

Mr Manoj Nambiar
Managing Director
Arohan Financial Services Pvt. Ltd.
PTI Building, 4th Floor, West Wing,
DP Block, DP-9, Sector-V, Salt Lake
Kolkata - 700091

March 15, 2017

Confidential

Dear Sir,


Grading of Micro Financing Institution (MFI)

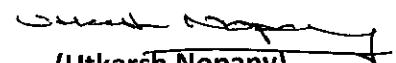
Please refer to our letter dated March 8, 2017 on the captioned subject.

- 1) As already advised, our Rating Committee has assigned a grading of 'MFI 1' (MFI One) to your organisation
- 2) The rationale for the grading is enclosed as an **Annexure - I** to this letter.
- 3) 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,


(Rohan Burman)
Dy. Manager


(Utkarsh Nopany)
Manager

Encl. – As above

CREDIT ANALYSIS & RESEARCH LTD.

Annexure-I
Arohan Financial Services Pvt. Ltd
MFI Grading Report

Year of incorporation	2006 as NBFC	'MFI 1' (MFI One) First 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 (in case of Saral & Bazaar loans) & individual lending (in case of Plus loans & Pragati loans)	
Managing Director	Mr Manoj Nambiar	
Number of states of operation	7 states (as on December 31, 2016)	
Branches	277 (as on December 31, 2016)	
Employees	2,372 (as on December 31, 2016)	

CARE has assigned grading of 'MFI 1' 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

March 15, 2017

Annex

2/2

TOSS FRAMEWORK

Transparency	
	High
<ul style="list-style-type: none"> ○ Constituted as a private limited company and classified as NBFC-MFI. Legal form is subjected to greater regulatory norms and reporting. ○ Experienced BoD with six independent directors out of nine. One of the independent director is ex-CMD of United Bank of India & another independent director is Ex-MD of CESC and ex-board member of RPG Group. The board meets on a quarterly basis. ○ Existence of monitoring committees like audit, HR & compensation, credit committee, etc. ○ Credit and HR policies are well-established, documented and communicated. ○ Presence of separate internal audit team which conducts branch audit quarterly and other support functions (HR, audit, IT) semi-annually. ○ Transparency in lending process & usage of funds is good. Lenders are informed on disbursement, collection and delinquency on a timely basis. ○ Overall disclosures are high. ○ Arohan is a member of credit bureaus – High Mark & Equifax. 	
Operational Setup	
	Strong
<ul style="list-style-type: none"> ○ Experience board of directors with the Managing Director (Mr Manoj Nambiar) having more than two decades of business experience. ○ Well defined organization structure with separate departments with clear demarcated roles and responsibilities. ○ The company follows a mix of group based approach & individual based approach to extend loans to individuals. ○ 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. ○ Has a separate training department with a central training team under which handles all training documents and provide induction training to new employees, refresher training programme (RTP) at branches for existing field team and other customized training programmes for various levels. Employees also participate in external training programs and workshops. 	
Scale of Operations	
	Medium large
<ul style="list-style-type: none"> ○ Operates in 93 districts spanning across 7 states of India through its network of 277 branches as on December 31, 2016. ○ Moderate degree of portfolio concentration with more than 41% of its AUM in West Bengal as on Dec 31, 2016. ○ Moderate borrower base with 6.92 lakh borrowers as on December 31, 2016. ○ In terms of gross loan portfolio, amongst large size MFIs in India. Loan portfolio outstanding of Rs.917.26 crore as on December 31, 2016 (as against Rs.668 crore as on March 31, 2016). ○ Arohan provides a variety of loan products catering to different market segments. 	
Sustainability	

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		High
<ul style="list-style-type: none"> ○ Legal form allows equity infusion from investors. ○ Satisfactory & improving operating cost ratio vis-à-vis the size of the operation. Operating expenses to total capital employed at 6.40% in FY16 (as against 6.50% in FY15 and 9.77% in FY14). Operating self-sufficiency ratio is at a satisfactory level at 133.70% (as against 127.63% in FY15). ○ CAR at 25.02% as on March 31, 2016 and 19.76% as on November 30, 2016. ○ Moderate asset quality with PAR>30 days at 5.25% and PAR>90 days at 0.52%. The asset quality moderated due to the effect of demonetization and is expected to neutralize by June 2017. ○ Comfortable asset-liability maturity profile ○ Arohan has a strong second line of leadership by inducting personnel who have earlier worked in private sector banks, insurance companies, other MFIs & in consulting role. ○ Presence in states with both high penetration of MFIs like West Bengal & Odisha as well as with low penetration like Bihar, Assam & Jharkhand. ○ Diversified funding profile. 		

