

Arman Financial expects MFI lending to outpace consumer finance in FY14

Public listed microfinance and consumer finance firm Arman Financial Services Limited expects its FY14 growth to be led by micro-lending business which may comprise around two thirds of the loan portfolio by March 2014.

The Gujarat-based firm received RBI licence under the new category Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) for its wholly owned arm Namra Finance Limited early this year. Namra (which is Arman spelled backwards) is the first one to receive its license under the RBI guidelines.

Two decade old firm Arman, one of the two listed companies with microfinance business besides SKS Microfinance, diversified from asset financing to microfinance just four years ago.

However, it already derives almost half of its total portfolio from the MFI business and would demerge its MFI operation into Namra to officially roll-out services beginning May 1, 2013, according to Aalok Patel, executive director, Arman Financial.

He said the firm is estimated to have closed FY13 with a total disbursement of Rs 105 Crore and in the current financial year it is eyeing disbursements of around Rs 145 Crore, out of which the MFI portfolio would be Rs 95 Crore.

Currently, the firm is primarily present in Gujarat but is now charting expansion plans into Rajasthan and Madhya Pradesh.

Arman's non-MFI business comprises consumer lending in two wheeler, used cars and personal loans category.

Post the regulatory crisis in the key market of Andhra Pradesh two years ago, the MFI sector faced a funding lull both from the investors and banks. However, the situation is turning around with the banks looking at the sector again though they are choosing to go with larger MFIs. However, Arman says things are getting better even for smaller players.

"We have attracted a lot of funding in the past including PE investment of Rs 15 Crore from Belgian investment firm Incofin in 2011. However, since we received our license, banks such as IDBI Bank, State Bank of India and Central Bank of India have already approached us offering debt funding," Patel said.

Arman faced challenges in its home market because of a state law, Gujarat Money Lenders Act (GMLA), 2011, which challenged MFIs contention of who regulates them. But RBI's guidelines have created much clarity on the politically sensitive sector and the industry is very bullish now.

In the current calendar year, the MFI space has already seen investments up to \$30 million and the year might also see MFIs diversify their funding sources with a new debt category such as external commercial borrowing (ECB) potentially attracting a new set of investors.

He said there is an improvement in the interest shown by the banks to lend to MFIs though it's still not like the pre-2010 era, where MFIs would cherry pick the banks. Typically, banks charge between 12.25 per cent and 13.50 per cent interest rate while lending to MFIs.

While non-convertible debentures could be another option to raise debt funding, it carries higher transaction cost and it is not viable unless the quantum is at least Rs 50 Crore, said Patel.

However, for our asset financing business, we have the option of raising public deposit and eventually we are planning to accept deposits, he added.

In order to improve its margins, the firm is exploring tie-up and new product mix to bring its operating cost down further down from its current level at 10 per cent and has already shifted to bi-weekly repayment from a weekly collection model.

Arman raised Rs. 15 Crore in private funding from Belgian investment firm Incofin Investment Management's Rural Impulse Fund II which currently holds 24.04 per cent stake.