



Arman Financial Services Limited

Ahmadabad, India, 13 November 2017: 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 2017.

Commenting on the Company's performance for Q2 FY2017-18, **Mr. Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services** said, *"The total AUM of the company has grown from Rs 215.34 Cr on 30 Sep 2016 to Rs. 296.27 Cr as on 30 Sep 2017, a growth of 37.58%. The growth on a 6-month basis is 54.60% from 191.64 Cr as on 31 Mar 2017 to Rs.296.27 Cr on 30 September 2017. There has been a good ramp-up in disbursements showing the stable environment in the microfinance segment.*

The company is moving beyond the disruption caused by the demonetization and is building up its loan portfolio. There are 119 operational branches, of which 6 are Two-Wheeler Branches, 101 are for Microfinance and 12 are MSME Branches. Due to the impact of demonetization, the company had stopped disbursements in its MFI book from November 2016 thru February 2017. Since April 2017, MFI disbursement have grown an average of 17% month-over-month, with September 2017 monthly disbursements crossing Rs. 37 crores. We have rapidly expanded our MFI business in UP to capture the space created by our competitors due to demonetization disruption.

Our MSME portfolio is growing fast and going forward, we shall start reporting it as a separate segment. Currently, the AUM outstanding is 23.77 Cr with a disbursement of Rs 12.44 Cr in this quarter. We are well positioned to grow in this space due to interruption caused in the informal lending networks post demonetization. The MSME segment is past breakeven point, generating modest profit the past quarter.

The profitability of the company this past quarter is lower due to the lingering impact of demonetization. The overall monthly disbursements increased by a large margin, which resulted in higher operating costs due to increased employees and branch infrastructure. However, due to the MFI loan book declining during the 4-month demonetization period, the average AUM, from which our interest income is derived, remained relatively low. Additionally, company had higher write-offs in the past 2 quarters. Due to the quarter-end portfolio increasing to a large extent, there was also an unusually large provisioning on standard assets. These are all temporary phenomenon; the company has moved past demonetization and is on the fag end of the perturbation it had caused. We are growing very well, and the future looks brighter than ever. Profitability will resume towards normalcy from the next quarter."



Consolidated Business Review

Financial Highlights

Q2 FY2017-18 (Jul – Sep 2017) v/s. Q2 FY2016-17 (Jul – Sep 2017)

- Net Revenues increased by 24.96 % to Rs. 17.72 Cr from Rs.14.18 Cr
- Employee costs increased by 66.11% to Rs. 3.97 Cr from Rs. 2.39 Cr
- Interest costs increased by 48.56% to Rs. 8.23 Cr from Rs. 5.54 Cr

Operational Highlights

Q2 FY2017-18 (Jul – Sep 2017) v/s. Q2 FY2016-17 (Jul – Sep 2017)

- Compared to the same quarter the previous year, 41 new branches were opened in total, with 31 in the MFI segment (from 70 to 101) and 10 in MSME (from 2 to 12). In the MFI segment, 6 new branches were opened in MP, 7 new branches in Maharashtra, and 18 new branches in UP.
- The collection efficiency in the microfinance segment has improved and worst of the delinquency is behind us. For the portfolio created post demonetization, collection efficiency in the past quarter was 99.84%.
- Our reported profits were lower due to 2 main reasons. (1) Due to the increased operating cost in the MFI and MSME segment as a result of opening 41 new branches from the same quarter the previous year. Total employee strength also increased from 644 in Sept 2016 to 932 in Sept 2017. These new branches have already resulted in our peak monthly disbursements increasing from approximately Rs. 30 cr per month in Q2 FY2016-17 to Rs. 50 cr in Q2 FY2017-18. The future revenue derived from these increased disbursements will pay huge dividends in the quarters to come. (2) Due to increased bad debts and provisioning in the MFI book as a result of the impact of demonetization and increase in AUM, respectively. Bad Debts totaled Rs. 1.2 crores in microfinance as a direct result of the demonetization impact. As we are reaching towards the end of the demonetization disruption, this will improve significantly in the quarters to come. Additionally, RBI requires a 1% provisioning on standard



assets for MFIs. As a result of the large increase in microfinance AUM, there was an increased provisioning in standard assets by Rs. 0.61 cr in the past quarter.