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GRADING RATIONALE

Brief Profile of the organization

Arohan Financial Services Private Ltd (Arohan), incorporated in 2006, is registered as an NBFC-MFI with operations in West Bengal, Bihar, Assam, Jharkhand, Chattisgarh, Meghalaya & Odisha. In September 2012, IntelleCash Microfinance Network Company Private Ltd, a subsidiary of investment banking services and advisory firm Intellectual Capital Advisory Services Private Ltd (IntelleCap), acquired a majority stake in Arohan from existing institutional investors (mainly Bellwether Microfinance Trust and India Financial Inclusion fund).

Arohan is engaged in the business of lending to individual women borrowers and small businesses under the 'Joint Liability Group' and individual lending model and is operating in rural & urban areas of West Bengal, Bihar, Assam, Jharkhand, Chattisgarh, Meghalaya & Odisha. 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 December 31, 2016, Arohan is operating in 93 districts spanning across seven states viz. West Bengal, Bihar, Assam, Jharkhand, Chattisgarh, Meghalaya & Odisha. Operations of Arohan are managed through its network of around 277 branches and have 6.92.347 active borrowers with total outstanding portfolio of Rs.917.26 crore as on December 31, 2016.

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TRANSPARENCY

Arohan is incorporated as a private limited company and is registered with Reserve Bank of India as a non-deposit accepting non-banking finance company – micro finance institution (NBFC-MFI). The current legal form of Arohan restricts it to mobilize deposits 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 a nine member board out of which six 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 experience in their respective areas of specialization.

The board meets on a quarterly basis to monitor the progress and discuss the financial and operational performance of the organization. The details of board members are tabulated in *Annexure I*.

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.

The company has framed a transparent lending policy and the borrowers are provided with pass books where the rules and bye laws are mentioned. The set of rules and regulations in relation to the lending policies are displayed at the branches of the company through large boards. Since the company lends to JLG groups the borrowers sign a JLG agreement. Borrowers are made to sign a loan agreement clearly stating the terms & conditions and the covenants, thereof. Arohan also informs its lending policies to the borrowers through training programs at the group meetings. Furthermore, Arohan organizes separate training program for its borrowers (in case of new members) to inform about their lending process. Loan documentation is maintained at branch level. The company issues pass books and loan cards to the borrowers mentioning the amount disbursed and collected. The borrowers are aware about the lending policies.

The auditors have issued unqualified opinion.

Policies

Annexure I

2/11

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

Internal Controls

Arohan has own independent 'Internal Audit' department, which is responsible for audit of operations as well as other support functions like Accounts, IT, Admin etc. To understand the compliance and adherence to the laid down policies, branches and other support functions are audited on regular basis.

Head of Internal Audit department directly reports to the Chairman of Audit committee, who is an Independent Director. The department has Deputy Managers, Senior Executives, Executives and Monitoring Officers.

As per the approved audit policy, frequency and type of audit is stated below:

1. Branch Audit – Once in a quarter
2. Audit of Other Support Functions (HR, Accounts, IT etc) – Once in a six-month period

System, procedure and reporting formats in respect of branch audit and other support functions audit are given below:

1. Branch Audit

Branches are audited at least once in a quarter. Duration of such audit for a particular branch is at least 7 days, but may vary, depending on the sensitivity of the branch. A detailed plan is prepared to conduct the audit. Usually it is done in 2-3 phases.

A detailed 'Checklist' having several questions covering loan generation processes (like verification, compulsory group training, disbursement, repayment etc), documentation, MIS, administration etc is used for such purpose. Apart from observing different loan generation processes like verification, compulsory group training etc, customers are individually met by the Monitoring Officers to understand the process and policy adherence.

Arohan maintains a system of grading the branches. Branch Grading is done in every quarter to understand the overall status of compliance. Branches are graded under 5 categories viz. A+, A, B, C and D based on the scores obtained out of 100. Appropriate weight age is given on different processes at the time of calculation of score with an aim to reflect actual scenario.

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2. Audit of Other Support Functions

In every six-month period other support functions are audited to understand whether laid down policies are adhered properly or not. After completion of audit a detailed report is prepared in respect of each department, and is shared with the concerned department as well as MD.

