

Comprehensive MFI Grading

Arohan Microfinance Private Limited

Comprehensive Grade Assigned: MFI 1+C2
Date assigned: April 10, 2017

Scale	C1	C2	C3	C4	C5
CARE MFI 1		CARE MFI 1+C2			
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+C2**.

Grading Rationale

Microfinance Capacity Assessment Grade	Arohan has obtained "CARE MFI 1" grading from CARE.
Code of Conduct Assessment Grade	Arohan obtains "C2" as its Code of Conduct Assessment Grade which signifies good 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.

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.

Historical Rating Grades

Rating Agency	Comprehensive rating grade
CARE	MFI 1

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

Company Profile

Vision Statement: To be among the top three financial inclusion players in the East, North East and Central low income states (LIS), serving over 10 lakh customers across 10 states, and being in the top 10 preferred places to work in India.

Mission Statement: To empower the underserved by offering a range of financial services, in a manner sustainable for all stakeholders.

KEY DATA (MARCH 2017)	
Gross loan portfolio	Rs. 1014.79 crore
Average loan size	Rs. 20527
Products (% of portfolio)	Income generating loans (99.62%) Individual loans (0.38%)
Number of active borrowers	721201
Number of staff	2367
Customers per loan officer	474
Number of branches	272
Country of operation	India
Areas of operation	Assam, Bihar, Chattisgarh, Jharkhand, Meghalaya, Odisha, West Bengal
Urban/Rural	Urban: Rural – 24:76
Legal status	NBFC – MFI
Regulator	Reserve Bank of India

Arohan is registered as an NBFC-MFI with the Reserve Bank of India (RBI). Although the company was incorporated in 1991, its microfinance operations commenced only in 2006. Arohan provides loans to female and male borrowers under both joint liability group (JLG) and individual lending models. Apart from income generation, loans are also offered for purchase of solar lamps, cycles and mobiles from the company. It also sells health insurance to its customers. Arohan's managed advances stood at Rs. 885 crore as on August 31, 2016 through a network of 266 branches in 85 districts spanning across seven states viz. Assam, Bihar, Chattisgarh, Jharkhand, Meghalaya, Odisha, West Bengal.

NAME OF SHAREHOLDER (SHARE IN %)	30-Sep-16 ¹
Domestic	
IntelleCash Microfinance Network Co Pvt Ltd	29.45
Aavishkaar Goodwell India Microfinance Development	23.28
Arohan ESOP Trust	1.75
Others	2.89
Foreign	
Tano India Private Equity Fund II	30.20
Michael & Susan Dell Foundation	7.34
India Financial Inclusion Fund	5.08
Total	100.00

¹ Un-audited

Various Products offered by Arohan

Credit Products:

Product Name	Ticket Size (Rs.)	Purpose	Interest Rate Charged	Average Tenure	Processing Fees	Group Guarantee/ Individual Loan
Saral	15000 to 20000	Income Generation	22.99 %	12 Months	1% + service tax (15.00%)	Group
Saral Plus	25000 to 50000			18, 24 Months		Individual
Bazar	15000 to 20000		24.99 %	12 Months		Group
Bazar Plus	25000 to 50000			18, 24 Months		Individual
Premium	50000 to 200000		26.99 %	12 Months, 24 Months		3%(including insurance fee & service tax)

Non Credit Products:

Product	Product Nature	Organisation	Price
Group Term Life Insurance	Life Insurance	Bajaj Allianz Life Insurance Co. Ltd.	The rate of premium is ₹ 2.25/- per ₹ 1,000 loan amount per year per person + Service tax.
Hospi-Cash	General Insurance	Future Generali India	1. Individual: ₹ 381 2. Couple: ₹ 742 3. Couple+1 Child: ₹ 1,102 4. Couple+2 Child: ₹ 1,461 5. Couple+3 Child: ₹ 1,821 per child after 3 children ₹ 361
Shop-Keeper Suraksha	General Insurance	Future Generali India	Depending on Sum Assured from ₹ 149 for ₹ 50,000 sum assured to ₹ 1,809 for ₹ 500,000 sum assured
NPS Lite	Pension	IFMR Rural Finance	Minimum ₹ 1,000 to start with upto ₹ 12,000
Solar Lantern	Solar Lantern	D.Light	Product cost is ₹ 2,100/- and ₹ 1,299/- per unit for two products. 1. Finance to an amount of ₹ 1,950/- and ₹ 1,099/- is available. 2. Customers can buy it through full payment also
Galaxy J1 ACE	Smart Phone	Samsung	Product cost is ₹ 5,900/- per unit. Finance to an amount of ₹ 5,300/- is available
Galaxy J1 4G	Smart Phone	Samsung	Product cost is ₹ 7,200/- per unit. Finance to an amount of ₹ 6,400/- is available
1. Royal Gold (Gents), 2. Mis India Velvet (Ladies), 3. Sun Dancer (Kids) and 4. Razor Back (MTB)	Bi-cycle	Hero Cycles	Finance is available for cycles. Product price and finance amount (within bracket) is given below. 1. Gents: ₹ 4,400/- (₹ 3,900/-) 2. Ladies: ₹ 4,550/- (₹ 4,050/-) 3. Kids: ₹ 3,750/- (₹ 3,250/-) 4. MTB: ₹ 4,800/- (₹ 4,300/-)
1. Jet Gold (Gents), 2. Empress (Ladies), 3. Sun Dancer (Kids) and 4. Cyclone (MTB)	Bi-cycle	Hero Cycles	Finance is available for cycles. Product price and finance amount (within bracket) is given below. 1. Gents: ₹ 4,300/- (₹ 3,800/-) 2. Ladies: ₹ 4,600/- (₹ 4,100/-) 3. Kids: ₹ 3,550/- (₹ 4,050/-) 4. MTB: ₹ 4,550/- (₹ 4,200/-)
PureIt	Water Purifier	Hindusthan Unilever	Product cost is ₹ 4,200/- per unit. Finance to an amount of ₹ 3,700/- is available
e-Bazaar	Consumer Durables	InThree Access	Product price ranging from ₹ 2,100/- to ₹ 14,200/-