Business Mix (Consolidated)

Revenues income from operations (Rs. Cr.)	Q2	Q2	YOY Change (%)	6 Months	6 Months	YOY Change (%)
	(Jul - Sep)	(Jul - Sep)		(Apr - Sep)	(Apr - Sep)	
	FY 2017-18	FY 2016-17		FY 2017-18	FY 2016-17	
Namra Finance	11.46	9.98	14.83%	20.65	18.93	9.09%
Arman Financial Services	6.26	4.19	49.40%	11.04	7.95	38.87%
Total	17.72	14.17	25.05%	31.69	26.88	17.86%

Namra is Arman's wholly owned subsidiary, formed due to regulatory reasons in 2013. From time-to-time, Arman and Namra enter into intercompany transactions to better manage cash-flows. These can include intercompany loans or asset-buyouts. These transactions are done on an arms-length basis. As on date, the loan portfolio of Arman Financial Services is Two-Wheeler and MSME loans. Namra has mostly Microfinance loans and a small portion of MSME loans which were bought from Arman during the previous fiscal year. These represent less than 5% of Namra's total quarter-end assets. MSME loans is a new product line in which the company provides business loans of 50,000 to 1,50,000 to small business owners in rural areas.

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 2017-18	FY 2016-17		FY 2017-18	FY 2016-17	
Employee Costs	3.97	2.39	66.11%	7.18	4.30	66.98%
Other Expenses	4.40	2.66	65.41%	8.54	4.45	91.91%
Interest Costs	8.23	5.54	48.56%	13.30	10.08	31.94%
Total Costs	16.60	10.59	56.75%	29.02	18.83	54.12%



Our employee costs spiked up due to the number of branches increasing by 52% and number of employees increasing by 45% compared to the same quarter the previous year. Microfinance salary and incentive structure was also modified to reflect the market demands, which added to the overall increase in employee costs. Several upper-management positions were expanded to manage the larger branch network and in preparation of an increased AUM.

Our other expenses include bad debts and provisioning costs which have spiked as a result of the disruption in our business during demonetization. Provisions on standard assets also increased due to an increase in AUMs.

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 2017-18	FY 2016-17		FY 2017-18	FY 2016-17	
EBIT	9.26	9.03	2.55%	15.77	17.98	-12.29%
PAT	0.80	2.48	-67.74%	1.74	5.35	-67.48%
EPS (Rs Per Share)	1.15	3.59	-67.97%	2.51	7.74	-67.52%
Book Value (Per Share)	75.84	80.87	-9.83%	72.92	80.87	-9.83%

The reported profits have come down due to increased operating costs and increased bad debts & provisioning done on the MFI book. We expect our profitability to increase in the coming quarters as our increased disbursements results in an increased AUM and impact of demonetization wears off. For a detailed explanation, please see “Operational Highlights” above.

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 2016-17	FY 2016-17	FY 2016-17	FY 2017-18	FY 2017-18
Period Ending (AUM)	214.97	199.33	183.91	226.9	296.27
Net Interest Income (NII)	8.63	9.42	4.84	8.89	9.50
Net Interest Margin (NIM) (Annualized)	17.17%	18.19%	10.10%	17.31%	14.52%

The NIMs have reduced slightly mainly due to higher disbursements occurring towards the end of the quarter (timing variance), increased leveraging, and slightly increased borrowing costs due to high growth rate. “Other Borrowing Costs” is also a component of Finance Costs, which is related to the closing costs of a loan. These have also increased due to high level of financing in the past quarter to fund our portfolio growth.

