Arman Financial Services Limited

Ahmadabad, India, 30May, 2017:Arman Financial Services Ltd (Arman), a leadingGujaratbased non-banking financial company (NBFC), with interests in microfinance, two-wheelers and MSME loans, announced itsfinancial results for the fourth quarter and year ended 31stMarch, 2017.

Commenting on the Company's performance for Q4FY2016-17, **Mr. Jayendra Patel, Vice Chairman &Managing Director, Arman Financial Services Ltd.**commented: *The total AUM of the company has grown from Rs172.31 Cr on 31March 2016 to Rs. 183.91Cr as on 31 March 2017, a growth of6.73%.Growth in the year has been moderate due to de-growth in the microfinance business due to a lack of disbursements from November 2016 to February 2017.The consolidated Revenues for the quarter have declined by 8.86% to Rs.12.35 Cr on a YoY basis. The consolidated revenues for FY17 have grown by 28.59% to Rs.53.57Cr compared to FY16.*

The performance of the company was impacted due to challenges in Microfinance segment post demonetization. The events following November 8th, 2016, caused a severe disruption to our business. While this was a completely unforeseen event, our company is no stranger to crisis. The NBFC sector, and indeed the financial sector as a whole, gets plagued by one crisis or another every 5-10 years. Whether random or predictable, this has become part of the larger financial sector business cycle. Arman has not only survived many such events in our 25-year history, but we have always come out stronger on the other side. The reason for that resiliency is our commitment to put asset quality first by having a reasonable & controlled growth; and maintaining a strong connect with the customersand our employees on the ground.

When the decision to demonetize majority of the paper currency in India was announced, we responded very quickly and shifted our focus towards repayment and towards maintaining, to the best of our ability, the asset quality.Our employees went above and beyond their duty and responded to the crisis admirably. In many places, especially rural areas, this proved to be a huge challenge due to cash liquidity crisis and severe disruption to the rural income generation. To add to an already challenging situation, many pockets across India saw large political distractions, inciting microfinance clients to stop repayment by falsely claiming loan waivers to gain political favor with the masses. This, coupled with the fact that there was no cash liquidity available, led us to stop disbursements in the Microfinance segment of the business. The chart below shows the disbursement trend for the past 13 months.

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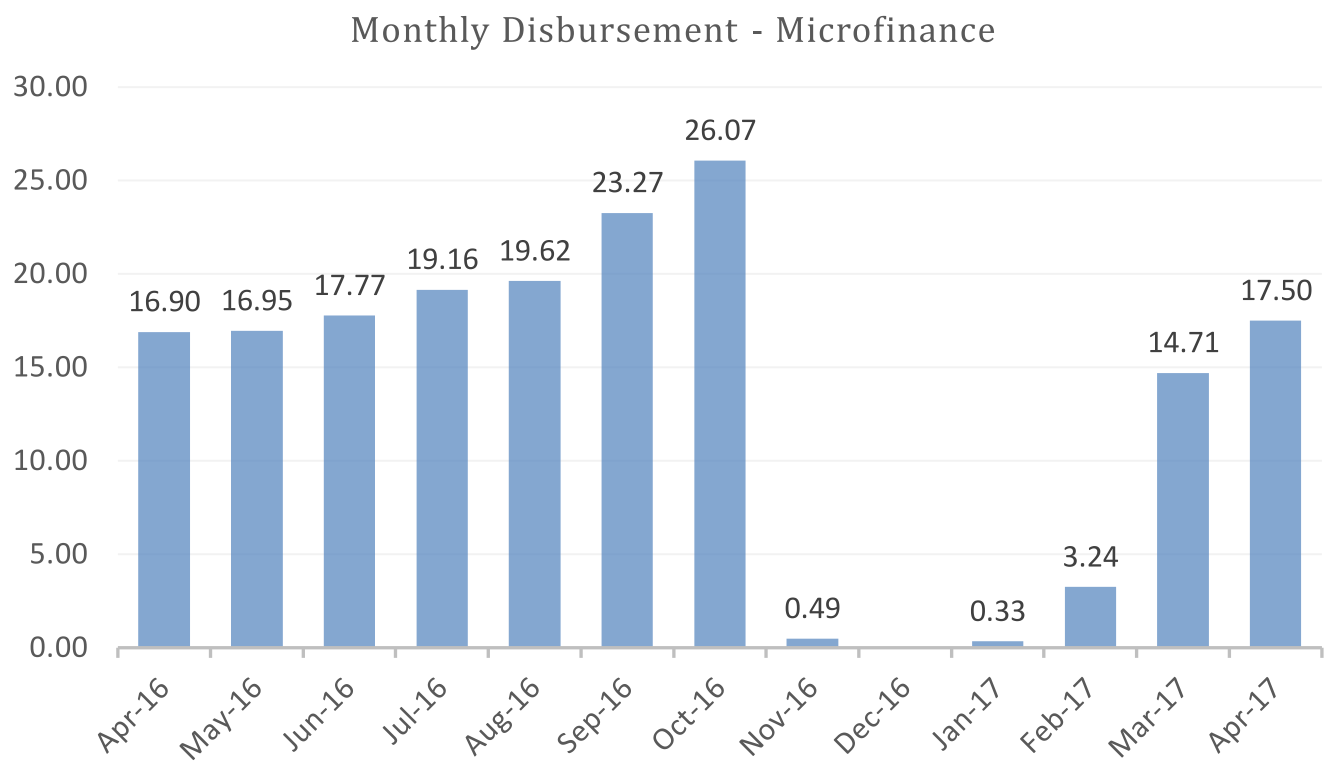