Operational Profile:

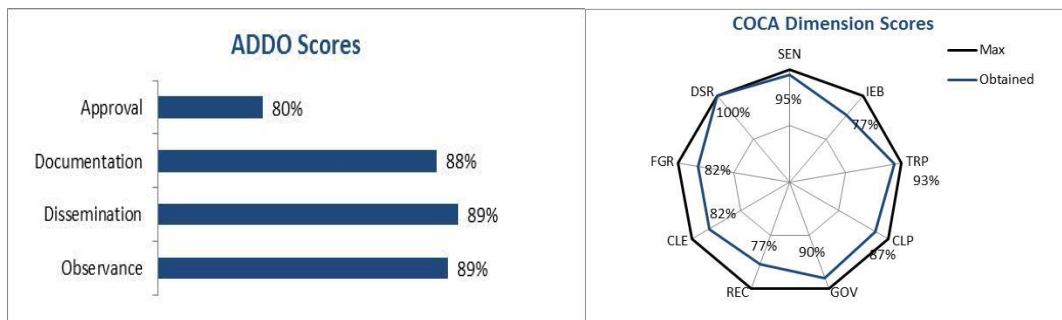
Key Financial Parameters	as on March 31, 2015	as on March 31, 2016	as on March 31, 2017
No. of Registered members	320848	553785	721201
No. of Groups	61816	94991	100024
Total Number of Branches	104	180	272
No of States	4	5	7
No. of Active Clients	320848	553785	721201
No of Active Clients per Branch	3085	3077	2,651
Gross Loan Portfolio (Rs. Crore)-Own	364.54	586.02	910.74
Gross Loan Portfolio (Rs. Crore)-Managed	18.78	81.54	104.06
Gross Loan Portfolio (Rs. Crore)-Total	383.32	667.56	1,014.79
Growth in Total Portfolio size	101%	74%	52%
Portfolio per Active Client	11947	12054	14,070
Increase in Portfolio per Active client	4%	1%	17%
Portfolio per Branch	3.69	3.71	3.73

As of August 31, 2016, Arohan's operations were spread across seven States, with about 47% of its portfolio being concentrated in West Bengal followed by Assam (21%) and Bihar (19%). The company currently serves over 6.5 lakh active borrowers. The company lends primarily to female borrowers and penetrates largely in rural areas.

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	More than 85% of total assets (excluding cash, balances with banks and financial institutions, government securities and money market instruments), comprise 'Qualifying Assets', as on Dec.16
2	Net worth to be in excess of Rs 5 Crore	Complied.
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*	The company assesses client income, conducts physical checks of the residences and also takes self-declaration of income from the borrowers. However ~77% of the borrowers interacted were found to be with in the limit.
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Complied. Currently the maximum first cycle loan size is Rs. 20,000 and overall maximum loan size is Rs. 80,000.
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Complied. Total indebtedness of the borrowers are capped at Rs. 60,000 and Rs. 80,000 for group loan customers and individual loan customers respectively
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. For loan products of more than Rs 30,000, the minimum specified loan tenure is 24 months.
7	Pricing guidelines are to be followed	Complied. AMPL is abiding the 10% margin as its loan portfolio has exceeded 100 crores.
8	Transparency in interest rates to be maintained	Complied. Lending rate at 22.99% (Saral, Saral Plus), 24.99%(Bazaar, Bazaar Plus) and 26.99% (Premium). Processing fee of 1% (#% for Premium) of the loan amount.
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 from Highmark.

