable asset quality with gross NPA at 0.27%, PAR>90 days stood at 0.40% as on Sep. 30, 2014. High collection efficiency (more than 99%) o CAR at 37.1% as on Mar.31, 2014 & 25.0% as on Sep.30, 2014 was at a comfortable level. Arohan is in the process of raising Rs.60.0 crore from institutions which is expected by January 2015. o Comfortable asset-liability maturity profile o Arohan has further strengthened its second line of leadership by inducting personnel who have earlier worked in private sector banks, insurance companies, other MFIs & in consulting role. o Presence in states with both high penetration of MFIs like West Bengal as well as with low penetration like Bihar, Assam & Jharkhand. Has entered in Jharkhand market in H1FY15. Arohan's exposure in West Bengal constitutes 59.9% of its portfolio while the remaining exposure is in Bihar, Assam & Jharkhand as on Sep.30, 2014. o Satisfactory & improving operating cost ratio vis-à-vis the size of the operation. Operating expenses to Total capital employed at 9.77% & 8.10% in FY14 & H1FY15. Operating Self Sufficiency ratio is at a satisfactory and improving level of 116.01% & 127.38% in FY14 & H1FY15. o Diversified funding profile. As on Sep.30, 2014, Arohan had an outstanding borrowing of Rs.236.7 crore which includes funding from 13 public & private sector banks as well as through Non-Convertible debentures (NCDs). Investors in NCDs include Hinduja Leyland Finance, Mahindra & Mahindra, Ratnakar Bank, AAV Sarl and MicroFinance Initiative for Asia (MIFA). o The sector faces socio-political risks, regulatory uncertainty but has a huge unmet potential demand. RBI guidelines are in place regarding interest rates to be charge. On direct lending to NBFC-MFIs, subject to meeting criteria prescribed by RBI, have been given PSL status. The government is yet to pass Micro Finance Sector Development and Regulation Bill, 2011 in parliament. 	

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GRADING RATIONALE

Arohan Financial Services Pvt. Ltd. (Arohan), incorporated in 2006, is registered as an NBFC-MFI with operations in West Bengal, Bihar, Assam and Jharkhand. In Sep 2012, IntellectCash Microfinance Network Co. Pvt. Ltd, a subsidiary of investment banking services and advisory firm Intellectual Capital Advisory Services Pvt. Ltd (IntellectCap), acquired a majority stake in Arohan from existing institutional investors (mainly Bellwether Microfinance Trust and India Financial Inclusion fund). In FY14, existing promoters led by Aavishkaar Goodwell & Michael & Susan Dell Foundation have infused funds amounting to Rs.22.1 crore.

Arohan is engaged in the business of lending to individual women borrowers and small businesses under the 'Joint Liability Group' model and is operating in rural & urban areas in West Bengal, Bihar, Assam & Jharkhand. The main thrust of the company is to work in a sustainable manner, with women & small businesses who are in socially & economically disadvantageous position, for their social upliftment & economic emancipation. Arohan provides loans to the individual members of groups for undertaking various income generating activities. The company generally tries to form a group of about 3-5 people. While these loans are given without collateral, the co-borrower / member pressure acts as a risk mitigant. The loans are repaid on a monthly basis.

As on September 30, 2014, Arohan is operating in 27 districts spanning across four states viz. West Bengal, Bihar, Assam & Jharkhand. Operations of Arohan are managed through its network of around 84 branches and have 239,192 active borrowers with total outstanding portfolio of Rs.271.80 crore as on September 30, 2014.

TRANSPARENCY

Arohan is incorporated as a private limited company and is registered with Reserve Bank of India as non-deposit accepting non-banking finance company – microfinance (NBFC-MFI). The current legal form of Arohan restricts it to access savings from its clients. Advantage of this legal form is that it can attract equity infusion from individual/institutional investors as dividends payments are permissible under this form.

Arohan is governed by eight member board out of which two are independent directors. Byelaws of the organization are clearly established including process and procedures for selection of board member. Most of the board members have more than ten years of

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2/11

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3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata 700 071.
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experience in their respective areas of specialization. *Detailed profile of the board members is mentioned in the Annexure I.*

The management committee meets on a quarterly basis to monitor the progress and discuss the financial and operational performance of the organization.

Arohan has formed sub committees including risk management committee, audit committee, HR & compensation committee and Banking & Debt Committee. Despite the moderate scale of operations, Arohan has established various sub committees for effective monitoring and to increase transparency.

Internal Controls

In May 2010 a separate department called Internal Control has been set up under the guidance of Mr. Amit Dutta, Asst. Vice President (IC). Shri Dutta is a chartered accountant and joined Arohan in 2008 as GM – Finance, Accounts and IT. After successfully managing the two departments for two and a half years, he took charge of Internal Control department w.e.f May 2010. The Internal Control department has started its operation since September 2010 covering all the branches in West Bengal as well as Bihar on monthly basis. In addition w.e.f April 2012, branches in Assam are also covered on monthly basis.

The primary objective of Arohan's Internal Audit Team is to examine and evaluate the company's framework of risk management, promote operational efficiency and effectiveness, safeguard assets and records, cost control and cost consciousness and also ensure that the provisions of various laws, regulations, guidelines, terms of various contracts, agreements, undertakings etc. are strictly adhered to.