3. Reporting to Audit Committee

Formal reporting is done in each quarter to the audit committee. Summary of the audit observations along with Management's comment and corrective measures are discussed in this meeting.

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).

Transparency in lending process

Arohan informs its lending policies to the borrowers through its training programs (at the group meetings). Furthermore, 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

Mr Manoj Nambiar, the Managing Director (MD), is supported by broad based board of directors. Arohan's Board comprises nine members having rich experience in banking and financial sector. Arohan's board is headed by Mr Manoj Nambiar (Managing Director), having experience of about three 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. He also has international exposure working as Head-Retail Banking with National Bank of Oman, COO with Alhamrani Group (Egypt) and Deputy CEO with Ahli Bank (Saudi Arabia). Prior to joining Arohan, he was 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).

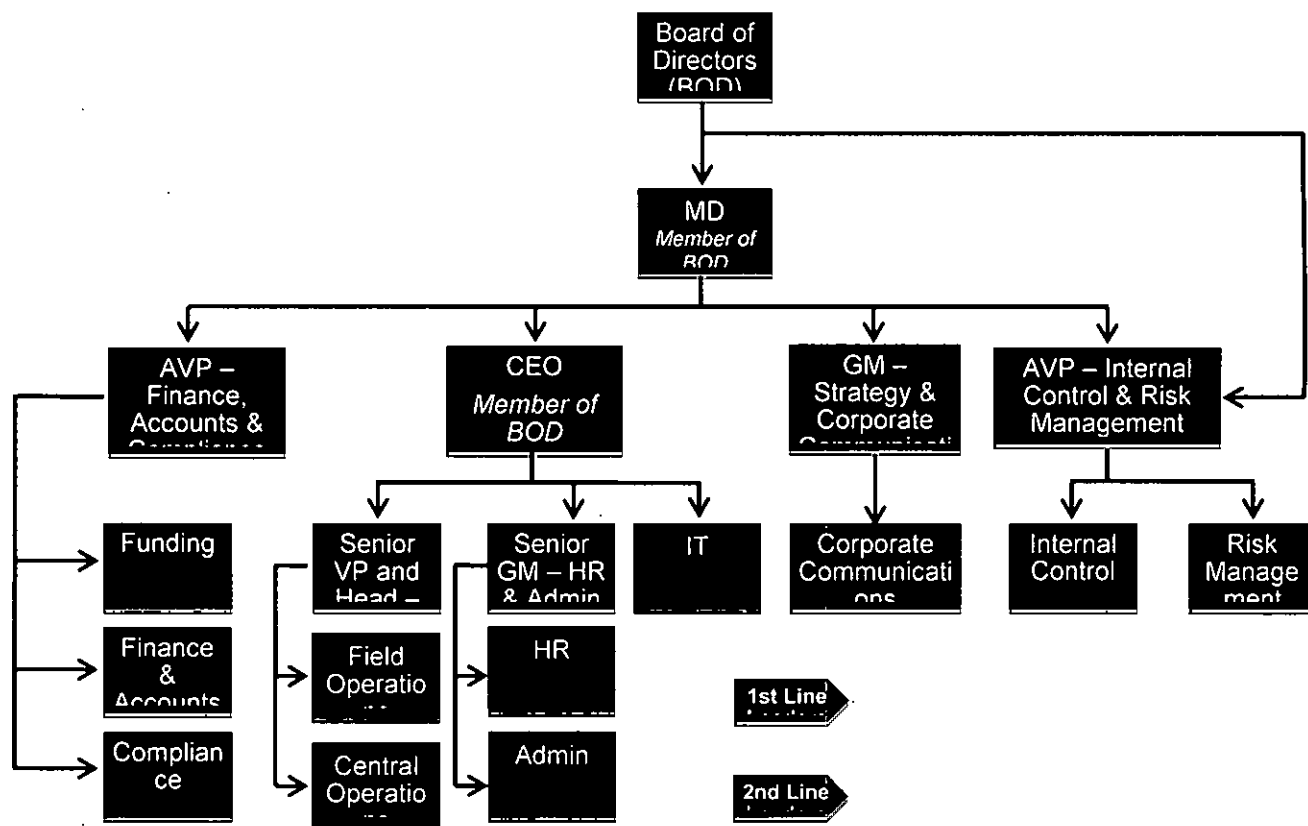
As on December 31, 2016, foreign and domestic institutions own 65.72% and 34.28% shareholding respectively. The list of shareholders is tabulated in ***Annexure II***.