Section 1: Code of Conduct Assessment



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 performance on the code of conduct takes into account MFI's strong performance on Transparency, Client protection, Governance and Data Sharing. The overall score is further enhanced by Arohan's high score on sensitive parameters. There is scope of improvement across Recruitment, Client Education and Feedback and Grievance Redressal Mechanism.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths

- Arohan has a well-defined area selection process and guidelines for borrower group formation.
- Arohan communicates with borrowers in a transparent and professional manner in vernacular language. All terms & conditions along with product features communicated. All borrowers that we met reiterated that they have received multi-point communication from the MFI on key loans terms.
- We observed that the MFI communicates a single, effective declining interest rate to its borrowers across all its written and oral communications, including its operations manuals, CGTs and borrower passbooks. The processing fees charged is 1%, which is in line with the prescribed guidelines.
- The operational staffs were found to be punctual and courteous towards the borrowers. Arohan has captured its key processes and policies to a reasonable extent in its operations manual. The company's lending decision takes into account a self-declaration from the borrowers that they have not borrowed from more than two MFIs and credit history records, with mandatory credit bureau check for all borrowers.
- The MFI conducts a two day Compulsory Group Training (CGT) followed by a Group Recognition Test (GRT) for new groups. The CGT process is documented well in the manual and covers all key aspects of lending including the joint liability concept, responsibilities and duties of group member, key loan terms and charges, product schemes and insurance details.
- Acknowledgement letter is given to the borrowers at the time of application for loan.
- The company has a structured induction training programme for new joiners and also conducts periodic trainings for existing employees to keep them updated about policy changes. We observed a reasonably fair degree of understanding and compliance with the prescribed policies, procedures and values of the company by the staff at the ground level.
- The MFI has put in place a strong internal audit process with quarterly checks on key process parameters such as CGT, loan utilization checks (on sample basis), attendance, house verification, passbook updation, key centre registers and ledgers.
- Arohan is a member of all four credit bureaus and shares data with all 4 bureaus on a weekly and monthly basis. The CB check is done real time for all the clients from Highmark as a first level check. Management ensures that disbursement happens within 15 days of credit bureau check. However the same is not controlled through the system as of now. The company is in the process of disabling the disbursement beyond 15 days automated through MIS.
- The company has put in place a fairly structured grievance redressal mechanism with a toll free number (operating during office hours only), along with the process, turnaround time and escalation matrix to address a grievance.
- No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the loan card as well.
- Arohan has a policy stating that any non-credit product offered (Group Term Life Insurance, Hospi-Cash, Shopkeeper Suraksha, NPS Lite, Solar Lantern, Mobile, Bi-Cycle etc.) will be voluntary for the client and would not be a precondition for loans and the same has been documented. Branch staff interviewed was found to be aware of the policy regarding the same. During our visits we did not come across any such instances where a borrower had been made to pay for a service or product as a precondition for loan.
- Arohan undertakes review of its margin regularly and tracks the prevailing base rates of five largest banks. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.
- Key financial and operational numbers for FY2016 have been displayed on Arohan's website.
- The company gives utmost importance to maintaining privacy of client data and has a specific policy for that. Circumstances under which client data can be shared are also clearly mentioned. Additionally, Arohan has put in place checks to prevent unauthorized physical access to their offices.

Weaknesses

- Branch managers' awareness with respect to RBI directions regarding loan tenures, loan purpose and income level of borrowers could be improved through refresher trainings as ~33%, ~56%, ~61% and ~33% of branch managers were aware of the RBI's directions regarding loan size, loan tenures, loan purpose and income level of borrowers respectively. ~68% of the staff were aware of the turnaround time for disbursement.
- Apart from loan card Arohan does not provide the sanction letter and a copy of loan agreement to the Borrowers. However the same would be provided May 2017 onwards.
- Arohan does not document list of borrowers to whom loan were not disbursed after accepting the application and the reasons behind it at the branches. However the same is tracked at the Head Office
- In the operational manuals the following guidelines were not found-
 - Forcible entry into dwelling and forced seizure of property without the legal order. However the same is mentioned in code of conduct posters at the branch Link the loan sizes and duration with the assessment of the repayment capacity.
 - Overriding/not using credit bureau reports if they are inaccurate
- In the recruitment manual the following guidelines were not found-
 - Shortfall in collections will not be recovered from employees
 - When staff is recruited from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year. One such instance was also found during our visit
- The following points were not reviewed by the board-
 - Any exceptions that the MFI may have made on credit bureau reports in the previous quarter.
 - Turnaround time for sanction and disbursement
- There is a scope of improvement in client awareness level as-
 - ~13% of the borrowers knew that their data can only be shared for authorized purposes only
 - Even though training on grievance redressal mechanism is a part of CGT and GRT ~60% of the clients were aware of the grievance redressal mechanism and only ~5% of the borrowers knew about the grievance redressal officer
 - While almost all clients aware of MFI name but 93% were aware of the branch location and.
 - None of clients were aware of existence of Grievance redressal mechanism MFIN
- The loan agreement did not include the following-
 - Grievance Redressal Mechanism
 - A declaration that Arohan is responsible for the behaviour of its staff
- In the COC disclosure it is written the borrower will be treated respectfully by field officers but it was not specifically mentioned that clients will be treated fairly despite grievance being lodged.