As of Sep.30, 2014, Arohan's audit team had 28 staff members comprising 16 monitoring officers, 7 executives, 2 senior executives, 2 deputy managers & 1 AVP. Monitoring officers are promoted Customer Service Representatives (CSR) having sufficient knowledge of field operation and have adequate accounting background and knowledge about the organizational policies on accounting. Each branch is visited at least once in a month and a monitoring officer spends at least 3 days for such audit. In addition to that, IC executives visit the branches on regular interval. They spend at least one day in each branch within a period of 3 months. The branches for audit purpose are selected randomly and the audits are kept highly confidential. Review of other departments such as accounts, IT & HR is planned on quarterly basis. In addition of day to day review this department also undertakes different projects like OD analysis, analysis of customer attendance on periodically. This

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3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata 700 071.
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team ensures that the policies and norms laid down by the management are adhered to, and prescribed systems and procedures are actually being followed at the branch level.

As microfinance operations involve large volume of cash transactions, therefore going forward, Arohan needs to constantly monitor its internal controls by conducting branch and field audit to control instances of frauds or misappropriations (if any).

Policies

Arohan has clearly defined and documented credit & HR policies. Credit policies are strictly adhered to for formation of groups, field verification and credit appraisal. HR policies encompass recruitment and selection, induction and training, performance management and compensation management.

Transparency in lending process

Arohan informs its lending policies to the borrowers through its training programs (at the group meetings). Further, Arohan organizes separate training programme for its borrowers to inform about the lending process of the company.

Transparency in utilization of funds

Arohan submits information as per the requirement of lender on monthly and quarterly basis. It also submits utilization report for disbursement to the concerned lenders.

Overall disclosures

Arohan is regular in submitting operational and financial information to external associations and agencies like IFC Sadhan, Mix Market, MFIN and the two credit bureaus, High Mark & Equifax. It also provides the operational and financial information on its website, which is updated on a regular basis.

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OPERATIONAL SETUP

Managerial Factors

Ownership and Management

Shri Manoj Nambiar, the Managing Director (MD), is supported by a senior management team including promoter Shri Shubhankar Sengupta (CEO). Arohan's Board comprises eight members having rich experience in banking and financial sector. Arohan's board is headed by Shri Manoj Nambiar (Managing Director), having experience of close to two and a half decade spanning across marketing, consumer finance, retail banking & microfinance across India & the Middle East. He has worked with Modi Xerox, GE Countrywide, ANZ Grindlays Bank and ABN Amro Bank in India and then as Head Retail Banking with National Bank of Oman, COO with Alhamrani Group and Deputy CEO with Ahli Bank in the countries of Oman, UAE, Egypt & Saudi Arabia. Prior to joining Arohan, he had been working as the MD & CEO of IntelleCash Microfinance Network Co. Pvt. Ltd (IntelleCash).

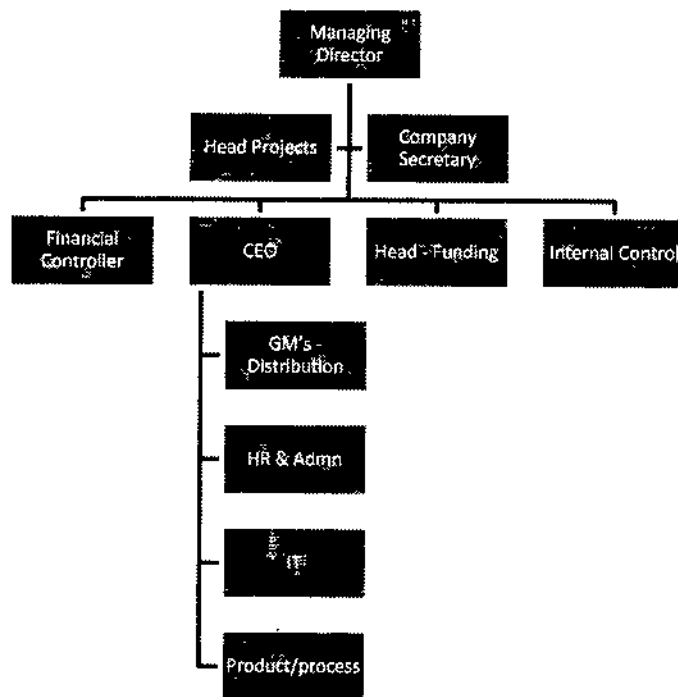
In September, 2012, IntelleCash Microfinance Network Co. Pvt. Ltd, a subsidiary of investment banking services and advisory firm Intellectual Capital Advisory Services Pvt. Ltd (IntelleCap), acquired a majority stake in Arohan from existing institutional investors (mainly Bellwether Microfinance Trust and India Financial Inclusion fund). Besides that, fresh funds have been infused worth Rs.26.8 crore by IntelleCash & other existing promoters. In FY14, existing promoters led by Aavishkaar Goodwell & Michael & Susan Dell Foundation have infused Rs.22.1 crore.

IntelleCap provides consulting and investment banking services to business and development communities globally, helping them bring entrepreneurship solutions to development challenges at the Base of the Pyramid and beyond IntelleCap's interventions are designed to catalyze Initiatives for both large corporate and social entrepreneurs in pursuit of rapid global development. Over the years, IntelleCap has completed over 175 consulting projects and inter-mediated investment capital in excess of US \$ 200 million.

After this acquisition, promoters & domestic institutions and foreign investors hold around 48% and 52% of total shareholding respectively.

Organization Structure

Arohan has created separate departments with clearly demarcated roles and responsibilities for handling future growth. The organization structure is logically structured and well defined to meet the requirement of operational functioning.



Level of decentralization of branches

At the branch level, branch manager can take the key decision whether to grant or reject a loan application; however he must do this in strict accordance with the company's Operational Policy. He is responsible for disbursing the loan amount after the collection of the upfront fees and insurance amounts. He is closely monitored by his reporting officer, the Area Manager. An Area Manager looks after 5-10 branches. In addition, the Arohan's internal control team inspects each branch once a month to ensure the Branch Head has been working in accordance with the Operational Policy. Management committee review meetings are held at the HO on a quarterly basis with participation of CMD and second line of management. At the branch level, meetings are conducted on weekly basis with participation of branch manager and field officers.