Our conservative approach both before and after demonetization paid off big dividends as our asset quality is far superior to our peers in many of the states most affected in the Microfinance segment, such as UP, Maharashtra & MP.

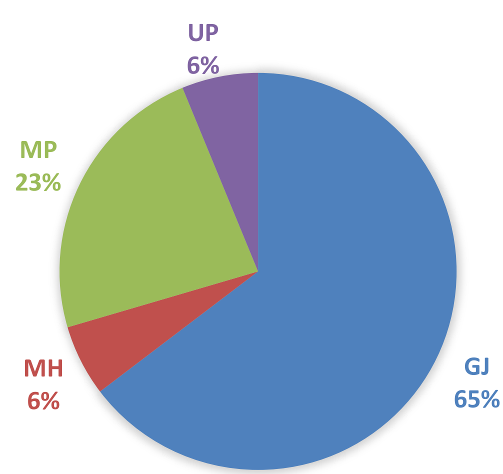
As a result of all the disruptions, as our results show a de-growth in profits and AUM from the previous year, largely due to:

1. *A loss in income due to negligible disbursements in the 4 months following demonetization. Since all our loans are short-term in nature, this led to a reduction in AUM and therefore, a reduction in our income base.*
2. *Increased operating expenses for repayments. Operating expenses remained largely fixed even though the AUMs reduced in the Microfinance segment.Pre-demonetization, we had put forth huge efforts on expanding our capacity by opening new branches and training new staff to meet our FY17 targets and also start planning for the FY18 expansion strategy. During the first 7 months of FY17, we had opened 25 new branches (from a total of 55 to 80), mostly in our new geographies of UP and Maharashtra. This put a huge load on our operating expenses post-demonetization.*
3. *Increased write-off for all segments. Consolidated write-offs increased from Rs. 73 lakhs to Rs. 3.2 cr in the past fiscal (Microfinance write-offs increased from Rs. 21 lakhs to Rs. 2.3 cr from FY16 to FY17, respectively), largely due to the effects of demonetization. While the RBI provided a 90 NPA*

provisioning relief, we believed it was prudent to be proactive by writing-off all of the high-risk loans which did not start repayments post November 8th despite our best efforts. Please note that our collections efforts will continue, and we have initiated legal cases on many willful defaulters.

