



Arman Financial Services Limited

Ahmadabad, India, 16 November, 2016: Arman Financial Services Ltd (Arman), a leading Gujarat based non-banking financial company (NBFC), with interests in microfinance and two wheelers loans, announced its financial results for the fourth quarter and year ended 30 September, 2016.

Commenting on the Company's performance for Q2 FY2016-17, **Mr. Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services** said, *"The total AUM of the company has grown from Rs 138.97 Cr on 30 September 2015 to Rs 214.97 Cr as on 30 September 2016, a growth of 54.69%. The growth in the microfinance business has been substantial where the AUM has grown from Rs 88.57 Cr as on 30 September 2015 to Rs 150.10 Cr as on 30 September 2016, a growth of 69.47%. The consolidated Revenues for the quarter have grown to Rs 14.17 Cr, an overall growth of 47.45% on a YoY basis.*

Our foray into Uttar Pradesh has been quite successful and are scaling up the business there. We now have 77 branches operational in the Microfinance (37 in Gujarat & 23 in Madhya Pradesh, 7 in Maharashtra & 10 in Uttar Pradesh). With 5 operating branches in 2-Wheeler financing, our overall branch count has reached 82 branches.

The Group also completed a rating exercise during Q2, and we are pleased to announce that the company has received an upgrade (from BBB- to BBB) from CARE Ratings. Beginning the 3rd quarter of the current fiscal year, we also reduced our interest rates to the borrowers for both Microfinance and Two-Wheeler Finance by over a 100 bps. This rate reduction reflects our commitment to our customers and our overall reduction in the weighted average cost of borrowing. Our current interest rate to Microfinance customers is lower than the industry average, and one of the lowest for a company of our size."

Management Statement on the Effect of Demonetization

The demonetization of INR 500 and 1000 Indian Currency Notes has come as a surprise to everybody. A well-intentioned move by Honorable Prime Minister Shri Narendra Modi. Although the execution could have been better, the secrecy surrounding the move did not allow adequate preparation. The impact of this decision is being widely discussed across the Country.

The microfinance industry is cash-intensive. Most of the borrowers take loans in cash and they repay loans in cash, particularly in Rs 500 notes. Many of the borrowers who even have bank accounts do not



know how to transact through them, and remain as zero balance accounts. Thus, cash transactions are the norm in the rural economy, where most of the MFIs operate. Therefore, it is anticipated that there will be lower economic activity in the heavily cash dependent rural economy until the notes are deposited or exchanged.

The opportunity costs and collateral damage to cash-intensive business', such as Microfinance, are hard to measure at this point, although we expect it is only a temporary interruption to our business. Our rural clients are facing difficulties and shortages to exchange their discontinued currency for valid tender; however, this does not hamper their intention to repay.

The impact to the Microfinance segment of the company will be two-fold:

1. Repayment rate might be temporarily reduced until the client convert their old currency, which is estimated to take 7-14 more days. This will be recovered in the due course of time.
2. New loan disbursements will be negligible until cash liquidity returns to the market and the MoF allows larger cash withdrawals. Profit of the segment for the next 1 quarter will be slightly reduced due to the lower disbursements, although will be covered in the coming 2-3 quarters. Microfinance customers will face temporary credit crunch due to lack of new loans being available.

Our current priority is to hand-hold our loyal clients to ensure they face minimum disruption from the demonetization by helping them convert old notes, deposit into their JDY account, and also helping them open accounts. Disbursement will only be impacted for 2 weeks until reasonable amount of new currency enters into circulation.

The industry is NOT in crisis and there is no need to be alarmed. This is a temporary disruption for a noble goal and it seems the public at large has supported this move. It will be business as usual in due course of time. The management remains committed to ensure smooth day-to-day operations and towards the larger financial inclusion agenda. Our industry association is very focused to ensure the MFI industry's interests are protected and has approached the RBI and the Union Finance Ministry seeking a clarification on how the MFIs should deal with repayments, including asking for temporarily special dispensation for MFIs to collect repayment in old currency. In the event such dispensation is received, it will provide the industry immediate relief.