Significant observations - Higher Order Indicators

1. Integrity and Ethical Behavior

Strengths

- Internal audit report has been reviewed by the board, regarding non occurrence or otherwise of Abusive language or threats
- The MFI provides NOC or relieving letter to all employees who have given adequate notice before quitting.
- ~92% of the staff members confirmed that they were trained by senior branch staff on the various processes to be followed including CGT and GRT and the disclosures to be made to the borrowers.
- The operational staff confirmed that they have received training on the following:
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans (~82% of the staff confirmed)
 - Grievance redressal mechanism.
- Incentive structure for field staff gives 86% weight to loan disbursements with a maximum payout of Rs. 3000 for maximum enrolment of 100 clients and rest 14% to branch audit grade and is not dependent on number of clients managed. Hence, the total compensation of field staff remains the same whether the repayment rate attributed to the staff is 98% or 100%.
- Grievance redressal mechanism established by industry associations is disseminated to the borrowers during training. All the branches visited had displayed the grievance redressal mechanism. The contact number and address of SRO nodal official (as applicable) is also displayed in case the borrower is dissatisfied with the way her grievance has been handled. Arohan also prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review. However borrower awareness regarding grievance redressal mechanism was found to be low.

Weaknesses

- There is no structured template for compliance report on code of conduct parameters for presenting in front of the Board. We did not find any report highlighting steps taken in areas with weak compliance with Code of Conduct. Moreover, no evidence was found regarding steps taken to ensure compliance in areas where it was weak.
- The company does not have a documented HR policy stating that shortfalls in collections will not be recovered from staff. However, the employees also confirmed that they had never met the shortfalls through their own sources.
- Borrower awareness on the MFIN grievance redressal number was low

2. Sensitive Indicators

Strengths

- Around 99% of borrowers were found to be aware of the amount and number of instalments they were required to pay.
- No instances of the following were found:
 - A borrower being made to pay for a service or product as a precondition for loan.
 - Fine or penalty being levied or collected from the borrowers.
 - Collateral or security deposit being taken from the borrowers.
 - Borrowers being charged processing fee in excess of 1%.
 - Loan size or tenure being in non-compliance with RBI directions.
 - Arohan charging clients additionally for insurance, apart from premium payable.
 - Clients had to make payment to informal agents or bribes.
 - Unauthorised sharing of client data by Arohan.
- Arohan's policy allows the borrowers to prepay loans and it does not lead to a change in the effective rate of interest.
- Arohan undertakes review of its margin regularly and gets the prevailing base rates of five largest banks from RBI. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.
- During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose.
- For all the borrowers having monthly frequency repayment started one month after disbursement as per borrower feedback.
- Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases.
- Arohan has a clear 2 KYC policy regarding documents to be collected-
 - Primary –Voter Id
 - Secondary- Varies state wise (Primarily Aadhaar is considered as per policy stated in the process manual)

Which collecting the photo copies of the KYCs field staffs verifies with original. Same has been confirmed by the borrowers.
- Interviews with borrowers revealed that the staff did not indulge in the following:
 - Abusive language or threats
 - Visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders.
- Arohan is a member of all 4 credit bureaus and reports data to each of the bureau on a weekly and monthly basis.

Weaknesses

- There is no clear policy in the manuals/circulars regarding the code that Aadhaar must be obtained for 2nd/subsequent cycle clients

Significant observations – Building Blocks

1. Transparency

Strengths

- Arohan's board takes into consideration the guidelines and directions issued by Reserve Bank of India (RBI) and same is disseminated through company circulars. During our visits we found that circulars with the most recent directions were available in the branches visited.
- All the communications made to the borrower are in vernacular language. Only single and effective interest rate is communicated to the borrower and the same is mentioned on the loan card. The loan card is board approved loan card contains the all terms and conditions for the clients. ~86% of the field staffs interviewed were aware of the terms and conditions that need to be communicated in a transparent manner with the borrowers and ~92% were given training on the same
- Loan terms and the concept of group guarantee are conveyed to the clients at the time of group formation, during CGT and are also printed on the loan cards. The borrowers also confirmed that they had been communicated all terms and conditions such as interest rates, loan tenure, processing fee, etc. during the group training prior to disbursement. However only 46% of the borrowers interviewed were literate enough to read and understand the documents (such as loan cards, loan agreements etc.).
- Although Arohan does not provide copy of loan agreement or sanction letters to the borrowers but they provide the loan card wherein all the terms and conditions are mentioned. Various forms and documents used by Arohan are in the vernacular language which is covered in the Fair Practice Code and has been reviewed by the board in the past 1 year. The branches maintained the formats of important documents in vernacular language.
- The loan card provides the complete repayment schedule including number of instalments with interest and principal separately mentioned. Collections were found to be properly updated in the pass-books.
- Arohan displays the effective rate of interest on its products in all its offices including branches.
- All the borrowers interacted were found to be aware of the amount and number of instalments they were required to pay. ~99% of the clients interacted with revealed that charges and price for all services (which should be voluntary) have been communicated in written.
- Arohan charges processing fee of 1%. Hence the difference between nominal interest rates and the APR is 1%. Discussion with borrowers does not reveal any incidence where they been charged a processing fee of more than 1%.
- In case of prepayment of loans Arohan charges interest rate for the effective duration of the loan only.
- As per borrower's feedback no fine or penalty were collected from the borrowers under any circumstances.
- Arohan has a board approved policy stating that no security deposit will be collected, or collateral will be obtained for loans meant to qualify under priority sector classification and company's position on the same has been reviewed by the board in the past year. Not a single instance of collateral or security deposit being taken from the borrowers came to ICRA's notice during the field visit. The same is mentioned on loan card also.
- Arohan undertakes review of its margin regularly. It gets the prevailing base rates of five largest banks from RBI. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency.
- Review of latest loan files revealed that the loans had been disbursed at the latest rate of interest.
- The internal audit report tracks whether all clients receive the necessary loans documents and the same was reviewed by the board in the past year.
- The branch staff had received training from a senior staff regarding the documents to be provided to clients. The company has a structured induction training programme for new joinees and also conducts periodic trainings for existing employees to keep them updated about policy changes.
- The code of conduct compliance report for the year 2016 is available in the public domain.