In the Microfinance Segment, Portfolio at Risk of 60 days or more (PAR 60+) is 4.27% as of March 31, 2017. While this is lower than the industry at large (data from Equifax indicates a PAR 60+ of 9.8% across India as of March 31st 2017), it has driven a strategic shift in the Company's focus towards Microfinance. The broad contours of the long-term strategy of the company are:

1. *To diversify our product line by considering new product segments or concentrating on existing segments besides Microfinance. Arman has a very robust two-wheeler segment and the new MSME segment is performing extremely well. Coupled with other products the company is exploring currently, we target that the Microfinance segment should be no larger than 50% of the consolidated AUM of the company in the next 2-3 years.*
2. *Switch to non-cash based disbursements for the Microfinance segment in the short-term and non-cash based collections in the long-term. To that end, the company is making serious efforts to shift our cash based disbursement model into a NEFT transfer based disbursement. We are happy to report that our software customization has been completed and 100% of all disbursements in the State of UP are occurring via NEFT. The other states will follow shortly.*
3. *Reduce concentration in any one state. The chart on the right shows the Microfinance portfolio across the 4 states we have a presence. Our Medium-term goal is to reduce concentration in Gujarat below 50% of the total Microfinance AUM. To that end, our goal will be to reduce any new branch openings in Gujarat and concentrate in increasing AUMs in other states.*



Demonetization issues aside, overall, it is quite encouraging to note the following:

1. *Two-wheeler segment and the new MSME segment were not materially impactedby demonetization. Despite slow disbursements November thru January in both those segments, the*

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overall AUM increased 36% YoY. Repayment rates, while reduced during November & December, quickly returned to normal in Q4FY17.

2. *While the MSME pilot was formulated in July 2016, disbursements started in September 2016. Currently, we have reached the capacity to disburse over Rs. 4 cr a month and already have 2100 new clients. Our focus the FY18 will be for the MSME segment AUM to be equivalent to Two-wheeler segment.*
3. *Repayment rates of 99.9% have resumed for any new disbursements in Microfinance made post January 1st 2017. This is encouraging that the credit discipline that we had grown accustomed to has resumed for old and new clients alike.*
4. *Unexpectedly, there was no impact of the UP Loan Waiver Scheme on the UP portfolio, and the repayment rates have continued to improve.*
5. *Despite recent issues in Microfinance, costs of funds remained stable and fund availability has not beendiminished.*

The goal of this very long statement is to give our stakeholders comfort that our Company is highly resilient.In the long-run, demonetization will only be a speed-bump to the company's long-term goals and we will manage to overcome the challenges imposed by demonetization very quickly.We are working on our next year goals with a renewed focus and zeal, with an aim to increase disbursements, stabilize our cost structures and increase our geographic and product diversifications.

Consolidated Business Review

Financial Highlights

Q4 FY2016-17 (Jan– Mar2017) v/s. Q4FY2015-16(Jan – Mar 2016)

- Net Revenuesdeclined by 8.86% to Rs. 12.35Crfrom Rs.13.55Cr
- Employee costs increased by 52.71% toRs. 3.1Cr from Rs. 2.03Cr
- Interest costs increased by 37.16% to Rs. 7.64Cr from Rs. 5.57Cr

Operational Highlights

Q4 FY2016-17 (Jan – Mar 2017) v/s. Q4 FY2015-16 (Jan – Mar 2016)

- 7 new branches were opened in the MSME segment, which a major focus area for the company going forward
- The collection efficiency in the microfinance segment has improved and worst of the delinquency is behind us. New delinquencies has slowed down considerably.
- The 2-Wheeler segment has performed well during the period.

Business Mix (Consolidated)

Revenues income from operations (Rs. Cr.)	Q4 (Jan-Mar) FY 2016-17	Q4 (Jan-Mar) FY 2015-16	YOY Change (%)	12 Months (Apr – Mar) FY 2016-17	12 Months (Apr – Mar) FY 2015-16	YOY Change (%)
Namra Finance	7.86	9.43	-16.65%	37.01	25.75	43.73%
Arman Financial Services	4.49	4.12	8.98%	16.55	15.91	4.09%
Total	12.35	13.55	-8.86%	53.57	41.66	28.59%

Income from operations for Namra declined in the last quarter due to a reduction in AUM as disbursements stopped for 4 months post demonetization.

