Ahmadabad, India, 15 November 2018: 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 second quarter ended 30th September 2018.

Commenting on the Company's performance for Q2FY2018-19, **Mr. Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services** said, "The total AUM of the company has grown from Rs 296.27 Cr on 30 Sep 2017 to Rs 519.07 Cr as on 30 Sep 2018, a growth of 75.2%. Despite the ongoing liquidity crunch in the NBFC sector, the growth on a QoQ basis is 16.46%, from Rs 453.49 Cr as on 30 June 2018 to Rs 519.07 Cr on 30 Sep 2018. Our faith in our business model has been validated and that now reflects both in our growth and profitability."

The company profitability performance has been excellent during the quarter. For the three-months ended, the Profit-After-Tax of the company has grown from Rs 0.80 Cr on 30 Sep 2017 to Rs 5.41 Cr as on 30 Sep 2018, a growth of 576.25%. The company has posted its highest profit in this quarter.

The company has gradually expanded its business from Gujarat to other states. The journey of the company to other states has been quite encouraging. With this initial success we are further expanding our business in Uttar Pradesh, Madhya Pradesh, and Maharashtra. We are expanding into Rajasthan as the next state for our expansion, with 3 new branches opened during the month of October.

Overall these are challenging times for the NBFC sector, with a liquidity crunch and slowdown in growth. However, the company is well capitalised and has not been materially impacted because of our conservative Asset-Liability Management (ALM) policy of short-term assets & relatively longer-term liabilities given the 1-2-year tenure of our loans. The liquidity issues faced by the company and most of the MFI industry (which mostly operates with positive ALM) is largely a crisis in confidence in the NBFC sector and not due to any insolvency risks. The crisis originated from stress in short-term Money Market liquidity due to few defaults by a large NBFC. As of the date of this report, the company has sufficient liquidity in the pipeline to meet all disbursement projections in the short-term and sufficiently strong ALM to meet all debt obligations in the long-term. Should the liquidity shortage continue beyond the third quarter, it will require the company to consider adjusting our disbursement targets for fiscal 18-19. Interest costs will remain under pressure until the market liquidity issues are alleviated. Our focus is to continue our growth journey in the months and years ahead by creating a strong balance sheet, which can withstand these occasional macro-economic hiccups with relative ease.

Consolidated Business Review

Financial Highlights

Q2 FY2018-19 (July - September 2018) v/s. Q2 FY2017-18 (July – September 2017)

- Net Revenues increased by 85.61% to Rs 32.89 Cr from Rs17.72 Cr
- Employee costs increased by 49.33% to Rs 5.93 Cr from Rs 3.97Cr
- Interest costs increased by 77.16% to Rs 14.58 Cr from Rs 8.23 Cr

Operational Highlights

Q2 FY2018-19 (July – September 2018) v/s. Q2 FY2017-18 (July - September 2017)

- Our total employee strength has increased from 932 on Sept-17 to 1408 team members in Sept-18
- The company has slowed it planned branch opening due to the current liquidity crisis in the market. However, the company is committed to expand into Rajasthan, albeit in a controlled fashion. During the month on October 2018, the company reached into the state for the first time and opened 3 branches in the Chittorgarh and Pratapgarh districts of Rajasthan. We plan to open between 1-2 more branches in this State before the end of the year.
- MSME segment growing well, where AUM has increased to Rs 64.46 Cr as compared to Rs 23.77 Cr in Q2FY17, a 171% growth. This segment is showing superb asset quality and profitability.
- Interest income is up by more than 272% due to good growth in Microfinance segment and MSME segment.

Business Mix (Consolidated)

Revenues income from operations (Rs Cr)	Q2 (July - Sep) FY 2018-19	Q2 (July - Sep) FY 2017-18	YOY Change (%)	6 Months (Apr – Sep) FY 2018-19	6 Months (Apr – Sep) FY 2017-18	YOY Change (%)
Namra Finance	21.99	11.46	91.88%	41.98	20.66	103.19%
Arman Financial Services	10.90	6.26	74.12%	20.60	11.06	86.26%
Total	**32.89**	**17.72**	**85.61%**	**61.58**	**31.72**	**94.14%**

As on date, MFI loans are serviced thru Namra Finance Ltd., a NBFC-MFI and wholly owned subsidiary of Arman Financial. Arman Financial Services manages the 2-Wheeler and MSME loans. MSME loans in a relatively new product line in which the company provides business loans of Rs 50,000 to 1,50,000 to small business owners in rural segments. For the 3 months ended, MSME revenues totaled Rs 5.61 Cr, while for the 6 months ended, they totaled Rs 9.37 Cr. Overall, there was a healthy increase in income for all of our 3 divisions based on portfolio growth. This will continue to increase in the future.