Weaknesses

- As per our observation no documents were maintained at the branches against list of borrowers to whom loan were not disbursed after accepting the application. However, as per management feedback post CB check (which is done on real time basis) during the other verifications (house and work place verification, neighbour feedback) if any negative information is secured loan is not disbursed but the same is communicated verbally to the respective borrowers.

2. Client Protection

Strengths

- The complete business review is done at each quarterly board meeting. During the last one year, Operations manual has directions regarding the followings which is approved by the board-
 - Compliance with RBI qualifying assets criteria
 - loan sizes of qualifying loan assets
 - loan tenure of qualifying loans
 - loan purpose of qualifying loans
 - income of borrowers
- For lender selection Arohan defined few selection criteria which is documented in the product manual-
 - Borrowers cannot have loans from 2 MFIs including Arohan. However loan is offered if the borrower has two loans- one from MFI and other from Bank.
 - Total indebtedness of the borrowers are capped at Rs. 60,000 and Rs. 80,000 for group loan customers and individual loan customers respectively
 - Borrowers should not have any overdue account in Arohan or any other MFI
 - Household income should not exceed Rs. 8,333/month for rural areas and Rs. 13,333/month for urban areas.
- Internal audit report keeps track of the following parameters and their compliance with RBI directions:
 - Income of borrowers
 - KYC status of clients

However internal audit checklist does not cover loan sizes and purpose of qualifying loan assets. However these aspects are covered as per product design. No instances of the following were observed during client visits:

 - Loan size or tenure being in non-compliance with RBI directions.
 - Clients being deliberately made to pre-pay.
 - Offering any un-approved product/service.
 - A party other than the MFI staff or client (and her family member), was involved in filling up her loan application.
 - A borrower made to pay for a service or product as a precondition for loan.
 - Arohan charging clients additionally for insurance, apart from premium payable.
 - Clients had to make payment to informal agents or bribes.
 - Unauthorised sharing of client data by Arohan.
- During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose.
- Arohan has a clear 2 KYC policy regarding documents to be collected. The company requires borrowers to have Voter ID as a primary KYC document and the second KYC document varies state wise (but primarily Adhaar card is taken). The copy of KYC collected from clients will need to be verified with original documents. ICRA did not come across a single instance where a loan classified as qualifying microfinance loan, identity proof (verified with original declaration) had not been obtained.
- ~95% of the borrowers interviewed revealed that they had been disbursed loans within specified time limits. Loan files reviewed also indicated that credit bureau checks have been made not more than 15 days prior to disbursement in all cases.
- All the borrowers had to make the first repayment after one month of disbursement on a monthly repayment product as per the feedback received from them.
- There was consistency in repayment observed and repayment as per the loan contract among the client sample. All the clients interacted were satisfied with loan repayment frequency.
- Arohan has a policy stating-“buying a Cross Sell product is purely voluntary and optional and has no relationship with loans from Arohan”. Branch staff interviewed was found to be aware of the policy regarding the same.
- Arohan provides insurance to its clients through IRDA approved agency (Bajaj Allianz Life Insurance). Review of insurance claims settled by the MFI revealed that more than 80% of the sample claims had been settled within a period of 90 days.
- Arohan Board assesses its credit appraisal guidelines with respect to credit risk of the company. Sub-committee of the Board is formed as a risk management committee comprising of Board

Strengths

members and chaired by Individual Directors, who reviews all the risk associated with the business including credit risk.

