

Ahmadabad, India, 13 February, 2017: 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 third quarter ended 31st December, 2016.

Commenting on the Company's performance for Q3FY2016-17, **Mr. Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services** said, *"The total AUM of the company has grown from Rs 155.50 Cr on 31 December 2015 to Rs. 199.33 Cr as on 31 December 2016, a growth of 28.19%. In the microfinance business the AUM has grown from Rs. 99.84 Cr as on 31 December 2015 to Rs. 130.22 Cr as on 31 December 2016, a growth of 30.43%. The consolidated Revenues for the quarter have grown to Rs 14.35 Cr, an overall growth of 48.86% on a YoY basis".*

For the first time in its history, the company has issued NCDs worth Rs 33.3 Cr on a private placement basis. As the company grows in size, it has the opportunity to access many more alternative modes of funding, such as NCDs, to help fund its growth and reduce its funding costs.

Our foray into Uttar Pradesh has been quite successful and we are scaling up the business there. We now have 78 branches operational in the Microfinance (37 in Gujarat & 23 in Madhya Pradesh, 7 in Maharashtra & 11 in Uttar Pradesh). With 5 operating branches in 2-Wheeler financing and 2 pilot branches in MSME, our overall branch count has reached 85 branches.

The microfinance industry operates in the rural sector and is cash-intensive. The borrowers take loans in cash and they repay loans in cash as they have no other means of accepting or making payments. The recent cash liquidity issues subsequent to the removal of Rs. 500 and 1000 notes has had an impact on the disbursements in the microfinance segment of the business, as it was historically done in cash. The situation is gradually returning to normal but it will still take us a few months to reach the steady state in terms of disbursements and repayments.

We consciously & conservatively choose to stop disbursements in the Microfinance Segment in November & December of 2016, until cash liquidity returned to the rural markets. We have created systems to start disbursements through bank transfers, including opening new accounts for customers that lack a bank account, and are happy to report that all disbursements in our UP and Maharashtra portfolios are occurring via electronic transfer into customer's bank accounts. As an abundant caution, the Board and the Management have decided to increase the "provision on standard assets" for our microfinance portfolio from 1% to 2% to offset any potential future write-offs. This led to a one-time non-cash charge of about Rs. 1.6 Cr this quarter over and above the required statutory provisioning, which led to a slightly lower profit growth than expected; however, consolidated PAT growth was a healthy 30% compared with the nine months ended the previous year.



We are also glad to report that our Two-wheeler division faced a minor disruption post November 9th, but quickly returned to normal. Our two-wheeler division operates almost “cash-less”, with customers having multiple options for repayment, including ECS, NACH, cheques, various “e-wallets”, all major credit/debit cards, and of course, cash.

Beginning the fourth quarter of fiscal 2017, we will concentrate in returning our disbursements to normal planned levels in the Microfinance division and also concentrate on expanding the MSME pilot, which our initial results shows to have a vast potential for our business activities.

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.”

Consolidated Business Review

Financial Highlights

Q3 FY2016-17 (Oct– Dec2016) v/s. Q3FY2015-16(Oct – Dec 2016)

- Net Revenues increased by 48.86% to Rs. 14.35Cr from Rs. 9.64Cr
- Employee costs increased by 70.55% to Rs. 2.78Cr from Rs. 1.63Cr
- Interest costs increased by 24.81% to Rs. 4.93Cr from Rs. 3.95Cr
- Net Profit after Tax was up by 23.74% to Rs. 1.72Cr from Rs. 1.39Cr
- Earnings Per Share increased by 23.74% to Rs. 2.49 from Rs. 2.01

Operational Highlights

Q3 FY2016-17 (Oct – Dec 2016) v/s. Q3 FY2015-16 (Oct – Dec 2016)

- The disbursements stalled post the demonetization announcement due to lack of cash availability, while repayment rates reduced due to lack of currency.
- The company has been focused on collections and gradually the situation is returning to normal
- Although the 2 wheeler auto sales reduced up to 30% during the end of Q3 FY17, the 2 wheeler finance division quickly recovered and has done well. Increasingly, we see a trend of people taking loans for funding the purchase of two wheelers
- The SME Finance business pilot has performed well and we will be ramping it up over the next financial year, while opening an additional 4 to 6 branches in the fourth quarter.