Expenditure Analysis (Consolidated)

Expenses (Rs. Cr.)	Q4 (Jan-Mar) FY 2016-17	Q4 (Jan-Mar) FY 2015-16	YOY Change (%)	12 Months (Apr – Mar) FY 2016-17	12 Months (Apr – Mar) FY 2015-16	YOY Change (%)
Employee Costs	3.10	2.03	52.71%	10.18	6.28	62.10%
Other Expenses	2.59	1.97	31.47%	11.02	6.74	63.50%
Interest Costs	7.64	5.57	37.16%	22.65	16.36	38.45%
Total Costs	13.33	9.57	39.29%	43.85	29.38	49.25%

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Our employee costs spiked up due to new hires in our new branches, especially in UP and Maharashtra. Overall, the company opened 25 new branches in Microfinance and 7 new branches in MSME segment in the past year. Microfinance salary and incentive structure was also modified to reflect the market pulls, which added to the overall increase in employee costs.

Our other expenseshave increased, which are largely driven by increase in bad debts in the past year due to demonetization. The costs of opening new branches also resulted in an increase in other costs, and we are focused on bringing these costs to a more manageable level.

Profitability Mix (Consolidated)

Particulars (Rs. Cr.)	Q4 (Jan-Mar) FY 2016-17	Q4 (Jan-Mar) FY 2015-16	YOY Change (%)	12 Months (Apr – Mar) FY 2016-17	12 Months (Apr – Mar) FY 2015-16	YOY Change (%)
EBIT	6.89	9.5	-27.47%	32.39	28.47	13.77%
PAT	-0.74	2.55	-129.02%	6.33	8.01	-20.97%
EPS (Rs Per Share)	0	3.68	-100.00%	9.94	11.58	-14.16%
Book Value (Per Share)	80.87	72.87	10.98%	80.87	72.87	10.98%

During the quarter company suffereda loss at a consolidated level due to added write-off and reduced income from operations as a result of demonetization. Profitability will increase in the coming quarters as the AUM will increase to pre-demonetization levels and write-offs/provisioning will be lower as the majority of the high-risk assets have been written-off.

Net Interest Income (NII) & Net Interest Margin (NIM) Analysis (Consolidated)

Particulars (Rs. Cr.)	Q4 (Jan-Mar) FY 2015-16	Q1 (Apr – Jun) FY 2016-17	Q2 (Jul – Sep) FY 2016-17	Q3 (Oct-Dec) FY 2016-17	Q4 (Jan-Mar) FY 2016-17
Period Ending (AUM)	172.31	187.22	214.97	199.33	183.91
Net Interest Income (NII)	7.98	8.16	8.63	9.42	4.84
Net Interest Margin (NIM) (Annualised)	19.47%	18.16%	17.17%	18.19%	10.10%

The reported NIMs are lower in the last quarter due to reduced interest income as a result of demonetization and income reversals due to write-offs. Additionally, interest expense did not reduce as the company had unutilized cash due to lack of disbursements.

Business Tracker (Microfinance)

Particulars (Rs. Cr.)	Q4 (Jan-Mar) FY 2015-16	Q1 (Apr – Jun) FY 2016-17	Q2 (Jul – Sep) FY 2016-17	Q3 (Oct-Dec) FY 2016-17	Q4 (Jan-Mar) FY 2016-17
AUM	116.84	130.64	150.1	130.22	103.22
Disbursement for the Qtr	53.1	51.63	62.05	26.53	18.3
Gross Interest Income (Interest Income + Processing Fee)	8.85	9.09	10.16	10.22	7.86

We greatly reduced our disbursements post demonetisation as they were largely in cash. We have been building up the non-cash disbursement model and now ramping that up successfully. The worst of the impact of demonetisation is behind us and disbursements are going back to normal. In Q1:FY18, we expect disbursements to return to Rs. 60cr+ in Microfinance.