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.

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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 16 member senior management team (including 1 Senior VP, 1 VP, 6 AVP, 3 GMs and 5 State Heads) bring in a rich and varied experience from diverse fields like finance, sales and marketing,

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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. 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 2,373 employees (as on December 31, 2016). • Customer service representatives (CSRs) are mostly higher secondary pass and graduates. • 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 placed in newspapers and the selected candidates are called for a written test and group discussions. 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"> • Arohan had set up a separate training department in November 2014. Training department is headed by Mr Prashant Rai, AVP, has around 15 years of experience in training, content development and delivery, motivation and team building & leadership. • In his current capacity, he looks after setting up the training structure in the organization, developing and standardizing training content for various hierarchy levels, involved in capacity building of field team through training delivery. • The training team consists of several STEs (State Training Executives) in 7 states under the training manager. The major function of training team is to deliver induction to new joiners,

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6/11

	<p>Refresher Training Programme (RTP) at branches for existing field team and other customized training programmes for various levels. The induction programme is for 15 days at entry (CSR level), and one month at branch head level. RTP is organized with a frequency of 2 programmes every quarter. In addition to these programmes, the training team organizes training programme on soft skills also. Apart from that, external training programs for mid-management employees are also conducted regularly.</p> <ul style="list-style-type: none"> • 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 structure</p>	<ul style="list-style-type: none"> • A clear salary grade has been established with other allowances provided to the employees. • 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.
<p>Attrition rate</p>	<ul style="list-style-type: none"> • Attrition rate has been around 38% in 9MFY17. 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

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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 mix of group based (Saral & Bazaar) & individual based (Plus loans & Pragati loans) approach to extend loans to individuals. The loan given to a member of the group is guaranteed by other members of the group. While these loans are given without collateral, the co-member's guarantee 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, 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 days on process and procedures of Arohan.

Meetings at the group level are held on a 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 the 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

Cash is collected at the group meeting by the CSR on monthly basis 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 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 daily 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

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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 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. Furthermore, 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. Furthermore, 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 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. From October 2015, Arohan has switched from Tally to the accounting module in Omni software.

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 the 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. Furthermore, it also provides insurance cover to its members from third party i.e. Bajaj Allianz. On behalf of the insurance company, Arohan collects premium.

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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, were as under:

Particulars	FY14	FY15	FY16	D
Number of states	3	4	5	
Number of districts	24	38	63	
Branches	73	104	180	
Number of active JLG members	2,09,029	2,60,694	3,90,966	
Number of active JLG borrowers	2,09,029	2,60,694	3,90,966	
Number of non-JLG borrowers	10,672	60,951	1,85,946	
Total borrowers	2,19,701	3,21,645	5,76,912	
Amount of loan disbursed during the year (Rs. cr.) – incl. managed portfolio	260	514	830	
Loan collection during the year (Rs. cr.)	160	320	545	
Loan outstanding – Own	154	364	586	
Loan outstanding – Managed	35	19	81	
Total outstanding loan portfolio (Rs.cr.)	190	383	668	

Arohan has managed to increase its outreach through opening branches in new geographies. The number of branches in operations areas has increased from 104 branches as on March 31, 2015 to 277 branches as on December 31, 2016. The total loan disbursement also increased significantly from 514.13 crore in FY15 to Rs.830.09 crore in FY16 to Rs.933 crore in 9MFY17. Currently, Arohan is operating in 93 districts covering 7 states of India.

The distribution of branches across the 7 states is tabulated below:

No. of Branches	FY14	FY15	FY16	9MFY17
West Bengal	29	40	60	80
Bihar	22	32	40	52
Assam	13	22	37	56
Jharkhand	-	10	23	24
Odisha	-	-	20	53
Chhattisgarh				10
Meghalaya				2
Total	73	104	180	277

On account of diversifying its operations, Arohan has reduced its exposure in West Bengal from around 56% as on March 31, 2015 to around 41% as on December 31, 2016.