Business Mix (Consolidated)

Revenues income from operations (Rs. Cr.)	Q3	Q3	YOY Change (%)	9 Months	9 Months	YOY Change (%)
	(Oct - Dec)	(Oct - Dec)		(Apr-Dec)	(Apr-Dec)	
	FY 2016-17	FY 2015-16		FY 2016-17	FY 2015-16	
Namra Finance	10.22	5.97	71.19%	29.15	16.32	78.62%
Arman Financial Services	4.13	3.67	12.53%	12.07	11.79	2.37%
Total	14.35	9.64	48.86%	41.22	28.11	46.64%

As on date, the entire loan portfolio of Namra is microfinance, while 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 Rs. 50,000 to Rs. 1,50,000 to small business owners. Namra's income grew largely due to an increase in the 'owned' loan portfolio, although it was offset by a reduction in interest rates.

Expenditure Analysis (Consolidated)

Expenses (Rs. Cr.)	Q3	Q3	YOY Change (%)	9 Months	9 Months	YOY Change (%)
	(Oct - Dec)	(Oct - Dec)		(Apr-Dec)	(Apr-Dec)	
	FY 2016-17	FY 2015-16		FY 2016-17	FY 2015-16	
Employee Costs	2.78	1.63	70.55%	7.08	4.25	66.59%
Other Expenses	3.97	1.95	103.59%	8.43	4.77	76.73%
Interest Costs	4.93	3.95	24.81%	15.01	10.79	39.11%
Total Costs	11.68	7.53	55.11%	30.52	19.81	54.06%

Our employee costs spiked up due to the staffing costs in our new branches, especially in UP and Maharashtra, where we have opened 22 new branches in the past 9 months (18 disbursing branches prior to demonetization). This has added a lot of operational cost pressures, especially on the employee costs; this however will pay-off in the long run as the new branches reach break-even and start generating profits. Total consolidated employee strength stood at 670 at the end of Q3 FY17 compared to 469 at the end of Q3 FY16, a 43% increase. Microfinance salary and incentive structure was also modified to reflect the market, which added to the overall increase in employee costs. Additionally, last quarter was exceptional due to demonization.

Furthermore, company has provided an additional Rs. 2.12 Cr as a contingent provision on standard assets this year, of which, Rs. 54 lacs is due to an increase in our portfolio as per RBI provisioning norms. The remaining Rs. 1.58 Cr was conservatively created as an abundant caution for our microfinance portfolio. Provisions on standard assets were increased from a statutory required 1% to 2% to offset any potential future write-offs due to market conditions, which led to an increase in 'other expenses' this quarter.

Profitability Mix (Consolidated)

Particulars (Rs. Cr.)	Q3	Q3	YOY	9 Months	9 Months	YOY
	(Oct - Dec)	(Oct - Dec)		(Apr-Dec)	(Apr-Dec)	
	FY 2016-17	FY 2015-16	Change (%)	FY 2016-17	FY 2015-16	Change (%)
EBIT	7.52	6.01	25.12%	25.50	18.97	34.42%
PAT	1.72	1.39	23.74%	7.07	5.46	29.49%
EPS (Rs Per Share)	2.49	2.01	23.88%	9.94	7.89	25.98%

Net profit has shown a jump of 22.17% for the quarter. The lower growth in profit was driven by the higher operating costs and relatively lower utilisation rates at the new branches, coupled with the extra provisioning mentioned above.