Operational Branches (Microfinance)

Particulars (Rs. Cr.)	Q4 (Jan-Mar) FY 2015-16	Q1 (Apr – Jun) FY 2016-17	Q2 (Jul – Sep) FY 2016-17	Q3 (Oct-Dec) FY 2016-17	Q4 (Jan-Mar) FY 2016-17
Gujarat	37	37	37	37	37
Madhya Pradesh	18	18	23	23	23
Maharashtra	0	4	7	7	7
Uttar Pradesh	0	2	10	11	13
Total Branches	55	61	77	78	80

NPA Analysis (Microfinance)

Particulars (Rs. Cr.)	Q4 (Jan-Mar) FY 2015-16	Q1 (Apr – Jun) FY 2016-17	Q2 (Jul – Sep) FY 2016-17	Q3 (Oct-Dec) FY 2016-17	Q4 (Jan-Mar) FY 2016-17
Gross NPA	0.22	0.15	0.03	0.03	0.32
Provisions	0.22	0.15	0.03	0.03	0.32
Net NPA	0	0	0	0	0
Net NPA Percentage	0.00%	0.00%	0.00%	0.00%	0.00%

Please note that the above NPA and provisioning is as per RBI circular 143 and 198 issued in FY17, where additional 90 days beyond what is applicable for recognition of a loan account as substandard was provided. Overall substandard/NPA assets for Microfinance if RBI dispensation is disregarded is about 2.6% of Namra's portfolio. Additionally, write-offs of Rs. 2.3 cr was taken for high-risk assets. While the RBI provided a 90 NPA provisioning relief, we believed it was prudent to be proactive by writing-off all of the high-risk loans which did not start repayments post November 8th despite our best efforts. Please note that our collections efforts will continue, and we have initiated legal cases against many willful defaulters.

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Business Tracker (2 Wheeler Finance & MSME)

Particulars (Rs. Cr.)	Q4 (Jan-Mar) FY 2015-16	Q1 (Apr – Jun) FY 2016-17	Q2 (Jul – Sep) FY 2016-17	Q3 (Oct-Dec) FY 2016-17	Q4 (Jan-Mar) FY 2016-17
AUM	55.47	56.58	64.87	69.11	80.7
Disbursement for the Qtr	13.94	16.36	18.16	25.92	27.21
Interest Income	3.34	3.62	4.01	4.13	4.49

Two-wheeler and MSME disbursements and AUM increased sharply in the last quarter as the company increased its focus on these segments. March month-end discounts on vehicles provided by the manufacturersgave a boost to the overall figures. March-end AUM of MSME totaled almost Rs. 6 cr. The MSME segment will continue to increase exponentially in the coming quarters.

NPA Analysis (2 Wheeler Finance)

Particulars (Rs. Cr.)	Q4 (Jan-Mar) FY 2015-16	Q1 (Apr – Jun) FY 2016-17	Q2 (Jul – Sep) FY 2016-17	Q3 (Oct-Dec) FY 2016-17	Q4 (Jan-Mar) FY 2016-17
Gross NPA	1.8	1.85	1.96	2.09	2.28
Provisions	0.18	0.18	0.2	0.21	0.23
Net NPA	1.62	1.67	1.76	1.88	2.05
Net NPA Percentage	2.92%	2.95%	2.71%	2.71%	2.54%

The absolute NPAs in the 2-wheeler business has increased from the previous years due to the RBI mandated policy of recognizing NPAs after a delay of 120 days vs the earlier norm of 180 days. The net NPAs have reducedfrom2.92% to 2.54%.NPA has reduced by 0.24% from the previous quarter due to an increase in AUM. Overall asset quality is expected to remain stable in the coming year. MSME segment NPA is nil.

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About Arman Financial Services Ltd

Arman Financial Services Ltd (BSE: 531179)is a category 'A' Non-Banking Finance Company (NBFC) active in the 2-Wheeler Finance and Micro-Enterprise Loans. Arman also operates a wholly-owned subsidiary, Namra Finance Ltd, exclusively for its Microfinance operations. It operates mostly in unorganized and underserviced segment of the economy and mostly serves niche markets in Gujarat and Madhya Pradesh. The company has recently forayed into Maharashtra and Uttar Pradesh for its microfinance operations.

Arman's big differentiator from a Bank and other NBFCs is the last mile credit delivery system. They serve areas and clients where it is simply not possible for banks to provide financial services under the current market scenario.

For more information, please visit our web site www.armanindia.com.

If you have any questions or require further information, please feel free to contact

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