The operations are decentralized with branches handling field verification, appraisal, disbursement, collection and delinquency management.

Second line of leadership

The second line of leadership includes all the functional heads. The 11 member senior management team (including 5 VPs and 6 GMs) bring in a rich and varied experience from diverse fields like finance, sales and marketing, development work, research, microfinance and information technology. Majority of the senior members understand the issues involved in day to day functioning and are involved in strategic decision making of the organization.

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Arohan's senior management has varied industry experience and has adequate expertise to manage the current & growing scale of operations.

Human resources management

<p>Staff strength and experience</p>	<ul style="list-style-type: none"> • Total staff strength of 664 employees (as on Sep.30, 2014). • Customer service representatives (CSRs) are mostly graduates but also include persons with higher secondary. • Experience amongst the CSRs varies but notable portion of the total strength have more than one year experience.
<p>Recruitment and selection</p>	<ul style="list-style-type: none"> • Arohan has a standardized and well-structured process for recruitment of field staff. Advertisements are given in newspapers and the selected candidates are called for a written test and focus group discussion. Selected candidates go through a training of 21 days which includes- 10 to 11 days of field exposure, 2 days of area survey and 4-5 days of classroom training.
<p>Training systems</p>	<ul style="list-style-type: none"> • Training involves everything from new employee orientation to leadership training for seasoned employees. The HR department looks after new employee orientation. • The Senior Management team (that is General Manager and above) is responsible for the training of their respective teams. They identify skill gaps or refresher training requirements within their teams by conducting annual SWOT analyses. Apart from that, external training programs for mid-management employees are also conducted regularly. • Along with HR, they devise training in-house or identify/approach well known consultants such as IFC (who is providing training on Risk Management), MicroSave (who have conducted training on Pensions, Business Planning & Individual lending) or m2i (who have provided training social performance & financial analysis).
<p>Remuneration and incentive</p>	<ul style="list-style-type: none"> • A clear salary grade has been established with other allowances

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structure	<p>provided to the employees.</p> <ul style="list-style-type: none"> • There is an incentive structure based on business volume & diversification, asset quality, process compliance & customer satisfaction. • Encourages active participation in workshops and external training programmes conducted by banks, financial institutions, etc.
Attrition rate	<ul style="list-style-type: none"> • Attrition rate has been around 22% in H1FY15. Majority of the attrition is at the Customer Service Representative level where attrition rate is high across the MFI industry.

The human resource policies at Arohan with respect to selection, remuneration and other benefits are well documented. Arohan through its various training programs ensures that the staff is motivated and well equipped to handle the operations in efficient and effective way. Arohan has done well in terms of providing external training to mid-level staff members and internal training by senior management to all the employees. For handling growth Arohan has created separate departments including administration, training, internal audit and operations with clearly demarcated roles and responsibilities. It has also decentralized most of its branch operations including appraisal, disbursement and collection.

Operational aspects

Operational methodology

Arohan provides loans to the individual members of groups for undertaking various income generating activities. The company generally tries to form a group of 3-5 people. The members of the group (initial &/or new joinee) are admitted only after proper scrutinization. The company follows a group based approach to extend loans to individuals. The loan given to a member of the group is not guaranteed by other members of the group. While these loans are given without collateral & mutual guarantee, the co-borrower/member pressure acts as risk mitigant. The loans are repaid on a monthly basis. A well-defined process is followed by the company for the formation of the groups.

- A dedicated team along with people from operations selects potential areas based on demographic and socio-economic profile. The CSR visits the primary catchment area,

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interacts with potential customers regarding Arohan's retail lending activity and their financial requirement.

- Selection of members is done by the group, with no influence from staff of Arohan, based on the minimum acceptable criteria mentioned by Arohan including age group, economic activity, etc. Once group formation takes place, the CSR should compulsorily meet all the members of the JLGs informally once, before setting a date for Group Training. The purpose of holding the pre-training meet is to reduce the possibility of a member being rejected at the time of Customer Verification and Group Training.
- Once group formation takes place after the initial meeting, compulsory group training is conducted for a period of two weeks on process and procedures of Arohan.

Meetings at the group level are held on a weekly or monthly basis wherein request for new loan, repayments and other issues relating to social development are discussed by the Customer Service Representative (CSR) in presence of all the members.

Appraisal and disbursement:

Arohan has in place a proper appraisal system. Appraisal is done by the CSR to check the member eligibility. This ensures proper checks and balances because of the localized information available to the Branch Manager. Loan appraisal process is fairly decentralized with branch manager having final authority for appraisal and sanctioning of loan.

Appraisal Process:

- Screening of individual members is done at three levels: group level by the existing borrowers, customer service representative and branch manager of Arohan.
 - CSR verifies borrower's repayment capacity through household visit and visit to the business entity or activity.
 - Borrower's repayment capacity is further corroborated by group members.
 - Screened by the branch manager.

Disbursement process:

- Cash disbursements are made at the branch level in presence of the branch manager and all the borrowers are required to be present at the time of disbursement.
- At the time of disbursements, the promissory note and receipt from the borrowers is obtained.
- Loan books are provided to borrowers and loan register is maintained at group level.

Loan collection and overdue management process

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Cash is collected at the group meeting by the CSR as per demand collection sheet and the same is entered in the pass book with the borrowers.

