

Comprehensive MFI Grading

Arohan Financial Services Limited

Comprehensive Grade Assigned: MFI 1 C1

Date assigned: May 24, 2019

Scale	C1	C2	C3	C4	C5
CARE MFI 1	CARE MFI 1 C1				
CARE MFI 2+					
CARE MFI 2					
CARE MFI 3+					
CARE MFI 3					
CARE MFI 4+					
CARE MFI 4					
CARE MFI 5					

The MFI obtains comprehensive MFI grade of **CARE MFI 1 C1**.

Grading Rationale

Microfinance Capacity Assessment Grade	Arohan has obtained "CARE MFI 1" grading from CARE.
Code of Conduct Assessment Grade	Arohan obtains "C1" as its Code of Conduct Assessment Grade which signifies excellent performance on COCA dimensions.

*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of **Capital Adequacy, Governance, Management Quality and Risk Management Systems**. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*



Conflict of Interest Declaration

The Rating Agency has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of the Rating agency have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading. The analysts certify that they do not hold any shares of the company being rated and the analysts do not have any conflict of interest with reference to the company being rated.

Disclaimer

ICRA does not undertake unsolicited rating/gradings. The MFI grading exercise for this entity was not carried by ICRA limited and ICRA has relied on the grading report /letter provided by the MFI for the same. Therefore, the grading mentioned above does not reflect ICRA's opinion on the relative capability of the MFI concerned to manage its microfinance activities in a sustainable manner.

Disclaimer

The objective of the Code of Conduct assessment exercise is to assess the extent of adherence to common Code of Conduct by MFIs during the period of assessment. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the graded entity. ICRA however has not conducted any audit of the graded entity or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than grading to the entity graded. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

Code of Conduct Assessment scale and definitions

C1	MFIs with this grade have excellent performance on Code of Conduct dimensions
C2	MFIs with this grade have good performance on Code of Conduct dimensions
C3	MFIs with this grade have average performance on Code of Conduct dimensions
C4	MFIs with this grade have weak performance on Code of Conduct dimensions
C5	MFIs with this grade have weakest performance on Code of Conduct dimensions



MFI's profile (March 2019)	
Name of the MFI	Arohan Financial Services Limited
Legal form	NBFC – MFI
Managing Director	Mr. Manoj Kumar Nambiar
Year of starting microfinance	2006
Branches (March 2019)	593
Active borrowers	18,17,591
Operational area	Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Meghalaya, Odisha, Tripura, Uttar Pradesh & West Bengal
Visit of the Assessment team	West Bengal, Assam, Uttar Pradesh and Bihar
Correspondence address	PTI Building, 4th Floor, DP-9, Sector V, Salt Lake, Kolkata 700 091

Details of Loan Products for Microfinance Business/Customers (March 2019)					
Product	Borrower profile	Loan tenure	Loan size (Rs)	Interest Rate	APR (Interest Rate and Processing fees)
Saral	Economically active women residing in low income areas, generally involved in trade & services.	12/24 months	10,000 - 50,000	20.99%	20.99% + 1% processing fee
Bazaar	The 'Bazaar' Product is offered to shopkeepers who run the day-to-day operations of their shops, usually with themselves or with family members, normally dealing in goods related to domestic needs (food, grocery, stationery, etc.).	12/24 months	15,000 - 50,000	21.25%	21.25% + 1% processing fee
Sanitation Loan	Secondary and Individual Loans for construction of toilets.	12/24 months	15,100	20.70%	20.70% + 1% processing fee
Product Loan	Secondary and Individual Loans for various cross-sell utility products.	3/6/9/18 months	1,100 - 13,000	20.99%	20.99% + 1% processing fee

Source: Company



Ownership/Equity Structure

Shareholding Pattern (March 2019)	
Shareholder	% Shareholding
Aavishkar Goodwell India Microfinance Development Company II Limited	18.06%
Tano India Private Equity Fund II	16.47%
Maj Invest Financial Inclusion Fund II	15.00%
Aavishkar Venture Management Services Private Limited	12.76%
Intellectual Capital Advisory Services Pvt Ltd	12.03%
TR Capital III Mauritius	9.47%
Aavishkar Capital Advisors LLP	7.00%
Others	9.21%
Total	100%