Expenditure Analysis (Consolidated)

Expenses (Rs Cr)	Q2 (July - Sep) FY 2018-19	Q2 (July - Sep) FY 2017-18	Change (%)	6 Months (Apr – Sep) FY 2018-19	6 Months (Apr – Sep) FY 2017-18	Change (%)
Employee Costs	5.93	3.97	49.33%	11.67	7.18	62.53%
Other Expenses	4.53	4.40	2.95%	8.62	8.55	0.94%
Interest Costs	14.58	8.23	77.16%	27.40	13.31	105.86%
Total Costs	**25.04**	**16.60**	**50.84%**	**47.69**	**29.04**	**64.22%**

On a YoY basis, we opened 40 new branches, 33 new branches in the microfinance division and 7 new branches in the MSME division. This, along with robust growth in our existing branches, resulted in an AUM growth of 75.20% and can account for the increase in overall expenses. Additionally, a large portion of the 'Other Expenses' for FY2017-18 include Provisioning and Bad Debts, which were higher by Rs 1.5 Cr compared to H1-FY2018-19 due to the impact of demonetization.

As the branch utilisation is increasing, we are able to squeeze out operating leverage and increase our profitability. As of the end of the quarter, consolidated active clients totaled 3.06 lacs versus 1.65 lacs the same quarter the previous year. This represents an 85% increase.

Profitability Mix (Consolidated)

Particulars (Rs Cr)	Q2 (July - Sep) FY 2018-19	Q2 (July - Sep) FY 2017-18	YOY Change (%)	6 Months (Apr –Sep) FY 2018-19	6 Months (Apr – Sep) FY 2017-18	Change (%)
EBIT	22.36	9.25	141.73%	41.56	15.77	163.54%
PAT	5.41	0.80	576.25%	10.02	1.74	475.86%
EPS (Rs Per Share)	7.79	1.16	573.83%	14.44	2.51	475.29%

Last year our operations were hit due to the impact of demonetization. Our operations have since then accelerated its growth and that is showing in increased profitability. Going forward, the profitability should remain stable.

With the equity fund raise in the first quarter of the current year, we are in a comfortable position in terms of our Tier 1 Capital.

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

Particulars (Rs Cr)	Q2 (Jul– Sep) FY 2017-18	Q3 (Oct - Dec) FY 2017-18	Q4 (Jan-Mar) FY 2017-18	Q1 (Apr – Jun) FY 2018-19	Q2 (July – Sep) FY 2018-19
Period Ending (AUM)	296.27	362.93	423.34	453.50	519.07
Net Interest Income (NII)	9.50	12.41	12.99	16.33	18.31
Net Interest Margin (NIM) (Annualised)	14.52%	15.07%	13.22%	14.90%	15.06%

NIM has marginally improved in the previous quarter. While we have recently raised Tier I capital, which increased our Capital Adequacy Ratio, the capital was infused in the form of Compulsory Convertible Debentures, which will remain interest bearing until conversion in Q3FY20. Until the conversion, we expect the NIMs to stabilize at current levels. We are aware of the tightening liquidity conditions in the market and are expecting an increase in overall borrowing costs should the liquidity crisis continue into the fourth quarter. We have multiple lenders and maintain a very good relationship with them. Also given the short tenure of our loans and the relative long-term tenure of our borrowings, we do not face any asset liability mismatch. As such, there is no insolvency risk even if market liquidity becomes nil.

Business Tracker (Microfinance)

Particulars (Rs Cr)	Q2 (Jul– Sep) FY 2017-18	Q3 (Oct - Dec) FY 2017-18	Q4 (Jan-Mar) FY 2017-18	Q1 (Apr – Jun) FY 2018-19	Q2 (Jul– Sep) FY 2018-19
AUM	190.8	240.14	287.46	309.84	357.98
Disbursement for the Qtr	104.53	110.16	117.93	116.10	153.54
Gross Interest Income (Interest Income + Processing Fee)	11.46	14.36	17.71	19.99	21.99

We have done disbursements of Rs 153 Cr in this quarter, which is the highest in any quarter till date. The contribution from the newly opened branches has kicked in and we continue to open new branches strategically. This in October, we have forayed into Rajasthan with three new branches and continue with our geographical expansion across India. Income from operations continues to increase as per our projections.