- Before entering a particular state or district, Arohan performs state, district and village surveys where micro credit saturation profile of the area is analysed by the operations team. While preparing the budget (branch wise), AUM is considered and all branches which are saturated are reviewed and trimmed accordingly as an annual exercise.
- The operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes housing surveys and cash flow analysis. Arohan's loan application form enables it to record borrower's household income, expenses and indebtedness. All the loan forms verified had a cash flow analysis. However, Cash flow analysis appeared to be generic for the group with limited focus on the actual debt repayment capacity of the borrower.
- Arohan's branch visits have records that state the most recent loan appraisal criteria of the MFI.
- In the sample of clients interviewed the income, expense and indebtedness levels broadly matched with the stated levels in the loan form in 73%, 80% and 98% of the cases respectively.
- The company's policy incentivises the staff members for number of loans disbursed during a month (with a maximum payout of Rs. 3000 for maximum enrolment of 100 clients). Further, the incentive structure is also dependent upon audit scores, which takes into account the overdue position at the branch. Incentive structure for field staff gives 86% weight to loan disbursements 14% to branch audit grade.
- Arohan has documented guidelines regarding credit bureau checks to be performed on loan applications to check indebtedness of the client. Interviewed Branch Staff are aware of process to be followed in case credit bureau reports are found to be inaccurate.
- Interviewed Branch Staff have been given training or orientation on RBI's guidelines regarding maximum indebtedness of clients. However, ~50% of field officers were aware of the maximum client indebtedness. Internal audit keep track of indebtedness of borrowers and whether compliance with RBI's directions is being met.
- The maximum loan given by Arohan under JLG loans does not exceed Rs 60,000. ICRA did not come across any instance where the total loan to a borrower exceeded Rs 60,000.
- Arohan's board has reviewed its performance on the following in the past year:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans
- The operational manual specifies guidelines for the following:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans
- In the Code of conduct in is instructed not to visit borrowers at odd hours
- The operational staff confirmed that they have received training on the following:
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans (83%)
 - not to visit borrowers at odd hours
- Borrowers reported that MFI staff arrives on time for client meetings in 93% of the cases and staff conduct is professional.
- Clients were satisfied with the process of making repayments inconvenient or risky.
- Internal audit report has been reviewed by the board, regarding non occurrence of abusive language or threats
- The process manual clearly present guidelines to prevent the following:
 - Offensive Behaviour
 - Foul Language
 - Delay for meetings
 - Personal Interactions with clients
- Interaction with borrowers indicated that the staff had not indulged in in the following:

Strengths

- Abusive language or threats
- Visiting borrowers at odd hours
- Forcible entry into dwelling and forced seizure of property without the legal orders.
- Internal audit report has been reviewed by the MFI's Board, regarding appropriate vouching or by MFI staff. The staff confirmed that they had been trained on the same.
- All clients revealed that they receive accurate receipts for all transaction.
- Arohan has a board approved policy of recovering delinquent loans. The BQR manual presents guidelines on dealing with delinquent clients, for different stages of default. Interviews with staff members revealed they were aware of the process to be followed with delinquent clients.
- MFI has a policy on maintaining the privacy and security of client's data. However only 13% of the clients interviewed were aware that their data can be shared for authorised purposes.
- Arohan takes the digital data backup at least once in a week.
- The staff members were aware of the importance of keeping client data confidential
- IT and HUB audit covers whether client data has been stored with adequate security.

Weaknesses

- The board has not reviewed MFI performance against KYC norm
- The BQR manual does not link the loan sizes and duration with the assessment of the repayment capacity. However cash flow assessment discussed in the manual
- The operational manual does not present documented guidelines on overriding/not using credit bureau reports if they are inaccurate. Discussions with branch managers revealed that in case borrowers approach the MFI stating that they have foreclosed a particular loan and the bureau report is not reflecting the right status, in those cases NOC is taken from the old lender. However such instances are minimal.
- As per management action initiated against delinquent clients and its performance on its turnaround times for loan disbursement are discussed at the board meetings but the same is not captured in minutes of meeting.
- Internal audit does not specifically check the forcible entry into dwelling and forced seizure of property without the legal orders. And there is no specific guidelines regarding the same in the operations manual and the board also does not review this. However any dissatisfaction from the clients are recorded during independent client contact and it gets highlighted in the audit report.
- Arohan does not have an incentive policy stating an upper limit for incentives related to number of clients managed.
- ~33%, ~56%, ~61% and ~33% of branch managers were aware of the RBI's directions regarding loan size, loan tenures, loan purpose and income level of borrowers respectively. ~68% of the staffs were aware of the turnaround time for disbursement.
- There is no documented HR policy that shortfall in collections will not be recovered from employees, However, Interviews with employees reveal that they never had to make good any shortfalls in collection from their own money.