We ask all of customers and investors to be patient and not to be anxious. In the long-run, demonetization will only be a minor inconvenience to the company's long-term goals. Our business is very strong and we will manage to overcome the challenges of demonetization very quickly.



Consolidated Business Review

Financial Highlights

Q2 FY2016-17 (Jul – Sept 2016) v/s. Q2 FY2015-16 (Jul – Sept 2016)

- Net Revenues increased by 47.45% to Rs. 14.17 Cr from Rs. 9.61 Cr
- Employee costs increased by 83.85% to Rs. 2.39 Cr from Rs. 1.30 Cr
- Interest costs increased by 56.50% to Rs. 5.54 Cr from Rs. 3.54 Cr
- Net Profit after Tax was up by 22.17% to Rs. 2.48 Cr from Rs. 2.03 Cr.
- Earnings Per Share increased by 22.53% to Rs. 3.59 from Rs. 2.93

Operational Highlights

Q2 FY2016-17 (Jul – Sept 2016) v/s. Q2 FY2015-16 (Jul – Sept 2016)

- Since beginning our Microfinance operations in Maharashtra and UP in the current fiscal year, the company has opened 7 branches in Maharashtra and 10 branches in Uttar Pradesh, taking our overall MFI branch count to 77. We plan to open another 11 branches in this financial year.
- The average Monthly disbursement was Rs. 20.68 Cr in Microfinance Business Vs. Rs. 15.11 Cr last year, a growth of 36.89%.
- The average Monthly disbursement was Rs 6.05 Cr in 2 wheelers & others finance business vs Rs 5.00 Cr last year, a growth of 21.11%.
- We have raised additional capital through NCDs and that has opened up another channel of long - term funding for our business at a reasonable cost.

Business Mix (Consolidated)

Revenues income from operations (Rs. Cr.)	Q2	Q2	YOY Change (%)	6 Months	6 Months	YOY Change (%)
	(Jul– Sep)	(Jul– Sep)		(Jul– Sep)	(Jul– Sep)	
	FY 2016-17	FY 2015-16		FY 2016-17	FY 2015-16	
Namra Finance	9.98	5.51	81.13%	18.93	10.35	82.90%
Arman Financial Services	4.19	4.10	2.20%	7.94	8.12	-2.22%
Total	14.17	9.61	47.45%	26.87	18.47	45.48%

As on date, the entire loan portfolio of Namra is microfinance, the loan portfolio of Arman Financial Services is Asset Loans (2 & 3 Wheeler loans) with a small portion of MSME loans, which is a pilot project to provide business loans of 50,000 to 1,50,000 to small business owners.

Expenditure Analysis (Consolidated)

Expenses (Rs. Cr.)	Q2	Q2	YOY Change (%)	6 Months	6 Months	YOY Change (%)
	(Jul– Sep)	(Jul– Sep)		(Apr– Sep)	(Apr– Sep)	
	FY 2016-17	FY 2015-16		FY 2016-17	FY 2015-16	
Employee Costs	2.39	1.30	83.85%	4.31	2.61	65.77%
Other Expenses	2.66	1.65	61.21%	4.46	2.82	58.16%
Interest Costs	5.54	3.54	56.50%	10.08	6.83	47.58%
Total Costs	10.59	6.49	63.17%	18.85	12.25	53.88%

Our employee costs spiked up due to the staffing costs in our new branches, especially in UP and Maharashtra. Microfinance salary and incentive structure was also modified to reflect the market, which added to the overall increase in employee costs.

Our other expenses, which are largely driven by the costs of opening new branches, have increased over time, and we are focused on bringing these costs to a more manageable level. There was a step increase in professional cost in the last quarter due to the IntelCap Consultancy project, which concluded last quarter.