Loan collection and Overdue Monitoring process can be summarized as follows:

- Collection of repayment is done at the group meetings by the CSR with schedule for collection predetermined for each member of the group based on the disbursement date.
- Collections are done by the CSR with entry into the individual loan cards (pass books) maintained by the individual members of the group in the group meetings. CSR also enters the amount collected in his weekly/monthly collection sheet.
- Cash collected by the CSR is deposited in the bank on the same day. Verification is done by the branch manager at the end of the day by scrutinizing weekly collection sheet with the demand sheet.
- Before extending loans to new borrowers, Arohan's CSR explains guideline and policies to borrowers including collective responsibility (though not guaranteed) of other borrowers in case of non-payment of repayment by any one of the borrowers in the training program.
- The collection & delinquency management is handled by the respective branches that are dependent on HO for funds and other technical support including HR and MIS.

Management Information Systems

Arohan has been focused on supporting its operations through IT enabled services to keep pace with its growing scale of operations. It uses a Core Banking Solution (CBS) type software named Omni developed by Infracore Technologies which provides branches with real-time central server connectivity. The software provides all levels of management access to the central server, thereby improving supervision, control and decision making. It opens up the possibility of mobile connectivity at the field level, thereby taking connectivity right upto the door-step of the customer. Further, incorporation of features like automated Credit Bureau enquiry, etc. has improved operational as well as supervisory capabilities. All the branches are connected to the HO through the network ensuring access to real time data. Further, the company has outsourced its server hosting to a third-part vendor (Nelco - a TATA group company in Mumbai) to ensure efficient functioning, maintenance and

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disaster management. All types of reports including overdue report and demand collection report at branch level can be generated within a short span of time.

Risk management systems

Cash management system: Arohan has opened bank accounts for each of the branches. Based on sanction from the branches, funds demand statements is prepared at branch level by the branch manager (daily, weekly, monthly & six monthly). Consolidated statement is prepared at regional level and sent to HO for final approval.

Loan is disbursed in cash by the branch manager of the concerned branch in the presence of the branch staffs to individual borrowers. However, based on the daily loan disbursement & collection plan, branch manager deposits the excess cash to the bank on daily basis. Thus, each branch maintains zero cash balance at the end of the day thereby reducing risk of mismanagement of cash at field and branch level.

Insurance: Arohan takes insurance for cash in transit with limit of handling cash by each CSR. Further, it also provides insurance cover to its members from third party i.e. Aviva. On behalf of the insurance company, Arohan collects premium.

SCALE OF OPERATIONS

Arohan has built its microfinance portfolio since 2006 as NBFC-MFI. Thus Arohan has adequate track record in the microfinance sector.

The key operational parameters of the company, over the last two years, are as under:

For the period ended / As on,	Mar'13	Mar'14	Sep'14
Number of states and union territories	3	3	4
Districts	18	24	27
Branches	67	73	84
Number of active JLG members	113,277	209,029	201,722
Number of active JLG borrowers*	113,277	209,029	201,722
Number of non-JLG borrowers^	388	10,672	37,470
Total borrowers	113,665	219,701	239,192
Amount of loan disbursed during the year (Rs. crore)	108.84	260.83	226.43
Employee Profile			
Customer Service Representative	345	363	463
Total employees	511	534	664
Employee productivity			
Number of borrowers per CSR	329	605	517
Branch productivity			
Number of individual borrowers per branch	1,696	3,010	2,848
Amount of loan outstanding per branch (Rs. crore)	1.35	2.61	3.24

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3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata 700 071.
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* This is an aggregate of all customers that are offered loans <Rs.15,000 under both Saral & Bazar products. These customers are organised in a 3 to 5 member JLG.

^This is an aggregate of all customers offered loans >Rs.15,000 under both Saral+, Bazar+ & Pragati products. The customers offered "plus" & Pragati loans are not part of any JLG, though in case of the former two, the recovery takes place at the collection centre.

Arohan has managed to increase its outreach through a combination of branch optimization (each branch now caters to a larger catchment area) and opening new branches in areas where it didn't had presence. As a result, the number of branches in operations areas has increased from 63 branches as on September 30, 2013 to 73 branches as on March 31, 2014 to 84 branches as on September 30, 2014. Consequently total loan disbursement in FY14 was Rs.260.83 crore as against Rs.108.84 crore in FY13.

Currently, Arohan is operating in 27 districts covering 4 states of India. On account of diversifying its operations, Arohan has reduced its exposure in West Bengal from 65% as on Sep.30, 2013 to 60% as on Sep.30, 2014. Arohan has also entered in Jharkhand market in June 2014.

SUSTAINABILITY

Financial Sustainability

Financial Performance (Rs. crore)	FY13	FY14	Sep. 30, 2014
Net worth	42.03	67.35	72.15
Total income	14.45	34.73	31.26
Total operating expenses	9.54	13.54	8.92
Financial cost	4.18	14.85	13.96
Depreciation	0.27	0.39	0.25
PAT (after defd. tax)	0.05	3.06	4.57
Loan outstanding – own	68.67	154.62	262.09
Loan outstanding – Managed	21.76	35.64	9.71
Total Loan outstanding	90.43	190.26	271.80
Key ratios (%)			
Return on total assets	0.07	1.83	3.01
Operational Self- Sufficiency	102.75	116.01	127.38
Interest income/Interest earning assets	20.30	25.07	-
Interest / Avg. borrowed funds	8.83	14.28	-
Interest spread	11.46	10.79	-
Operating Exp. / Capital employed	13.29	9.77	8.10
Capital adequacy ratio	51.30	37.10	25.04
PAR > 30 days	0.72	0.54	0.52
PAR > 90 days	0.66	0.38	0.40

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Profitability

NIM (excluding loan processing fees) fell from 12.41% in FY13 to 11.77% in FY14 on account of higher reliance on debt for lending purpose. However, on an absolute basis, interest income grew by 160.1% to Rs.27.99 crore. Operating expense (excluding provision & write-off) / Avg. capital employed fell from 12.50% in FY13 to 8.54% in FY14 on the back of increased scale of operation (servicing of more customers per branch & higher AUM per branch), higher ticket size (increasing the minimum ticket size for Saral/Bazaar loans from Rs.5,000 to Rs.7,500 and launch of new product with higher ticket size ranging between Rs.20,000-30,000 for borrowers with prior credit history with Arohan), and cost rationalization measures undertaken by the company. Provisioning expense (incl. write-offs) increased from 0.63% in FY13 to 1.39% in FY14 on account of change in provisioning requirement from 0.25% to 1% on standard asset. ROTA also improved from 0.07% in FY13 to 1.83% in FY14.