3. Governance

Strengths

- While there is no specific chairperson of the Board, In every board meeting an independent director is designated as the chairperson of the board
- Arohan has a Fit and proper policy which states that the members inducted should be of good and sound reputation. All the members of the existing board of the MFI have good and sound reputation and are qualified to provide direction to the MFI. The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI. The policies and procedure of the MFI and any subsequent changes to the same are approved by the board. The meeting agenda contains the key operational and financial information of the MFI.
- Arohan has a written policy regarding that 1/3rd of the board members are independent persons. Arohan has three independent directors out of nine members who have prior experience of working in the financial services, corporate and social sectors.
- The audited financials disclose the compensation of key managerial personnel which consists of CEO compensation.
- Arohan board reviews all the policies annually and makes suitable changes if required to comply with RBI norms.
- The audit committee of the Board has reviewed the staff strength and scope of Internal Audit in last on year.
- Arohan has a board approved policy for restructuring loans of borrowers facing repayment stress. ~86% of the branch staff interviewed was aware of the same. During our visits we did not come across any borrower requiring loan restructuring
- Arohan has constituted an audit committee of the board with an independent director as chairperson. The internal audit head directly reports to the Board committee. There is a dedicated internal audit team. The internal audit process is strong with quarterly checks on key process parameters such as CGT, loan utilization checks (on sample basis), attendance, house verification, passbook updation, key centre registers and ledgers. Staff satisfaction related to compensation and incentive is covered by internal audit. Action taken report based on the last audit report is present at all the branches visited.
- The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year.

Weaknesses

- Arohan does not have a structured compliance report to access breach of code of conduct parameters which is presented to the board on a regular basis. Also Arohan could not provide any evidence to suggest that MFI has taken steps to ensure compliance with the code of conduct in areas where it was weak

4. Recruitment

Strengths

- Arohan has a detailed HR manual with well documented guidelines regarding recruitment, notice period, incentives etc.
- The board has reviewed the recruitment policies during the last one year, although the recruitment process is documented in the HR manuals.
- The MFI has a documented system of reference checks on all its new employees. Job offers are given subject to a satisfactory feedback.
- Submission of relieving letter from the previous employer is mandatory for new joiners.
- The MFI has a policy of providing sufficient notice to employees whose employment is being terminated. The notice period is for 30 days during probation period and 90 days after confirmation from the date of resignation. There is documentary evidence to suggest that MFI has honoured the notice period for all employees who have left it.
- There is documentary evidence that the MFI has provided relieving letter to all employees who have given adequate notice before quitting.
- As per management and sample data reviewed by ICRA, Arohan performs reference checks and also responds to reference check requests of other MFIs.

Weaknesses

- A specific policy saying that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year was not found. One such instance was also found during our visit.

5. Client Education

Strengths

- The process of conducting CGT and GRT is fairly well documented. During CGT, borrowers are informed about the product, joint liability, meeting process, organisation policy, interest rates, fees and charges etc. Before each centre meeting also staff members communicate about the products and related information as per policy.
- The staff members were trained by senior branch staff on the various processes to be followed including CGT and the disclosures to be made to the borrowers. The operations manual encourages the staff members to hold discussions with borrowers on key product features and regulations.
- ~98% borrowers confirmed receiving detailed trainings (compulsory group training) on the product and organisation policy. The borrower's further confirmed that no payment has been made for these trainings.
- Internal audit checklist includes assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities and so on.
- All of the clients interviewed were aware of the Loan tenure.

Weaknesses

- Overall client awareness on terms and conditions seemed low-
 - Annualized Interest rate – 59%
 - Processing fees – 50%
 - Insurance claim settlement process – 56%
 - Other product or service - 51%
 - Insurance charges – 40%

6. Feedback & Grievance Redressal

Strengths

- Arohan has a dedicated grievance redress/client feedback official.
- Grievance redressal system set up by the MFI is displayed in all of its branches visited. Although it is not mentioned in the loan agreement it is there in the loan card.
- Arohan's GRM policy has details of the grievance redress and includes time frames for grievance resolution as well as escalation mechanism-
 - Level 1- Report to Branch Head
 - Level 2- If not resolved by the Branch head within 3 working days report to customer care help desk (toll free number is given on Loan card)
 - Level 3- If the grievance is not addressed within 7 working days from the day of reporting at level 2 write a letter to complaint redressal officer
 - Level 4- If the grievance is not addressed within 15 working days call to MFIN toll free number
 - Level 5- If no response is received from MFIN in 15 days contact General Manager (Department of Non-banking supervision), Reserve Bank of India
- The members of staff confirmed receiving training from seniors on the grievance redressal mechanism.
- Mechanism of grievance redressal is part of the CGT training of the clients. The borrowers confirmed that it was explained to them during the loan disbursement however few of the borrowers (~64%) were actually aware of the process to be followed in case of any grievance except reaching out to the field officer
- Arohan has provided number for the client grievance redressal/feedback official on loan cards
- There was a positive response when a surprise call was made on the toll free number provided.
- Arohan has a system for recording complaints diligently and all the branches visited maintain action taken reports on the complaints received from clients. MFI has documentary proof that it has provided acknowledgement to clients and acted upon grievances in a time bound manner and as mandated in its policies.
- Nature and status of resolution of complaints forms a part of the internal audit report and grievance redressal report. Both the reports had been presented to the board in the past year.
- In all the branches visited, the contact number and address of SRO nodal official had been displayed in a manner that made it clear that a client could approach the official in case she is dissatisfied with the way her grievance has been handled.