Particulars	FY14	FY15	FY16	Dec 31, 2016
Asset Under Management (Rs. cr)				
West Bengal	118.34	215.34	322.33	378.19

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Particulars	2014	2015	2016	Dec 31, 2016
Asset Under Management (Rs. cr)				
Bihar	47.95	99.23	123.91	154.11
Assam	23.97	59.82	142.99	225.45
Jharkhand	-	9.17	43.79	38.92
Odisha	-	-	34.54	114.53
Chhattisgarh				3.75
Meghalaya				2.32
Total	190.26	383.56	667.56	917.27
Concentration (%)				
West Bengal	62.20	56.14	48.28	41.23
Bihar	25.20	25.87	18.56	16.80
Assam	12.60	15.60	21.42	24.58
Jharkhand	0.00	2.39	6.56	4.24
Odisha	0.00	0.00	5.17	12.49
Chhattisgarh	0.00	0.00	0.00	0.41
Meghalaya	0.00	0.00	0.00	0.25
Total	100.00	100.00	100.00	100.00

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SUSTAINABILITY

Financial Sustainability

Y.E./As on March 31,	2014	2015	2016	2017
	A	A	A	P
Total Income	34.73	74.56	130.77	194.70
Operating cost (incl. depreciation)	13.92	20.84	35.62	56.70
Provision for NPAs (incl. loan assets w/off)	1.55	2.40	2.88	3.20
Interest	14.85	35.56	59.09	95.20
PBT	4.41	15.75	33.18	39.60
PAT (after defd. tax)	3.06	10.90	21.65	26.53
Gross cash accruals (GCA)	2.96	10.47	21.60	26.73
Financial Position				
Tangible Networkth	66.85	137.55	159.69	243.72
Total Debt	146.67	365.34	539.51	988.80
Loan Portfolio (own)	154.62	364.54	586.02	876.50
Securitized portfolio	35.64	0.92	31.77	157.80
BC model portfolio	0.00	18.11	49.77	140.00
AUM	190.26	383.57	667.56	1174.30
Cash & cash equivalent	58.51	131.85*	111.09*	413.36
Ratios				
Interest income/Interest earning assets (%)	25.07	25.00	23.86	22.59
Interest / Avg. borrowed funds (%)	14.28	13.89	13.06	12.46
Interest spread (%)	10.79	11.10	10.80	10.13
NIM (%)	7.85	7.86	8.70	6.71
Op. exp. (before prov. & w/off) / ATA (%)	8.32	5.59	5.71	5.43
PAT (after deferred tax) / Total income (%)	8.82	14.62	16.56	13.63
RONW (%)	5.63	10.66	14.57	12.46
ROCE (%)	12.15	14.33	15.35	13.80
Cost of capital (%)	9.37	9.93	9.83	9.74
Net spread (%)	2.78	4.40	5.52	4.05
Return on total assets (%)	1.83	2.92	3.47	2.54
Overall gearing ratio (x)	2.19	2.66	3.38	4.06
Interest coverage (x)	1.32	1.45	1.58	1.42
CAR (%)	37.10	35.88	25.02	30.37
GNPA – based on 90days (%)	0.25	0.27	0.41	
NNPA – based on 90 days (%)	0.25	0.01	0.41	
Net-NPA to NW (%)	0.58	0.04	1.51	
Adjusted Ratios				
NIM	7.94	7.86	8.75	6.80
Other income/ AATA	2.20	1.88	1.88	1.27
Opex / AATA	7.10	5.21	5.28	4.60
Provision / AATA	0.79	0.60	0.43	0.26
ROTA	1.56	2.72	3.21	2.15
Overall gearing ratio	2.73	2.79	3.89	4.83

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9/11

CAR	30.97	34.18	22.19	22.67
Single State Concentration as % of TNW	177.02	156.55	201.85	NA

Asset Liability Maturity Profile as on December 31, 2016

(Rs. cr)