Asset quality also remains healthy with net NPA falling from 0.47% of total advances as on Mar 31, 2013 to 0.21% as on Mar 31, 2014 and portfolio at risk greater than 30 days (PAR>30 days) falling from 0.72% as on Mar 31, 2013 to 0.54% as on Mar 31, 2014.

Arohan's overall CAR has fallen from 51.3% as on Mar 31, 2013 to 37.1% as on Mar 31, 2014 due to sharp increase in loan portfolio, however, it remains at a comfortable level.

In H1FY15, Arohan generated a PAT of Rs.4.57 crore on total income of Rs.31.26 crore.

Fund Mobilization

Arohan has been successful in accessing funds from various private/public sector banks, financial institutions and NBFCs for onward lending to the individual borrowers under the groups.

The company has been able to successfully raise funds (equity and debt) regularly for the past couple of years. The promoters have infused equity of Rs.26.8 crore & Rs.22.1 crore in FY13 & FY14 respectively.

Arohan is also amongst very few MFIs tapping securitization route for funds.

Apart from raising funds from public & private sector banks, Arohan has also raised funds from through Non-Convertible debentures (NCDs) (investors like Hinduja Leyland Finance, Mahindra & Mahindra, Ratnakar Bank, AAV Sarl and MicroFinance Initiative for Asia etc.) to fund business growth.

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Asset Quality

Although Arohan has been lending to a high risk segment, it has been able to maintain a reasonable track record. Asset quality is healthy, with standard portfolio at 99.56% as of March 31, 2014 (improved marginally from 99.23% as on Mar.31, 2013) which declined to 99.17% as on Sep.30, 2014. The portfolio at risk greater than 30 days (PAR>30 days) also is low at 0.54% as on Mar.31, 2014 (0.72% as on Mar.31, 2013) and improved further to 0.52% as on Sep.30, 2014.

Going forward, Arohan's ability to maintain its asset quality considering its growth plans would be crucial and would be one of the key grading factors.

Level of capitalization

Arohan reported Capital Adequacy Ratio (CAR) of 25.04% as on September 30, 2014 as against regulatory requirement of 15%. Arohan is in advances stage of capital infusion from existing/new promoters amounting to Rs.60 crore which would improve CAR going ahead.

Operational Sustainability

Second line of leadership

Majority of the senior members understand the issues involved in day to day functioning and are involved in strategic decision making of the organization. Arohan's senior management has varied industry experience and has adequate expertise to manage the large & growing scale of operations.

Arohan has further strengthened its second line of leadership (GM, AVP & VP level) by inducting personnel who have earlier worked in private sector banks, insurance companies, other MFIs & in consulting role.

Industry outlook and Competition

On the regulatory front, the key development was implementation of Malegam Committee's recommendations by the RBI for creating a separate category for NBFC-MFIs and retaining the priority sector status for NBFC-MFIs. The regulations are for both the operational and financial aspects of an MFI and provide comprehensive framework across the country and bring more clarity on the regulatory framework for the sector.

The Central Government has also recently released a draft (to be tabled in the parliament) MFI bill (The Microfinance Institutions Development and Regulation Bill 2011), intending to provide formal statutory framework for the microfinance sector.

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5/12

However, until a clear and unambiguous set of guidelines are implemented for the sector, the risk of intervention similar to AP ordinance in other regions remains to be seen.

In its areas of operation (mainly wherever Arohan has higher proportion of portfolio, i.e. West Bengal), there are large numbers of MFIs providing microfinance services. Accordingly, Arohan is likely to face moderate competition from other MFIs.

Earlier Scenario	Current Scenario
<ul style="list-style-type: none"> • Implementation of AP ordinance in Andhra Pradesh affecting operations of MFIs in AP and funding constraints for MFIs operating in AP and other states • Likelihood of other states following the same • Uncertainty on the MFI bill being implemented to regulate MFIs across India • Multiple regulatory environment • No separate category for MFIs operating as NBFC by RBI and also subjected to dual regulations (Mainly in AP) 	<ul style="list-style-type: none"> • Regulation of NBFC-MFI sector has been clearly brought under RBI. <ul style="list-style-type: none"> ➤ Creation of separate category of NBFC MFI by RBI ➤ Retention of priority sector lending status for microfinance by RBI • Microfinance bill 2012 is being scrutinized by Parliamentary Standing Committee • Post AP ordinance in October 2012, no other states have implemented separated Act for regulating MFIs • Credit Bureau has been formed to track multiple lending or over-indebtedness and MFIs have started sharing information with the credit bureaus.

Loan Products

Arohan extends five types of income generating loans (Saral- Micro credit, Saral Plus- Micro Credit, Bazaar - Micro Enterprise credit, Bazaar Plus- Micro Enterprise credit, Pragati - Small enterprise credit in non-farm enterprises) to JLGs/individuals. Details are as follow:

Product Name	Existing Products				
	Saral Loan	Saral Plus Loan	Bazaar Loan	Bazaar Plus Loan	Pragati Loan

87

17

2/11

CREDIT ANALYSIS & RESEARCH LTD.

