

No. CARE/DRO/RL/2018-19/3121

Dr. Aqueel Ahmed Khan
Managing Director
Sona Finance Private Limited
V-29/11A, DLF Phase-III
Gurugram, Haryana 122002

January 02, 2019

CONFIDENTIAL

Dear Sir,

Grading of Micro Financing Institution (MFI)

1. Please refer to your request for grading of your organization.
2. Our Grading Committee has assigned a grading of 'MFI 3+' (MFI Three Plus) to your organization. The grading is assigned on an eight point scale with "MFI1" being the highest and "MFI5" being the lowest. A brief detail of CARE's grading framework of Micro Financing Institution (MFI) along with MFI grading scale is given as **Annexure I**.
3. This is a one-time assessment of the MFI which can be reviewed by CARE only upon specific request from your organization and shall not be subject to any surveillance.
4. MFI grading is specific to your organization and not specific to any debt instrument or borrowing programme.
5. MFI grading is meant for specific use of institutional investors/lenders and shall not be used for raising funds from the public.
6. CARE's grading is an opinion of CARE on the relative capability of the organization to undertake micro-financing activity and does not constitute a recommendation to buy, hold or sell any security issued by the organization or lend any funds to the said organization.
7. The rationale for aforesaid grading is also **annexed**. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept

A. Sangra

Puneet

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

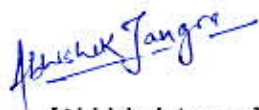
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in. Kindly revert as early as possible. In any case, if we do not hear from you by January 07, 2019, we will proceed on the basis that you have no comments to offer.

8. If you need any clarification, you are welcome to approach us in this regard. We are, indeed, grateful to you for entrusting this assignment to CARE.

Thanking you,

Yours faithfully,



[Abhishek Jangra]

Analyst

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Encl: As above

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.

Annexure I

CARE's grading of MFIs

CARE's Grading Framework

CARE's MFI grading is a one-time assessment of a Micro Finance Institution (MFI's) operational and financial capability to undertake and sustain the targeted level of operations. CARE evaluates an MFI under a four point framework:

- i. **Transparency,**
- ii. **Operational setup,**
- iii. **Scale of operations, and**
- iv. **Sustainability**

The various aspects covered under each parameter are given below:

<p><u>I. TRANSPARENCY</u></p> <ul style="list-style-type: none">• Governance• Accounting Policies• Internal Control• Transparency in the usage of grants and funds• Transparency in the lending process	<p><u>III. SCALE OF OPERATIONS</u></p> <ul style="list-style-type: none">• Geographical spread of operations and outreach• Variety of loan Products• Efforts to increase outreach and coverage
<p><u>II. OPERATIONAL SETUP</u></p> <ul style="list-style-type: none">• Promoter/Management Assessment• Organizational Structure• Systems and Procedures• Quality of Information System• Lending policy• Quality of Loan Monitoring process• Litigation• Risk Mitigating mechanisms	<p><u>IV. SUSTAINABILITY</u></p> <p><i>a) Financial Sustainability</i></p> <ul style="list-style-type: none">• Resource Profile• Cost Structure• Interest rate policies• Capital Adequacy• Asset quality• Earnings• Liquidity and Asset Liability Management <p><i>b) Operational Sustainability</i></p> <ul style="list-style-type: none">• Succession planning• Competition• Resource arrangements• Vision

Grading Scale/Symbols

MFI's operational & financial capability to undertake and sustain the targeted level of operation is graded on an eight point scale as below:

Grading Symbol*	
MFI1	Highest
MFI2+	↓
MFI 2	
MFI3+	
MFI3	
MFI4+	
MFI4	
MFI5	Lowest

* There is no individual definition for each grading