Business Tracker (Microfinance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2016-17	FY 2016-17	FY 2016-17	FY 2017-18	FY 2017-18
AUM	150.1	130.22	103.22	131.42	190.80
Disbursement for the Qtr	62.05	26.53	18.3	67.44	104.53
Gross Interest Income (Interest Income + Processing Fee)	10.16	10.22	7.86	9.2	12.14

We did our highest ever disbursements of Rs 104.53 Cr in this quarter. The contribution from the



newly opened branches has kicked in. The AUMs increased by a large extent as well, which will continue to increase until the end of the year. The peak disbursement levels can reach up to Rs. 120 cr per quarter in microfinance with the existing branch infrastructure and without changing the product line.

Operational Branches (Microfinance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2016-17	FY 2016-17	FY 2016-17	FY 2017-18	FY 2017-18
Gujarat	37	37	37	37	36
Madhya Pradesh	23	23	23	25	26
Maharashtra	7	7	9	12	13
Uttar Pradesh	10	11	11	24	26
Total Branches	77	78	80	98	101

We have ramped up our operations in UP in a big way. We have an excellent operational team on the ground and we are also capitalizing on the space ceded by some of the other microfinance players in the state.

We have further opened another branch in Maharashtra and MP. While we have identified 10 additional areas to open branches, we have delayed the opening in an effort to control operating costs and balance our growth rate.

NPA Analysis (Microfinance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2016-17	FY 2016-17	FY 2016-17	FY 2017-18	FY 2017-18
Gross NPA	0.03	0.03	0.33	2.44	2.19
Provisions	0.00	0.00	0.00	0.00	0.00
Net NPA	0.03	0.03	0.33	2.44	2.19
Net NPA Percentage	0.02%	0.02%	0.32%	1.66%	1.10%

NPAs have reduced significantly since demonetization. This is partly a function of our policy to write-off bad assets rather than build NPAs on the balance sheet. Total write-offs for the 6 months ended for microfinance was Rs. 3.13 crores. Going forward, bad debts will be significantly lower as most of the demonetization related assets are off the books.

Business Tracker (2 Wheeler Finance & MSME)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2016-17	FY 2016-17	FY 2016-17	FY 2017-18	FY 2017-18
AUM (2 Wheeler)	62.79	67.84	74.80	81.22	81.70
AUM (MSME)	0.37	1.27	5.89	14.26	23.77
Disbursement for Qtr (2 Wheeler)	18.16	25.93	22.30	20.59	22.75
Disbursement for Qtr (MSME)	0.39	1.12	4.91	10.60	12.44
Interest Income (Consolidated)	4.19	4.13	4.49	4.77	6.26



Our two-wheeler financing business is doing well. Historically, this is a seasonally slow quarter, although we have managed increasing our disbursements. Q3 is typically our busiest quarter due to the holiday season. Our MSME book has also been growing steadily, and the segment has reached breakeven point, adding modest profit to the bottom line.

NPA Analysis (2 Wheeler Finance)

Particulars (Rs. Cr.)	Q2	Q3	Q4	Q1	Q2
	(Jul – Sep)	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)
	FY 2016-17	FY 2016-17	FY 2016-17	FY 2017-18	FY 2017-18
Gross NPA	1.96	2.09	2.28	2.41	2.69
Provisions	0.2	0.21	0.23	0.24	0.27
Net NPA	1.76	1.88	2.05	2.17	2.42
Net NPA Percentage	2.71%	2.71%	2.54%	2.40%	2.51%

The absolute NPAs in the 2-wheeler business has increased marginally from the previous quarter due to an increase in the portfolio, but remains mostly stable from a percentage standpoint. The MSME segment currently has zero NPAs.

For, Arman Financial Services Limited



Director





Arman Financial Services Limited

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 finance business, and has recently also forayed in the MSME lending. 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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