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata 700 071.
Tel: +91-33-4018 1600 / 02 | Fax: +91-33-4018 1603 | Email: care@careratings.com | www.careratings.com

CIN-L67190MH1993PLC071691

Launch Date	April 2006	August 2013	April 2008	August 2013	October 2010
Loan Conditions	3-5 member JLGs who undergo 2 days of training prior to loan sanction	Individual loans for people who have prior credit history with Arohan	3-5 member JLGs who undergo 2 days of training prior to loan sanction	Individual loans for people who have prior credit history with Arohan	Individual clients involved in manufacturing within the age group of 21-50 years and employing atleast 3 wage labourers
Loan size	7,500 – 15,000	20,000 – 30,000	7,500 – 15,000	20,000 – 30,000	40,000 – 200,000
Tenure	12 months	24 months	12 months	24 months	12-36 months
Repayment	Monthly	Monthly	Monthly	Monthly	Monthly

As on Sep 30, 2014	JLG Loans (Saral & Bazar) <Rs.15,000	Plus Loans (Non-JLG excluding Pragati)- >Rs.15,000	Pragati Loans	Total
No. of clients	201,722	36,805	665	239,192
Loan Outstanding (Rs. Crores)	177.94	91.41	2.45	271.80

Efforts to increase outreach and coverage

Arohan has projected a significant increase in its income from micro financing activities with proposed rapid scaling up of its operations, on the back of higher term loans availed from banks/FIs as well as expected equity infusion from existing/new promoters. Arohan has already entered Jharkhand market in H1FY15 and plans to enter new geographies like Orissa, Chattisgarh, Uttar Pradesh, Madhya Pradesh, Tripura & Meghalaya in the medium term.

Arohan will continue to focus mainly on individual loans through recently introduced products like Saral Plus & Bazaar plus (introduced in August 2013). However, they are also trying to diversify its income profile through introduction of new products like micro-pension (tied-up with IFMR), micro-insurance (tied-up with SBI Life), etc. Apart from that, Arohan has entered into a partnership model with IndusInd bank for extension of credit and other financial services to low-income group borrowers. This agreement will be applicable to 2 districts (i.e., 8 branches) in Assam.

The projected numbers seems achievable, given the current network base of the organization and the ability of the promoters to infuse equity at regular intervals.

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ANNEXURE I - Profile of Board of Directors of Arohan

Name	Qualification	Executive/ NE/ Promoter	Experience
Shri Manoj Nambiar	Mechanical Engineer from VJTI, Masters in Management from JBIMS	MD, co-promoter	24 years of work experience spanning across marketing, consumer finance, retail banking and microfinance across India and the Middle East.
Shri Shubhankar Sengupta	Post-Graduate from IRMA	Co-promoter / Executive Director	Prior to starting Arohan, he was with BASIX, India's leading livelihood promotion institution for eight years.
Shri Bhaskar Sen	Certified Associate of Indian Institute of Bankers	Independent Director	Ex CMD of United Bank of India, Executive Director of Dena Bank having 40 years of Banking Experience In India & Overseas. Serves as Deputy Chairman of Indian Banks' Association.
Shri Sumantra Banerjee	B.Tech, Chemical Engineering (IIT Kharagpur) MS Polymer Science (USA) MBA Marketing & Finance (USA)	Independent Director	25 years of CEO experience at board level in multiple business sector. Before joining Arohan, he was the management board member of RPG group for the past 23 years since 1990. He held the position as a Managing Director of CESC which serves to 11 million household of Kolkata and also held the position as CEO of Spencers Retail Ltd.
Shri Sanjib Jha	Law graduate & qualified Company Secretary	Non-Executive Director	CEO of Intellegrow. Played a role in setting up Lok Capital in India where he was responsible for investments with major Indian MFIs.
Shri Anurag Agarwal	MBA (Finance) from TAPMI	Non-Executive Director	CEO of Intellecip. Worked with most of the leading MFIs in India. Prior to that, he has worked in ICICI Bank.
Shri Vineet Chandra Rai	PG in Forestry Management from Indian Institute of Forest Management, Bhopal	Non-Executive Director	Founder and Chairman of Intellecip. Founder Aavishkaar, the fund advisory company providing advisory support to Aavishkaar I & II Rural investment funds as well as Aavishkaar-Goodwill I & II Microfinance focused funds.
Smt. Sushma Kaushik	MBA from ISB Hyderabad	Non-Executive Director	Worked closely on building collaborative partnerships in market based solutions for the low-income population.

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2/12

ANNEXURE II - Operational outreach

For the period ended / As on,	Mar'13	Mar'14	Sep'14
Number of states and union territories	3	3	4
Districts	18	24	27
Branches	67	73	84
Number of active JLG members	113,277	209,029	201,722
Number of active JLG borrowers	113,277	209,029	201,722
Number of non-JLG borrowers	388	10,672	37,470
Total borrowers	113,665	219,701	239,192
Loan Portfolio			
Disbursement – Own	108.84	260.83	226.43
Disbursement – Managed	0.00	0.00	4.90
Amount of loan disbursed during the year (Rs. crore)	108.84	260.83	231.34
Receivables due during the year (Rs. crore)	77.89	161.45	151.04
Receivables recovered during the year (Rs. crore)	77.29	160.74	148.90
Overdue at the end of the year (Rs. crore)	0.60	0.71	1.04
Recovery rate (%)	99.23	99.56	99.17
Portfolio at risk (PAR) >30 days (%)	0.72	0.54	0.52
Portfolio at risk (PAR) >90 days (%)	0.66	0.38	0.40
Total outstanding loan portfolio (Rs. crore) (including managed portfolio)	90.43	190.26	271.80