	<1- Month	1-2 Month	2-3 Month	3-6 Month	6-12 Month	1-3 Year
Assets:						
Fixed Assets	-	-	-	-	-	8.00
Cash & cash equivalents	136.01	0.74	3.92	12.93	25.68	22.93
Fixed Deposits with lenders	-	-	-	-	-	-
Current Investment	-	-	-	-	-	-
Advance – Retail Portfolio	88.91	82.01	53.52	279.36	314.64	15.23
Investment	-	-	-	-	-	0.05
Advance tax	0.76	-	-	-	-	-
Security deposits for branch offices	-	-	-	-	-	-
Others	35.68	-	-	-	-	-
A. Total Assets	261.36	82.75	57.44	292.29	340.32	46.21
Liabilities						
Capital & reserves	-	-	-	-	-	180.56
Borrowing from Bank / FI	46.47	29.77	38.87	87.45	228.67	427.77
Market borrowing (incl. inter-corp. loans & loan from shareholders)	-	-	-	-	-	-
Interest on Borrowings	4.32	0.96	-	1.36	0.23	-
Statutory Remittance	1.66	-	-	-	-	-
Salary & expenses payable	0.65	-	-	-	-	-
Unamortized Income	-	-	-	-	-	7.18
Provision against Own portfolio	8.58	-	-	-	-	-
Other Current Liabilities	15.50	-	-	-	-	-
Payable to creditors	0.37	-	-	-	-	-
B. Total Liabilities	77.54	30.73	38.87	88.80	228.90	615.51
Maturity Gap (A-B)	183.81	52.02	18.57	203.48	111.42	-569.31
Cumulative Maturity Gap	183.81	235.84	254.40	457.88	569.31	0.00

Access to funds and ability to raise funds

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 details of facilities enjoyed by Arohan are tabulated in **Annexure III**.

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.

Asset Quality

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The demonetization drive by Gol announced on November 08, 2016 had impacted the rural areas (where majority of the transactions are in cash) where the MFIs operate.

The asset quality moderated with PAR>30 days at 5.25% and PAR>90 days at 0.52% as on December 31, 2016. The moderation was due to the effect of demonetization and is expected to normalize by September 2017.

Level of capitalization

CAR has gone down from 25.02% as on March 31, 2016 to 19.76% as on November 30, 2016 due to increase in own loan portfolio. Furthermore, the adjusted overall gearing ratio stood at 5.21x as on November 30, 2016 (3.89x as on March 31, 2016).

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 & Senior VP level) by inducting personnel who have earlier worked in private sector banks, insurance companies, other MFIs & in consulting role.

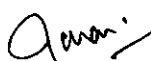
Efforts to increase outreach and coverage

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. They are also trying to diversify its income profile through introduction of new products like general insurance (tied-up with Future Generali), 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.

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.

ANNEXURE I - Profile of Board of Directors of Arohan

Name	Qualification	Experience (years)	Executive/ NE / Promoter
Mr. Manoj Nambiar, MD	Mech Eng, MBA from	27 years of experience in consumer finance & retail banking. Had worked with Modi	Executive




Name	Qualification	Experience (years)	Executive/ NE / Promoter
	JBIMS	Xerox, GE Countrywide, ANZ Grindlays & ABN Amro Bank in India. He then headed retail banking at National Bank of Oman, was COO at Alhamrani Nissan Finance Company, KSA and then Deputy CEO of Ahli Bank in Oman.	
Mr Sumantra Banerjee	B. Tech, MBA	Has over 53 years of experience of which 25 years were at senior Board/Management positions across Power, Retail, IT, Automotive and Petro-chem sectors. He was the Ex-MD of CESC and BoD of RPG group for more than two decade.	NE/Independent
Mr Kailash Chand Vaid	CAIIB	He is currently Regional Head of SIDBI, Kolkata. He has over 21 years of development banking experience.	NE/Independent
Mr Anurag Agarwal	MBA TAPMI, Manipal	Presently, CEO of Intellectap. He has over a decade of experience in investment banking with focus on assisting early and growth stage multiple bottom line enterprises to raise capital.	NE
Mr Vineet Chandra Rai	Post-Graduate from Indian Institute of Forest Management, Bhopal	Founder of Intellectap Group and Aavishkaar, the fund advisory company providing advisory support to Aavishkaar I & II Rural investment funds as well as Aavishkaar-Goodwell I & II Microfinance focused funds. He has over 18 years of experience in early stage investing, small business incubation and microfinance.	Promoter/NE
Mr Wim Van Der Beek	Masters in Economics and Taxation and post-graduate qualifications from Insead, Darden Business School	Founder of Goodwell Investments, Netherlands. He has over 2 decades of diverse experience in the field of finance.	NE/ Independent
Ms Matangi Gowrishankar	B.A in sociology, post-graduation in Personnel Management & Industrial Relations from XLRI	has nearly three decades of business and HR experience with leading companies such as Standard Chartered Bank, Reebok India, GE, ICIL and Cummins	Independent
Mr Rajat Mohan Nag	B.Tech from IIT D, M.Sc (Economic), LSE	Ex-Managing Director General of Asian Development Bank (ADB)	NE/Independent
Mr Piyush Goenka (nominated from Tano Capital)	MBA (MDI), CFA	Has over 15 years of experience in the financial services industry. He was previously associated with investment banking division of IL&FS Ltd, Export Import Bank of India in Corporate Banking and with First Global	NE/Independent

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20/3

Name	Qualification	Experience (years)	Executive/NE/Promoter
		Securities as an equity research analyst.	