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

Particulars (Rs. Cr.)	Q3	Q4	Q1	Q2	Q3
	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)	(Oct-Dec)
	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17	FY 2016-17
Period Ending (AUM)	155.5	172.31	187.22	214.97	199.33
Net Interest Income (NII)	5.69	7.98	8.16	8.63	9.42
Net Interest Margin (NIM) (Annualised)	15.46%	19.47%	18.16%	17.17%	18.19%

The Net Interest Income has grown by 65.55% to Rs 9.42 Cr YOY in this quarter. Our consolidated Annualized NIMs are 18.19% 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 Rs. 5 Cr Tier 2 Capital last year and further aim to enhance our Tier 2 Capital.



Business Tracker (Microfinance)

Particulars (Rs. Cr.)	Q3	Q4	Q1	Q2	Q3
	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)	(Oct-Dec)
	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17	FY 2016-17
AUM	99.84	116.84	130.64	150.10	130.22
Disbursement for the Qtr	44.47	53.10	51.63	62.05	26.53
Gross Interest Income (Interest Income + Processing Fee)	6.71	8.85	9.09	10.16	10.22

AUM has increased sharply by 30.43% YOY, and the disbursement has declined by 40.34% YOY. However, the AUM declined from the previous quarter as the Microfinance division froze disbursements in November and December due to lack of currency liquidity. Our peak disbursement reached Rs. 26 Cr/month in October. It will take the company a few more months to reach and surpass the peak.

Operational Branches (Microfinance)

Particulars (Rs. Cr.)	Q3	Q4	Q1	Q2	Q3
	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)	(Oct-Dec)
	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17	FY 2016-17
Gujarat	36	37	37	37	37
Madhya Pradesh	17	18	18	23	23
Maharashtra	0	0	4	7	7
Uttar Pradesh	0	0	2	10	11
Total Branches	53	55	61	77	78

Our launch in Uttar Pradesh & Maharashtra has been quite successful and our new branches should start contributing in the next 3-6 months to our operational profits. We now have 78 branches operational in the Microfinance.

NPA Analysis (Microfinance)

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

Currently in case of NBFC-MFIs, borrowers that have defaulted in their payments for more than 90 days are classified as NPAs. Due to demonetization, the RBI's issued notifications that increased the cut-off norm for NPA recognition to 180 days for payments due between November 1 and December 31.

However, as mentioned above, the company has provisioned an additional 1% on standard assets over and above the statutory requirement as an abundant caution for any potential write-offs in the future.

Business Tracker (2 Wheeler Finance)

Particulars (Rs. Cr.)	Q3	Q4	Q1	Q2	Q3
	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)	(Oct-Dec)
	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17	FY 2016-17
AUM	55.66	55.47	56.58	64.87	69.11
Disbursement for the Qtr	21.91	13.94	16.36	18.16	25.92
Interest Income	2.01	3.34	3.62	4.01	4.13

The Interest income is trending up in the 2 Wheeler finance as we are finding better traction in this business. Our channel checks are highlighting the increasing trend of 2 Wheeler purchases through Loans, and that is providing a tailwind for this part of our business. It is worthy to note that the company increased disbursement even though the two-wheeler sales declined over 30% toward the end of the quarter.

NPA Analysis (2 Wheeler Finance)

Particulars (Rs. Cr.)	Q3	Q4	Q1	Q2	Q3
	(Oct-Dec)	(Jan-Mar)	(Apr – Jun)	(Jul – Sep)	(Oct-Dec)
	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17	FY 2016-17
Gross NPA	1.15	1.80	1.85	1.96	2.09
Provisions	0.15	0.18	0.18	0.20	0.21
Net NPA	1.00	1.62	1.67	1.76	1.88
Net NPA Percentage	1.80%	2.92%	2.95%	2.71%	2.71%

The NPAs in the 2-wheeler business has increased from the previous year 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 1.80% to 2.71%. NPA percentage has remained constant from the last quarter even though the absolute amount has increased. This is due to an increase in the portfolio.



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. 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

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

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For, Arman Financial Services Limited

Director

