**Ahmadabad, India, 28 May 2019**: Arman Financial Services Ltd (Arman), a leading Gujarat based non-banking financial company (NBFC), with interests in microfinance, two-wheelers and MSME loans, announced its financial results for the quarter ending 31st March 2019.

Commenting on the Company's performance for Q4 FY2018-19, **Mr. Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services** said, *"The consolidated AUM of the company has grown from Rs 423.59 Cr on 31 March 2018 to Rs.686.94 Cr as on 31 March 2019, a growth of 62%. The growth on a QoQ basis is 17% from Rs. 585.96 Cr as on 31st December 2018 to Rs.686.94 Cr on 31st March 2019.*

*The consolidated annual profits have grown by over 193% from Rs 7.30 Cr to Rs 21.33 Cr. This is a record annual profit for the company, and I am very proud of the entire Arman team, and all of our stakeholders and supporters for accomplishing such great results. The Board of Directors have announced a Dividend (subject to the approval of the shareholders) of 14% (Rs 1.4 per share) for FY2018-19, up from 10% the previous year.*

*The performance of the company has been remarkable inspite of liquidity challenge being faced by NBFC sector in general, especially in the last quarter. While it has been a challenge for NBFC's to borrow from banks and other financial institutions, we have so far been able to raise adequate funds due to the goodwill we have generated over many years and our existing lender relationship. However, marginal borrowing costs have increased due to some resets and new borrowings were raised at higher costs. Operationally, we have done well and have been able to grow and maintain our profitability despite significant headwinds. We continue to look for new sources of funds and building new relationships. Last quarter, we completed four separate MOSEC (Multi-originator securitization) transactions, where multiple NBFCs pool Microfinance or Two-Wheeler loans and sell it to banks. Very recently, we also completed our third foreign NCD transaction, and are in active discussion with other foreign funders for various ECB/NCD transactions*

*Managing our liability side is critical to our long-term growth plans, and the uncertainty surrounding debt availability continues to remain a significant challenge for the industry. Starting from last quarter, we have made the decision to maintain sufficient cash reserves in any given month to cover our cash requirements for proceeding two months. This means that at any given time, we have a larger reserve* *of idle cash than we have historically maintained. This decision is a two-edged sword; while it provides us comfort surrounding our continuing operations in the event of any further short-term market liquidity issues, it also bears a ‘negative carry’ cost that will marginally impact the bottom line. We believe given the current market condition and sentiments towards the NBFC sector as a whole, this is a prudent decision, which we will reevaluate on a monthly basis.*

*We have also been very focused on managing our Asset Liability Management (ALM). As a company that focuses on low ticket loans, we have a great advantage of borrowing long-term and lending short-term loans. Our JLG Loans tenor averages 18 months, while MSME and 2-Wheeler loans average 22 month; the average tenor of debt is 36 months. Therefore, our debt repayments are significantly smaller than our loan recoveries on a month-to-month basis. This results in a natural positive ALM and we do not face any asset-liability mismatches. Therefore, the recently released Draft RBI circular on Liquidity Risk Management Framework for NBFCs will not have a significant impact on our operations or profitability.*

*The company has gradually expanded its business from Gujarat to other states. We now have branches in 6 states and one Union Territory; with Rajasthan being the newest state that we have recently forayed into. The journey for the company to other states has been quite encouraging, but we continue to operate with our conservative DNA, wary to make sudden moves or quick entries/exits. For FY 19-20, we will continue expanding into our existing states in the Microfinance division and put forth significant efforts to expand our outreach in the MSME segment. We have also commenced a pilot to foray into the Rural 2-Wheeler market to help us maintain and expand our Two-Wheeler business segment, as the urban 2-Wheeler market has been facing significant headwinds in the past 2 quarters.*

*In all, I expect another great year ahead and I once again congratulate the whole team for all their hard work in making the company better and stronger than it has ever been. We look forward beginning fiscal 2019-20 with the same level of enthusiasm and passion as last year, and we seek everyone’s continued trust and support.”*

ARMAN FINANCIAL SERVICES LIMITED AHMEDABAD

# Arman Financial Services Limited

## Consolidated Business Review

### Financial Highlights

**Q4 FY2018-19 (Jan – March 2019) v/s. Q4 FY2017-18 (Jan – March 2019)**

- Net Revenues increased by 59% to Rs. 40.92 Cr from Rs. 25.81 Cr
- Net Interest Income increased by 71.26% to Rs. 22.25 Cr from Rs.12.99 Cr
- Net profit increased by 126.67% to Rs. 5.49 Cr from Rs. 2.42 Cr