Source: Company

Board of Directors

Board of Directors (March 2019)		
Sr No	Name	Designation
1	Mr. D. K. Mittal	Chairman and Independent Director
2	Mr. Manoj Kumar Nambiar	Managing Director
3	Ms. Matangi Gowrishankar	Independent Director
4	Mr. Sumantara Banerjee	Independent Director
5	Mr. Rajat M. Nag	Independent Director
6	Mr. Vineet Rai	Promoter Director, Founder and Group Chairman
7	Mr. Anurag Agarwal	Promoter Director
8	Mr. Prakash Kumar	Nominee Director
9	Mr. Piyush Goenka	Nominee Director
10	Mr. Wim Van Der Beek	Nominee Director
11	Mr. Kasper Svarrer	Nominee Director
12	Mr. Paul Robine	Nominee Director

Key Performance Ratios		
	March 2018	March 2019
Portfolio at Risk (>30 days)*	1.70%	0.63%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	23.63%	20.05%
Operating Expense Ratio (OER)	6.14%	6.02%
Funding Expense Ratio (FER)#	12.45%	10.94%
Write-offs to average portfolio	1.92%	0.81%
Return on Assets (RoA)	1.66%	3.60%
Return on Equity (RoE)	8.22%	21.11%
Active borrowers per branch*	2,616	3,102

Compliance with RBI Guidelines for MFIs

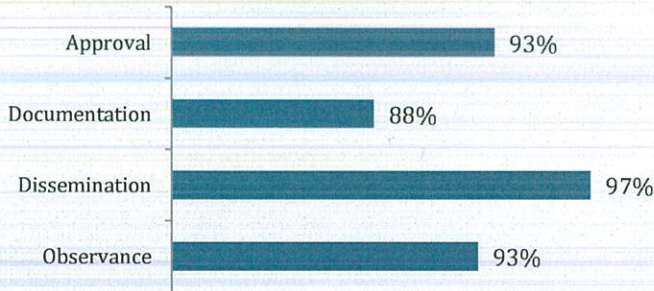
Sr No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	Complied as per CA's certificate
2	Net worth to be in excess of Rs 2 crore for NE states and 5 crore for other state	Complied; Arohan's net worth was Rs. 681.22 crore as on March 31, 2019
3	Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	Complied; the income captured in the application forms was fully in compliance with the norms.
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Complied
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Complied
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	Complied
7	Pricing guidelines are to be followed	Complied.
8	Transparency in interest rates to be maintained	Complied.
9	Not more than two MFIs lend to the same client	Complied. Arohan does not lend where the borrower has taken loan from two other NBFC-MFIs. The CB check is done real time for all the clients.

* For the assets classified as qualifying

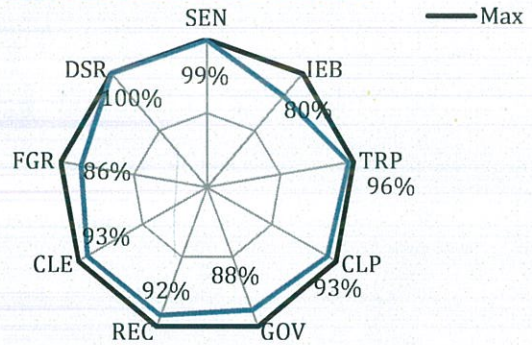


Section 1: Code of Conduct Assessment

ADDO Scores



COCA Dimension Scores



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

Code of Conduct Assessment Summary

Arohan’s code of conduct grading takes into account the company’s transparent communication mechanism, good client protection norms and its compliance with best practices related to client education and protection, recruitment and data sharing. The overall score is further enhanced by the company’s strong performance on the sensitive parameters. There is scope for improvement in the integrity and ethical behaviour, governance, feedback and grievance redressal parameters.