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2/11

ANNEXURE III - Details for top Banks/Financial Institutions (as on September 30, 2014)

Lenders	Sanctioned Amount	Disbursed Amount	Amount O/S	Interest Rate	Repayment Schedule
Ananya Finance for Inclusive Growth Pvt Ltd	2.00	2.00	1.00	16.00%	Monthly
Axis Bank Limited	10.00	10.00	13.00	13.50%	Quarterly
	7.00	7.00		13.50%	
Bellwether	4.00	4.00	6.44	16.00%	Monthly
	3.75	3.75		16.00%	
DCB	5.00	5.00	11.92	13.50%	Monthly
	5.00	5.00		13.85%	
	3.00	3.00		13.50%	
	5.00	5.00		13.50%	
Bank of Maharashtra	8.00	8.00	8.00	15.15%	Quarterly
HDFC Bank Limited	8.85	8.85	14.37	14.00%	Monthly
	4.80	4.80			
	4.90	4.90			
IDBI Bank Limited	2.00	2.00	1.93	14.00%	Monthly
	6.00	6.00		13.50%	
IFMR Capital	3.00	3.00	10.79	15.35%	Monthly
	1.25	1.25			
	3.00	3.00			
	2.00	2.00			
	5.00	5.00			
	5.00	5.00		15.34%	
IndusInd Bank Limited	5.00	5.00	2.10	14.00%	Monthly
ING Vysya Bank	5.00	5.00	2.51	13.40%	Monthly
MAS	5.00	5.00	17.81	15.35%	Monthly
	2.50	2.50		15.35%	Monthly
	7.50	7.50		15.85%	
	6.50	6.50		16.25%	
	6.00	6.00		16.25%	
	6.00	6.00		16.00%	
UCO Bank	5.00	5.00	5.00	13.20%	Monthly
Ratnakar Bank	15.00	15.00	12.86	13.45%	Quarterly
SIDBI	10.00	10.00	11.40	13.00%	Monthly
	10.00	10.00		13.50%	
Yes Bank	10.00	10.00	6.13	13.50%	Monthly
Reliance Capital	12.50	12.50	10.61	15.50%	Monthly
Oiko Credit	10.00	10.00	17.83	15.00%	Quarterly
	12.00	12.00		15.50%	
South Indian Bank	5.00	5.00	4.50	13.25%	Monthly
Kotak	7.00	7.00	3.50	13.10%	Monthly
Loan from shareholder	1.66	1.66	1.56	15.00%	Annually
Debentures issued to:					

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Lenders	Sanctioned Amount	Disbursed Amount	Amount O/S	Interest Rate	Repayment Schedule
Hinduja Leyland	10.00	10.00	7.92	13.65%	Monthly for a period of 24 months
AAV Sarl	29.05	29.05	29.05	14.75%	Bullet repayment at the end of 54 months
Microfinance Initiative for Asia (MIFA)	15.00	15.00	15.00	15.00%	Bullet repayment at the end of 36 months
Mahindra & Mahindra Ltd	7.50	7.50	7.50	12.51%	Monthly for a period of 24 months
Ratnakar Bank Ltd	15.00	15.00	14.00	11.88%	BI-Monthly for a period of 30 months
TOTAL	316.76	316.76	236.73		

ANNEXURE IV - State-wise distribution of outstanding portfolio

State	As on Mar.31, 2013		As on Mar.31, 2014		As on Sep.30, 2014	
	Rs. crore	(%)	Rs. crore	(%)	Rs. crore	(%)
West Bengal	58.1	64.3	118.3	62.2	162.8	59.9
Bihar	24.9	27.6	47.9	25.2	70.2	25.8
Assam	7.3	8.1	24.1	12.6	37.0	13.6
Jharkhand	-	-	-	-	1.9	0.7
Total	90.4	100.00	190.3	100.00	271.8	100.00

ANNEXURE V – Purpose-wise breakup of loan

(Rs. crore)

Product	FY13		FY14		H1FY15	
	Rs. crore	(%)	Rs. crore	(%)	Rs. crore	(%)
Agri and agri-allied activities	9.5	10.54	22.1	11.63	37.9	13.95
Small business, trading, manufacturing, etc.	59.0	65.29	118.6	62.31	163.9	60.29
Service activities	19.4	21.46	44.4	23.35	63.4	23.33
Others	2.5	2.71	5.2	2.71	6.6	2.43
Total	90.4	100.00	190.3	100.00	271.8	100.00

ANNEXURE VI - Asset Liability Maturity Profile (as on Sep 30, 2014)

(Rs. crore)

	< 1 Month	1-2 Month	2-3 Month	3-6 Month	6-12 Month	1-3 Year	3-5 Years	>5 Years	Total
Assets:									
Fixed Assets	-	-	-	-	-	-	-	1.47	1.47
Cash & cash equivalents	28.26	-	-	5.08	2.03	-	-	-	35.37
Fixed Deposits with lenders	-	-	-	-	-	7.17	-	-	7.17
Current	-	-	-	1.09	-	-	-	-	1.09