Weaknesses

- The following clauses were not found in the loan agreement-
 - A declaration that Arohan is responsible for the behaviour of its staff
- Arohan has designated a grievance redressal officer but 5% of the clients interacted were aware of it.
- During borrower's visits, we noticed that most of the clients were aware of MFI name but 96% were aware of the branch location and ~64% of the clients were aware of the grievance redressal mechanism of Arohan. None of clients were aware of existence of Grievance redress mechanism of the Industry Associations. However, the number of MFIN was displayed in every branch visited.
- MFI does not display any specific statement that it is responsible for the actions of its staff and that the clients will be treated fairly despite grievance being lodged.

7. Data Sharing

Strengths

- Arohan is registered with all the four RBI approved credit bureaus of all 4 credit bureaus and reports data to each of the bureau on a weekly and monthly basis.
- CB checks are done mostly from Himark on real time basis. The TAT for disabusing loans are 3 days and 6 days for individual and JLG loans respectively and the same is mentioned in the code of conduct disclosure of Arohan. It is ensured that loan is disbursed within 15 days post Credit Bureau check. Management indicated that they will incorporate a new feature in the MIS to block the disbursement post 15 days automatically through MIS.
- Both operational and financial numbers for FY2016 were available on company's website.
- Arohan has provided data when called for by RBI or MFIN.

Annexure: Methodologies

Microfinance Grading Methodology

<http://www.icra.in/Files/Articles/mfi%20grading%20methology%20note%20for%20upload.pdf>

COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	251

Methodology

This is regarding the Code of Conduct Assessment (COCA) exercise to be conducted by us. The COCA exercise is spread over 15-30 days. The first day is spent at the head

office. The assessment team visits the branches over the next three to fifteen days, after which we take around five days to share our draft report. Depending upon the size and the operational area of the MFI, up-to fifteen branches and 300 clients are sampled for primary survey.

Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise.

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	60-120 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

The selection of branches can be done using a criteria based approach.

Step 1- High stress branches: Violations of the code of conduct are most likely to occur in areas where an MFI's loan portfolio is experiencing stress. Hence, it is suggested that branches which have shown portfolio quality problem should be included in the sample. The maximum number of branches selected using this criteria should be 40% of the total branches that need to be sampled.

Step 2: After identifying branches based on step 1, a list of districts along with the number of branches, distance of the branches from their District Office, and the number of clients, may be prepared. We can then select districts to identify the remaining branches that need to be sampled. The districts may be selected following a methodology that gives a higher probability of selection to those districts that have higher proportion of MFI clients. In other words, the probability of selection of a district should be close to the proportion of clients that the MFI has in that district. The sampling of the district should be done without replacement. In this approach it is possible that a particular district may appear more than once in the sample. Finally, branches should be selected from the districts chosen. We may choose as many branches from a district as the number of times it appears in the sample.

Thus, we may choose one or more branch per district. This selection may be based on the following rules:

1. The branch should have been in operation for atleast six months

2. Adequate representation (around 30% of total branches sampled) should be given to branches that are at least 30 km (or farthest) away from the nearest district office.

Selection of Clients in the Sample

In the sampled branches, two cluster of clients should be selected. These clusters could be JLG-centers or large client groups or village etc. In each of these clusters, around 10 clients should be interviewed. This will give us a sample of around 20 clients in each branch. Further, in each branch four interviews with clients (2 in each cluster) should be made at a location of the clients preference.

Code of Conduct Assessment exercise requires:

1. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct.
2. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified after the review of documents.
3. Sampling of branches. The assessment team samples branches for review. The branches are chosen across different states in case the MFI operates in more than one state.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A sampling is performed on the MFI's clients by the assessment team to draw respondents.
6. Interview with the clients. Information from the clients is collected primarily during the group meetings. Some clients are also met at a location of their preference. Additionally telephonic interviews are held with some clients.
7. Review of loan files. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited eighteen branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Muzaffarpur1	Bihar	34
2	Muzaffarpur2	Bihar	25
3	Motipur	Bihar	23
4	Dholi	Bihar	21
5	Samastipur	Bihar	30
6	Bauria	West Bengal	12
7	Domjur	West Bengal	28
8	Bagnan	West Bengal	21
9	Bakultala	West Bengal	24
10	Kakatpur	Odisha	33
11	Sakhigopal	Odisha	33
12	Rasulgarh	Odisha	20
13	Khurda	Odisha	21
14	Athgarh	Odisha	18
15	Banki	Odisha	15
16	Rajarhat	West Bengal	35
17	Beliaghata	West Bengal	20
18	Akra	West Bengal	20
Total			433