ANNEXURE II – Shareholders

The detailed shareholding is tabulated below:

Sl.No	Name of Shareholders	Shareholding	Nationality
1	IntelleCash Microfinance Network Co Pvt Ltd	29.69%	Indian
2	Aavishkaar Goodwell India Microfinance Development Company	23.26%	Foreign
3	Aavishkaar Venture Management Services Private Limited	1.26%	Indian
4	Michael & Susan Dell Foundation	7.33%	Foreign
5	India Financial Inclusion Fund	5.08%	Foreign
6	Tano India Private Equity Fund II	30.00%	Foreign
8	Shubhankar Sengupta	1.12%	Indian
10	Arohan ESOP Trust	0.67%	Indian
11	Vidyanand Jha	0.03%	Indian
12	Swaminathan Aiyar	0.95%	Indian
13	Gitali Thakur	0.00%	Indian
14	Amit Dutta	0.10%	Indian
15	Joyanta Bakali	0.09%	Indian
16	Amit Saha	0.00%	Indian
17	Ayan Chatterjee	0.00%	Indian
18	Chandan Phukan	0.05%	Indian
19	Geeta Nambiar	0.00%	Indian
20	Shree Ravindranathan	0.00%	Indian
21	Nalini Agrawal	0.00%	Indian
22	Kalpana Bhushan	0.00%	Indian
23	Dharmesh Tarvecha	0.01%	Indian
24	Shraddha Srimal	0.11%	Indian
25	Jaydeep Chakraborty	0.05%	Foreign
26	Madhu Rama Murthy	0.09%	Indian
27	Rajesh Verma	0.02%	Indian
28	Sayan Debnath	0.01%	Indian
29	Sudeep Chakraborty	0.01%	Indian
30	Amit Sinha	0.01%	Indian
31	Tapas Kumar Pal	0.01%	Indian
32	Somnath Chakraborty	0.01%	Indian
33	Lokesh Dulalsankar Ray	0.01%	Indian
34	Debarshi Chaudhuri	0.01%	Indian
35	Anant Jayant Natu	0.01%	Indian
36	Susanta Behera	0.01%	Indian
37	Tamal Chakraborty	0.01%	Indian

Sl.No	Name of Shareholders	Shareholding	Nationality
	TOTAL	100.00%	Indian
SHAREHOLDING (PREFERENCE SHARES)			
	Shareholding		Comments
	Tano India Private Equity Fund II(Preference)		Foreign

ANNEXURE III - Details for top Banks/Financial Institutions (as on September 30, 2016)

Banker / lender	Type of facility	Tenure	Amount	Repayments
Axis Bank	Term Loan	LT	21.80	Quarterly
UCO Bank	Term Loan	LT	1.46	Monthly
Bank of Maharashtra	Term Loan	LT	2.28	Quarterly
Bank of Baroda	Term Loan	LT	18.20	Quarterly
DCB	Term Loan	LT	16.67	Monthly
HDFC Bank	Term Loan	LT	38.99	Monthly
RBL Bank	Term Loan	LT	33.71	Quarterly
IDBI Bank	Term Loan	LT	22.10	Monthly
Kotak Mahindra Bank	Term Loan	LT	13.33	Monthly
South Indian Bank	Term Loan	LT	16.58	Monthly
YES Bank	Term Loan	LT	12.67	Monthly
Standard Chartered Bank	Term Loan	LT	9.00	Quarterly
			21.00	Bullet Repayment
BNP Paribas	Term Loan	LT	7.50	Quarterly
Union Bank Of India	Term Loan	LT	6.67	Monthly
Vijaya Bank	Term Loan	LT	5.33	Monthly
BMB	Term Loan	LT	1.25	Quarterly
SBI	Term Loan	LT	7.51	Quarterly
SBER Bank	Term Loan	LT	5.00	Half Yearly
Corporation Bank	Term Loan	LT	5.00	Quarterly
MUDRA	Term Loan	LT	4.43	Monthly
SIDBI	Term Loan	LT	15.56	Monthly
IFMR Capital	Term Loan	LT	30.00	Monthly
Reliance Capital	Term Loan	LT	2.44	Monthly
Maanaveeya Development	Term Loan	LT	1.50	Quarterly
Bellwether	Term Loan	LT	2.56	Quarterly
Capital First	Term Loan	LT	19.17	Monthly
L&T Finance	Term Loan	LT	20.23	Monthly
HDFC LTD	Term Loan	LT	3.47	Monthly
IDFC Bank	Term Loan	LT	21.43	Monthly
HERO Fincorp Ltd.	Term Loan	LT	15.00	Monthly