### Operational Highlights

**Q4 FY2018-19 (Jan – March 2019) v/s. Q4 FY2017-18 (Jan – March 2018)**

- The total operational branches as on 31st March 2019 are 169, of which 138 are in Microfinance segment, 25 in MSME and balance in 2-Wheeler.
- Our ERP package has gone live as of April 2019 and will help us improve efficiency in the coming year.
- Our asset quality continues to improve, with a consolidated Net NPA of 0.98% for all 3 segments.

### Business Mix (Consolidated)

| Revenues income from operations (Rs. Cr.) | Q4 (Jan - Mar) | Q4 (Jan - Mar) | YOY | 12 Months (Apr – Mar) | 12 Months (Apr – Mar) | YOY |
|---|---|---|---|---|---|---|
| | FY 2018-19 | FY 2017-18 | Change (%) | FY 2018-19 | FY 2017-18 | Change (%) |
| Namra Finance | 26.69 | 17.71 | 50.71% | 94.13 | 50.70 | 85.66% |
| Asset Finance & Other | 6.4 | 5.2 | 23.08% | 23.31 | 20.39 | 14.32% |
| MSME | 7.82 | 2.9 | 169.66% | 23.62 | 6.93 | 240.84% |
| **Total** | **40.92** | **25.81** | **58.54%** | **141.06** | **78.00** | **80.85%** |

As on date, the entire loan portfolio of Namra is microfinance and the loan portfolio of Arman Financial Services is Asset Loans and MSME loans. MSME loans in a new product line in which the company provides business loans of 50,000 to 1,50,000 to small business owners, which has seen rapid growth in the past year.

## Expenditure Analysis (Consolidated)

| Expenses (Rs. Cr.) | Q4 (Jan - Mar) | Q4 (Jan - Mar) | YOY | 12 Months (Apr – Mar) | 12 Months (Apr – Mar) | YOY |
|---|---|---|---|---|---|---|
| | FY 2018-19 | FY 2017-18 | Change (%) | FY 2018-19 | FY 2017-18 | Change (%) |
| Employee Costs | 8.01 | 4.79 | 67.22% | 26.37 | 16.38 | 60.99% |
| Other Expenses | 6.33 | 5.12 | 23.63% | 20.74 | 17.23 | 20.37% |
| Interest Costs | 18.67 | 12.81 | 45.75% | 62.82 | 34.25 | 83.42% |
| **Total Costs** | **33.01** | **22.72** | **45.29%** | **109.93** | **67.86** | **62.00%** |

Our other expenses normalized due to lower provisioning costs in the MFI portfolio, which has now stabilized post demonetization. The increase in borrowing cost is as a result of higher leveraging on our existing equity base to fund our portfolio growth. The employee costs have grown in proportion to the growth in our overall consolidated portfolio.

## Profitability Mix (Consolidated)

| Particulars (Rs. Cr.) | Q4 (Jan - Mar) | Q4 (Jan - Mar) | YOY | 12 Months (Apr – Mar) | 12 Months (Apr – Mar) | YOY |
|---|---|---|---|---|---|---|
| | FY 2018-19 | FY 2017-18 | Change (%) | FY 2018-19 | FY 2017-18 | Change (%) |
| EBIT | 26.47 | 15.81 | 67.43% | 93.47 | 44.03 | 112.26% |
| PAT | 5.49 | 2.42 | 126.86% | 21.33 | 7.30 | 192.19% |
| EPS (Rs Per Share) | 7.90 | 3.50 | 125.71% | 30.74 | 10.21 | 201.08% |

Our net profit grew by 127% in this quarter. On the positive side it has been impacted by lower provisioning, better operational efficiencies, and higher margins in the MSME division. For the year,

ARMAN FINANCIAL SERVICES LIMITED AHMEDABAD

our profits have grown 193%, and this has largely been driven by growth in disbursements, operational efficiencies and lower provisioning costs as compared to demonetization affected years.