Profitability Mix (Consolidated)

Particulars (Rs. Cr.)	Q2	Q2	YOY Change (%)	6 Months	6 Months	YOY Change (%)
	(Jul– Sep)	(Jul– Sep)		(Apr – Sep)	(Apr – Sep)	
	FY 2016-17	FY 2015-16		FY 2016-17	FY 2015-16	
EBIT	9.03	6.62	36.40%	17.98	12.96	38.73%
PAT	2.48	2.03	22.17%	5.36	4.07	31.70%
EPS (Rs Per Share)	3.59	2.93	22.53%	7.74	5.87	31.86%
Book Value (Per Share)	73.65	62.16	18.49%	73.65	62.16	18.49%

Net profit has shown a jump of 22.17% for the quarter. The lower growth in profit was driven by higher cost of new branches and one-time charges related to the NCD issue, consultancy costs, and rating exercise. We expect our overall margins to improve in the coming quarters.

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

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2015-16	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17
Period Ending (AUM)	138.97	155.5	172.31	187.22	214.97
Net Interest Income (NII)	6.06	5.69	7.98	8.16	8.63
Net Interest Margin (NIM) (Annualised)	18.18%	15.46%	19.47%	18.16%	17.17%

The Net Interest Income has grown by 42.41% to Rs 8.63 Cr YOY in this quarter. Our consolidated Annualized NIMs are 17.17 % in this quarter. As we grow and increase the leverage and expand our balance sheet, these NIMs will gradually reduce as the equity component in balance sheet reduces.

We raised 5 Cr Tier 2 Capital last year and further aim to enhance our Tier 2 Capital.



Business Tracker (Microfinance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2015-16	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17
AUM	88.57	99.84	116.84	130.64	150.10
Disbursement for the Qtr	46.09	44.47	53.10	51.63	62.05
Gross Interest Income (Interest Income + Processing Fee)	6.66	6.71	8.85	9.09	10.16

AUM has increased sharply by 69.47% YOY, and the disbursement has also increased by 34.63% YOY. Compared to the last quarter, AUM has increased by 14.89%, while disbursement have increased 20.18%.

Operational Branches (Microfinance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2015-16	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17
Gujarat	32	36	37	37	37
Madhya Pradesh	16	17	18	18	23
Maharashtra	0	0	0	4	7
Uttar Pradesh	0	0	0	2	10
Total Branches	48	53	55	61	77

Our launch in Uttar Pradesh has been quite successful and our new branches should start contributing in the next 3-6 months to our operational profits.

NPA Analysis (Microfinance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2015-16	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17
Gross NPA	0.02	0.01	0.22	0.15	0.03
Provisions	-	-	0.22	0.15	0.03
Net NPA	0.02	0.01	0.00	0.00	0.00
Net NPA Percentage	0.02%	0.01%	0.00%	0.00%	0.00%

We have strived to keep our NPAs low in the Microfinance business. After going through multiple loan cycles over the last 5 years, the NPAs in the microfinance business are among the lowest in the industry. Since the RBI has asked to provision 1% against the standard assets, we do not need to make additional provisions if NPAs are less than the 1% standard asset provision. NPAs have reduced over the last quarter as the Company has written-off all receivables it deemed irrecoverable.

Business Tracker (2 Wheeler Finance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2015-16	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17
AUM	50.4	55.66	55.47	56.58	64.87
Disbursement for the Qtr	13.16	21.91	13.94	16.36	18.16
Interest Income	3.87	2.01	3.34	3.62	4.01

2-wheeler business has shown some good traction in this quarter. There has been an overall rebound in the 2-wheeler sales across India, especially in preparation of the busy Diwali season.

NPA Analysis (2 Wheeler Finance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2015-16	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17
Gross NPA	1.31	1.15	1.80	1.85	1.96
Provisions	0.13	0.15	0.18	0.18	0.20
Net NPA	1.18	1.00	1.62	1.67	1.76
Net NPA Percentage	2.34%	1.80%	2.92%	2.95%	2.71%

The 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 150 days vs the earlier norm of 180 days. The net NPAs have moved from 2.34% to 2.71%. NPA has reduced by 0.24% from the previous quarter due to an increase in AUM.

For, Arman Financial Services Limited

 Director



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 finance business. Arman also operates a wholly-owned subsidiary, Namra Finance Ltd, exclusively for its Microfinance operations. It operates mostly in unorganized and underserved 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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