	< 1 Month	1-2 Month	2-3 Month	3-6 Month	6-12 Month	1-3 Year	3-5 Years	>5 Years	Total
Investment									
Advance – Retail Portfolio	23.33	24.70	25.04	65.95	83.98	39.09	-	-	262.09
Investment	-	-	-	-	-	-	-	0.05	0.05
Advance tax	-	-	-	-	-	-	-	0.22	0.22
Security deposits for branch offices	-	-	-	-	-	-	-	0.16	0.16
Others	1.45	4.00	2.00	-	3.00	-	-	4.16	14.61
A. Total Assets	53.04	28.70	27.04	72.12	89.01	46.26	-	6.06	322.23
Liabilities									
Capital & reserves	-	-	-	-	-	-	-	71.25	71.25
Borrowing from Bank / FI	7.29	5.15	8.72	23.73	30.09	22.24	-	-	97.22
Market borrowing (incl. inter-corp. loans & loan from shareholders)	5.91	6.27	4.92	17.13	28.36	47.87	29.05	-	139.50
Interest on Borrowings	2.83	-	-	-	-	-	-	-	2.83
Statutory Remittance	0.12	-	-	-	-	-	-	-	0.12
Salary & expenses payable	0.05	-	-	-	-	-	-	-	0.05
Unamortized Income	0.22	0.22	0.22	0.23	0.47	0.94	0.41	-	2.71
Provision against Own portfolio	-	-	-	-	-	-	-	2.62	2.62
Other Current Liabilities	5.02	-	-	-	-	-	-	-	8.22
Payable to creditors	0.90	-	-	-	-	-	-	-	0.90
B. Total Liabilities	22.34	11.64	13.86	41.09	58.92	71.05	29.46	73.87	322.23
Maturity Gap (A- B)	30.70	17.06	13.18	31.03	30.09	(27.79)	(29.46)	(67.81)	0.00
Cumulative Maturity Gap	30.70	47.76	60.94	91.97	122.06	97.27	67.81	0.00	0.00

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2/11

ANNEXURE VII – Financial Statements

Income and Expenditure Statement

Income and Expenditure Statement		Rs. crore				
Year ended March 31,	FY12	FY13	FY14	FY15	FY16	FY17
	(Audited)			(Projected)		
Income						
Interest Income on own portfolio	13.8	11.8	29.3			
Income from securitization / Direct assignment of portfolio	0.4	1.5	2.4	78.9	134.6	218.0
Other Operating Income	0.9	1.1	3.0	6.3	16.6	33.6
Total Income	15.1	14.4	34.7	85.2	151.3	251.7
Financial Costs						
Interest expense on own portfolio	7.9	4.2	14.9	33.3	61.1	101.8
Total Financial Costs	7.9	4.2	14.9	33.3	61.1	101.8
Net Interest Income	7.2	10.2	19.9	51.9	90.1	149.9
Operating Expenses						
Operating Expenses	15.7	9.5	13.5	30.7	48.6	81.1
Depreciation	0.4	0.3	0.4	0.5	0.7	0.8
Total Operating Expenses	16.1	9.8	13.9	31.2	49.3	81.9
Net income Before Loan Loss	(8.8)	0.4	6.0	20.6	40.8	68.0
Provisions & write off	3.5	0.3	1.6	2.2	2.9	4.7
PBT	(12.3)	0.1	4.4	18.4	37.9	63.3
PAT	(12.3)	0.1	3.1	11.5	24.3	40.5

Balance Sheet

Balance Sheet		Rs. crore				
As on March 31,	FY12	FY13	FY14	FY15	FY16	FY17
	(Audited)			(Projected)		
Liabilities						
Source of Funds						
Tangible Network						
Share Capital	8.95	29.76	40.67			
Share Application money	-	-	-			
Reserves and surplus	6.97	12.26	26.67	140.86	165.12	285.62
Total Tangible Network	15.92	42.03	67.35	140.86	165.12	285.62
Deferred tax liability	-	-	(0.49)	-	-	-
Debt Fund						
Term loans from Bank & FIs	33.38	61.30	146.67	339.85	654.12	1,058.70
Total Debt	33.38	61.30	146.67	339.85	654.12	1,058.70
Total Capital Employed	49.30	103.33	213.52	480.71	819.25	1,344.33
Assets						
Application of funds						
Net fixed assets	1.51	1.45	1.32	3.33	4.26	4.91
Investments	0.05	2.81	0.05	0.05	0.05	0.05
Current assets						

Balance Sheet	Rs. crore					
As on March 31,	FY12	FY13	FY14	FY15	FY16	FY17
	(Audited)			(Projected)		
Cash & bank balances	7.81	12.07	52.06	110.62	191.67	312.41
Own portfolio	37.40	68.67	154.62	326.91	535.52	869.80
Other loans & advances	0.48	14.17	10.71	2.55	4.36	7.15
Other current assets	5.87	6.84	10.07	67.38	135.76	235.60
Total Current Assets	51.57	101.75	227.46	507.47	867.31	1,424.96
Current liabilities and provisions	3.83	2.69	15.30	30.14	52.38	85.59
Net Current Assets	47.74	99.07	212.15	477.33	814.93	1,339.37
Miscellaneous expenses not written off	-	-	-	-	-	-
Total Application of Funds	49.30	103.33	213.52	480.71	819.25	1,344.33

Annexure VIII: MFI Grading Symbols

Grading Symbol*	
MFI 1	Highest
MFI 2+	↓
MFI 2	
MFI 3+	
MFI 3	
MFI 4+	
MFI 4	
MFI 5	Lowest

* There is no individual definition for each grading

DISCLAIMER

CARE's microfinance (MFI) grading is a one time assessment and the grading is not kept under periodic surveillance. CARE's analysis draws heavily from the information provided by the microfinance institution as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. It does not imply that CARE performs an audit function to detect fraud. In case of NGO MFIs, gradings apply only to their microfinance programs.

CARE's MFI grading is not a recommendation to buy, sell or hold any financial instrument issued by the MFI or to make loans/ donations/ grants to the MFI. It is not an assessment of the debt servicing ability of the MFI. The grading assigned by CARE cannot be used by the MFI in any form for mobilizing deposits/savings/thrift from its members or general public.

CARE's MFI grading also does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the microfinance grading.