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

| Particulars (Rs. Cr.) | Q4 (Jan-Mar) FY 2017-18 | Q1 (Apr – Jun) FY 2018-19 | Q2 (Jul– Sep) FY 2018-19 | Q3 (Oct - Dec) FY 2018-19 | Q4 (Jan - Mar) FY 2018-19 |
|---|---|---|---|---|---|
| Period Ending (AUM) | 423.34 | 453.5 | 519.07 | 585.96 | 686.94 |
| Net Interest Income (NII) | 12.99 | 16.33 | 18.31 | 21.3 | 22.25 |
| Net Interest Margin (NIM) (Annualised) | 13.22% | 14.90% | 15.06% | 15.42% | 13.98% |

The NIMs have decreased due to increased leveraging on our equity base to fund our portfolio growth and increase in the upfront borrowing costs in the last quarter to increase our cash reserves. Our interest rates have also increased in the past two quarters due to the NBFC liquidity crisis by 50 bps.

### Business Tracker (Microfinance)

| Particulars (Rs. Cr.) | Q4 (Jan-Mar) FY 2017-18 | Q1 (Apr – Jun) FY 2018-19 | Q2 (Jul– Sep) FY 2018-19 | Q3 (Oct - Dec) FY 2018-19 | Q4 (Jan - Mar) FY 2018-19 |
|---|---|---|---|---|---|
| AUM | 287.46 | 309.84 | 357.98 | 406.38 | 485.17 |
| Disbursement for the Qtr | 117.93 | 116.1 | 153.54 | 154.28 | 165.66 |
| Gross Interest Income (Interest Income + Processing Fee) | 17.71 | 19.99 | 21.99 | 25.45 | 26.69 |

We did our highest ever disbursements of Rs 165 Cr in this quarter. This trend will continue to increase in the coming quarters. The YoY AUM increased by 69%, mostly due to an increase in our customer base. Interest income continues to trend upwards due to the steady AUM increases.

ARMAN FINANCIAL SERVICES LIMITED AHMEDABAD

## Operational Branches (Microfinance)

| Particulars (Rs. Cr.) | Q4 (Jan-Mar) | Q1 (Apr – Jun) | Q2 (Jul– Sep) | Q3 (Oct - Dec) | Q4 (Jan - Mar) |
|---|---|---|---|---|---|
| | FY 2017-18 | FY 2018-19 | FY 2018-19 | FY 2018-19 | FY 2018-19 |
| Gujarat | 36 | 38 | 38 | 38 | 40 |
| Madhya Pradesh | 24 | 27 | 31 | 30 | 30 |
| Maharashtra | 15 | 21 | 23 | 23 | 22 |
| Uttar Pradesh | 32 | 35 | 42 | 42 | 42 |
| Rajasthan | 0 | 0 | 0 | 4 | 4 |
| Total Branches | 107 | 121 | 134 | 137 | 138 |

Our entry into Rajasthan started in December, with 4 pilot branches. We are cautiously increasing the footprint in the state. Our liquidity remains at comfortable levels despite the overall market conditions; hence we continue to cautiously expand our branch network starting from Q1 FY2019-20. In Rajasthan, our operational bandwidth has increased sufficiently to open more branches in the area, which we have commenced in Q1 FY 2019-20. We have no plans to enter into new states in the new fiscal year but have plans to further open 40 new branches in our existing states.

## NPA Analysis (Microfinance)

| Particulars (Rs. Cr.) | Q4 (Jan-Mar) | Q1 (Apr – Jun) | Q2 (Jul– Sep) | Q3 (Oct - Dec) | Q4 (Jan - Mar) |
|---|---|---|---|---|---|
| | FY 2017-18 | FY 2018-19 | FY 2018-19 | FY 2018-19 | FY 2018-19 |
| Gross NPA | 3.52 | 2.41 | 2.41 | 2.17 | 2.66 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Net NPA | 3.52 | 2.41 | 2.41 | 2.17 | 2.66 |
| Net NPA Percentage | 1.11% | 0.67% | 0.67% | 0.53% | 0.55% |
| Provisions on Standard Assets | 3.22 | 3.18 | 3.60 | 4.10 | 4.92 |

Our Net NPAs at 0.55% of the MFI AUM are among the best in the industry and have continued with the declining trend post the disruption due to demonetization. We are extremely diligent about keeping our NPA levels low and believe that this is a key differentiator that allows us to maintain profitability and grow in the competitive environment. The Provisions on Standard Assets remain higher than the NPA, so as per RBI regulations, no NPA Provisions are required. In an effort to be further conservative, Standard Asset Provisioning was also provided for outstanding securitized assets of Rs 57 Cr as on 31-3-2019, although nor statutorily required.