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5/11

Banker / lender	Type of facility	Tenure	Amount	Repayments
United Bank of India	Term Loan	LT	10.00	Monthly
Federal Bank	Term Loan	LT	9.83	Monthly
Proposed	Term Loan	LT	476.97	
Total			898.64	

ANNEXURE IV –Financial Statements

Income and Expenditure Statement

Income and Expenditure Statement		Rs. Cr					
Year ended March 31,		FY14	FY15	FY16	FY17	FY18	FY19
		(Audited)			(Projected)		
Income							
Interest Income on own portfolio		27.9	64.8	113.4	171.00	248.00	340.00
Income from securitization / Direct assignment of		2.42	1.75	1.43			
Other Operating Income		4.31	7.92	15.93	23.70	51.20	86.20
Total Income		34.7	74.5	130.7	194.70	299.20	426.20
Financial Costs							
Interest expense on own portfolio		14.8	35.5	59.09	95.20	150.40	205.30
Total Financial Costs		14.8	35.5	59.09	95.20	150.40	205.30
Net Interest Income		13.1	29.3	54.31	75.80	97.60	134.70
Operating Expenses							
Operating Expenses		13.5	20.4	34.75	56.50	86.10	123.00
Depreciation		0.39	0.39	0.86	0.20	0.40	0.50
Total Operating Expenses		13.9	20.8	35.62	56.70	86.50	123.50
Net income Before Loan Loss Provisioning & Taxes		-	8.48	18.70	19.10	11.10	11.20
Provisions & write off		1.55	2.40	2.88	3.20	3.60	5.20
PBT		4.41	15.7	33.18	39.60	58.70	92.20
PAT		3.06	10.9	21.65	26.53	39.33	61.77

Balance Sheet

Balance Sheet		Rs. crore					
As on March 31,		FY14	FY15	FY16	FY17	FY18	FY19
		(Audited)			(Projected)		
Liabilities							
Source of Funds							
Tangible Network							
Share Capital		40.67	69.16	69.39	266.22	305.55	367.33
Share Application money		-	-	-			
Reserves and surplus		26.17	68.38	90.30			
Total Tangible Network		66.85	137.55	159.69	266.22	305.55	367.33
Deferred tax liability							

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Balance Sheet						Rs. crore
As on March 31:	FY14	FY15	FY16	FY17	FY18	FY19
	(Audited)			(Projected)		
Debt Fund						
Term loans/NCDs	146.67	365.34	539.51	988.80	1445.00	2078.90
Total Debt	146.67	365.34	539.51	988.80	1445.00	2078.90
Total Capital Employed	213.51	502.89	699.20	1255.02	1750.55	2446.23
Assets						
Application of funds						
Net fixed assets	0.82	1.22	1.80	3.06	3.76	4.56
Investments	0.05	1.11	0.05	0.05	0.05	0.05
Current assets						
Cash & bank balances	58.51	131.85	111.09	413.36	592.79	831.86
Own portfolio	154.62	364.54	586.02	876.50	1207.10	1682.60
Other loans & advances	10.71	10.19	10.14	6.90	9.70	13.80
Other current assets	4.11	8.06	22.17	55.85	80.35	115.75
Total Current Assets	227.95	514.63	729.42	1352.61	1889.94	2644.01
Current liabilities and provisions	15.30	14.07	32.08	100.70	143.20	202.40
Net Current Assets	212.65	500.56	697.34	1251.91	1746.74	2441.61
Miscellaneous expenses not written off	-	-	-	-	-	-
Total Application of Funds	213.51	502.89	699.20	1255.02	1750.55	2446.23

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.

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5/7