Operational Branches (Microfinance)

Particulars (Rs Cr)	Q2 (Jul– Sep) FY 2017-18	Q3 (Oct - Dec) FY 2017-18	Q4 (Jan-Mar) FY 2017-18	Q1 (Apr – Jun) FY 2018-19	Q2 (July – Sep) FY 2018-19
Gujarat	36	36	36	38	38
Madhya Pradesh	26	23	24	27	31
Maharashtra	13	12	15	21	23
Uttar Pradesh/Uttarakhand	26	28	32	35	42
Total Branches	101	99	107	121	134

Our branch expansion continues as per projections. We have opened 13 more branches in the Microfinance division. We have forayed into Rajasthan with 3 new branches during the month of October. However, will delay opening any new branches in the 3rd quarter of the current year until the market liquidity improves.

Business Tracker (2 Wheeler Finance)

Particulars (Rs Cr)	Q2 (Jul– Sep) FY 2017-18	Q3 (Oct - Dec) FY 2017-18	Q4 (Jan-Mar) FY 2017-18	Q1 (Apr – Jun) FY 2018-19	Q2 (Jul– Sep) FY 2018-19
AUM	81.70	88.63	89.64	89.25	96.63
Disbursement for the Qtr	22.75	27.44	21.51	21.59	22.19
Interest Income	5.03	5.73	5.21	5.39	5.35

We did a commendable performance in the 2-Wheeler business with our AUM growing 5% on a YOY basis. Given the challenges faced by other NBFCs due to the liquidity crisis, we foresee a reduced competition in this space in the quarters ahead and that should reflect in better growth and profitability in this segment.

Business Tracker (MSME)

Particulars (Rs Cr)	Q2 (Jul– Sep) FY 2017-18	Q3 (Oct - Dec) FY 2017-18	Q4 (Jan-Mar) FY 2017-18	Q1 (Apr – Jun) FY 2018-19	Q2 (Jul– Sep) FY 2018-19
AUM	23.77	34.16	46.24	54.41	64.46
Disbursement for the Qtr	12.44	12.93	16.70	17.07	23.48
Interest Income	1.51	1.86	2.90	3.76	5.61

MSME is our newest business line and we have started 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 64.46 Cr as on 30 September 2018 against Rs 23.77 Cr on 30 September 2017. It has contributed to 18% of our Topline in the current quarter.

Quarterly disbursement has increased from Rs 12.44 Cr in Q2FY18 to Rs 23.48 Cr in Q2FY19. While there is opportunity to expand rapidly into this segment and increase disbursements, our strategy has always been one of caution for any new product. As we gain comfort in this new segment, we will continue to ramp up branch openings and disbursements.

NPA Analysis (Namra)

Particulars (Rs Cr)	Q2 (Jul– Sep) FY 2017-18	Q3 (Oct - Dec) FY 2017-18	Q4 (Jan-Mar) FY 2017-18	Q1 (Apr – Jun) FY 2018-19	Q2 (July – Sep) FY 2018-19
Gross NPA	2.19	2.15	3.60	3.52	2.41
Provisions	0	0	0	0	0
Net NPA	2.19	2.15	3.60	3.52	2.41
Net NPA Percentage	1.10%	0.87%	1.12%	1.11%	0.67%
Provision on Standard assets	1.99	2.46	3.22	3.18	3.60

Our Gross NPA percentage has started reducing due to increased write-offs in the current quarter and robust collections, thanks to a dedicated collections team to tackle hard bucket overdues. NPAs percent has also decreased thanks to a strong growth in AUM. As per RBI guidelines, we are not required to provide provision for NPAs so long as there are sufficient provisions against standard assets (based on the formula provided by RBI).

NPA Analysis (Arman)

Particulars (Rs Cr)	Q2 (Jul– Sep) FY 2017-18	Q3 (Oct - Dec) FY 2017-18	Q4 (Jan-Mar) FY 2017-18	Q1 (Apr – Jun) FY 2018-19	Q2 (Jul– Sep) FY 2018-19
Gross NPA	2.69	2.73	3.54	3.74	4.15
Provisions	0.27	0.28	0.36	0.37	0.42
Net NPA	2.42	2.45	3.18	3.38	3.69
Net NPA Percentage	2.51%	1.99%	2.33%	2.35%	2.45%

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 90 days vs. the earlier norm of 180 days. While there is some pressure in the asset quality in the 2-wheeler finance industry, our assets quality in the 2-wheeler segment remains mostly consistent after accounting for the change in NPA recognition policy. The MSME portfolio continues to perform admirably, with total NPA of Rs 4 lakhs.

For, Arman Financial Services Limited

Director

ARMAN FINANCIAL SERVICES LIMITED ★ AHMEDABAD

About Arman Financial Services Ltd

Arman Financial Services Ltd. (BSE: 531179, NSE: ARMANFIN) 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 159 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 on Arman, please visit www.armanindia.com

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

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