## Business Tracker (2 Wheeler Finance)

| Particulars (Rs. Cr.) | Q4 (Jan-Mar) | Q1 (Apr – Jun) | Q2 (Jul– Sep) | Q3 (Oct - Dec) | Q4 (Jan - Mar) |
|---|---|---|---|---|---|
| | FY 2017-18 | FY 2018-19 | FY 2018-19 | FY 2018-19 | FY 2018-19 |
| AUM | 89.64 | 89.25 | 96.63 | 101.79 | 102.55 |
| Disbursement for the Qtr | 21.51 | 21.59 | 24.78 | 33.52 | 24.17 |
| Interest Income | 5.21 | 5.34 | 5.54 | 5.99 | 6.4 |

The 2-Wheeler sales were impacted due to new third-party insurance law, and general slowdown in auto sales all over India. Inspite of this headwind, we did well and increased our market share in our operational geographies. We have commenced a pilot to originate 2-wheeler loans in the rural segment based on a new operational methodology. We hope that once stabilized, this new Rural 2-wheeler division will originate a substantial portion of our vehicle loan business.

## Business Tracker (MSME)

| Particulars (Rs. Cr.) | Q4 (Jan-Mar) | Q1 (Apr – Jun) | Q2 (Jul– Sep) | Q3 (Oct - Dec) | Q4 (Jan - Mar) |
|---|---|---|---|---|---|
| | FY 2017-18 | FY 2018-19 | FY 2018-19 | FY 2018-19 | FY 2018-19 |
| AUM | 46.24 | 54.41 | 64.46 | 77.78 | 99.22 |
| Disbursement for the Qtr | 16.7 | 17.07 | 22.19 | 25.09 | 31.85 |
| Interest Income | 2.9 | 3.76 | 5.61 | 6.43 | 7.82 |

MSME is our newest business line and we are now reporting it as a separate product line. Our MSME loans are in the range of Rs 50,000 to Rs 150,000 and offers doorstep collections, building on the strength of our MFI distribution network.

Our MSME portfolio is performing quite well. Our total AUM for MSME stands at Rs.99.22 Cr as on 31st Mar 2019, which has almost doubled in the last one year. Contribution from MSME segment has increased significantly and we will continue to grow this business line over time.

This segment has the highest ROAs amongst all our product lines, and we are very focused on quality underwriting and keep the NPA levels under control.

## NPA Analysis (2-Wheeler & MSME Finance)

| Particulars (Rs. Cr.) | Q4 (Jan-Mar) FY 2017-18 | Q1 (Apr – Jun) FY 2018-19 | Q2 (Jul– Sep) FY 2018-19 | Q3 (Oct - Dec) FY 2018-19 | Q4 (Jan - Mar) FY 2018-19 |
|---|---|---|---|---|---|
| Gross NPA | 3.54 | 3.74 | 4.11 | 4.2 | 4.1 |
| Provisions | 0.36 | 0.37 | 0.42 | 0.43 | 0.41 |
| Net NPA | 3.18 | 3.38 | 3.69 | 4.1 | 3.69 |
| Net NPA Percentage | 2.33% | 2.35% | 2.41% | 2.34% | 2.02% |

Arman's NPAs have come down to 2.02% due to the fantastic on-time recoveries of the MSME division. While the Two-Wheeler division faces head-winds related to sales, the NPA remains mostly stable.

For, Arman Financial Services Limited

Director

ARMAN FINANCIAL SERVICES LIMITED AHMEDABAD

# Arman Financial Services Limited

## 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, MSME, and Microfinance Lending business. The Microfinance division is operated through its wholly owned subsidiary, Namra Finance Ltd, a NBFC-MFI. The group operates mostly in unorganized and underserviced segment of the economy and mostly serve niche rural markets in Gujarat, Madhya Pradesh, Uttar Pradesh, Maharashtra, Uttarakhand, and Rajasthan through its network of 169 branches and 55 dealer touch-points.

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


Aalok Patel
Arman Financial Services Ltd
Tel: +91 79 40507000
Email:
aalokpatel@armanindia.com

Gaurav Sud
Kanav Capital Advisors Pvt Ltd
Tel: +91 98101 22432
Email:
gaurav@kanavcapital.com