



Arman Financial Services Ltd.



**Arman Financial
Services Ltd.**

FY20 AGM Presentation
September 2020

from ACCESS to INCLUSION

DISCLAIMER

Certain statements in this document that are not historical facts are forward looking statements. Such forward-looking statements are subject to certain risks and uncertainties like government actions, local, political or economic developments, technological risks, and many other factors that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Arman Financial Services Ltd will not be in any way be responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.



Genesis

- Arman Financial Services (“Arman”) is a **diversified NBFC** focusing on large under-served rural & semi-urban retail markets
- Founded in 1992 by Mr. Jayendra Patel in Ahmedabad. Listed on BSE in 1995 and on NSE in 2016
- Strong Management Team led by Mr. Jayendra Patel having a combined experience of 100+ years in the Lending Business

Robust Risk Management Framework

- **Superior Asset Quality – GNPA: 1.1%; NNPA: 0.2% (FY20)**
- **Consistent rating upgrades** backed by strong financial & operating performance – Currently rated **BBB+** by CARE Ratings
- **Track record of consistent profitability** - Never reported an annual loss
- **Completely in-house operations** with **bottoms up** driven credit appraisal models and rigorous collections practices – tailored for the areas of operations

Presence in Attractive Retail Lending Segments

- **Total Loan Assets of INR 8,599 Mn in FY20**
- **Microfinance – 72% of AUM** (via 100% owned subsidiary “**Namra Finance**”)
- **MSME Loans – 17% of AUM**
- **2-Wheeler Loans – 11% of AUM**
- **Healthy Spreads:** Yields 27.4%, NIM 16.5% (FY20)



Arman Financial Services Ltd.

Strong Financial Performance

- **High-Growth Trajectory (FY2015-20 CAGR) :**
 - **AUM: 50%**
 - **PAT: 46%**
- **Consolidated debt to equity ratio of 4.1:1** – Sufficient Capital to drive growth going forward
- **High Return Ratios:**
 - **FY20 - ROE (%) : 28.1% , ROAA* (%) : 5.4%**

Strong Retail Presence & Wide Distribution Network

- 211 branches; 70+ 2-Wheeler showrooms
- 78 Districts, 6 states
- 4.48 lakh live customers (+33% YoY)
- Undertaken contiguous expansion from Gujarat since 2014 to achieve geographic diversification

Efficient Liability Management

- **Comfortable Liquidity Position: Positive ALM**
 - Avg. lending tenor at origination: ~18 months; Avg. tenor of debt at origination: ~36 months
- **Diversified Borrowing Profile with Relationship across 34 Banks & other Financial Institutions**

Note:

- * Return on Avg. AUM
- $\text{Yields} = \text{Gross Interest Income} / \text{Avg. AUM (On + Off-Book)}$; $\text{NIM} = \text{NTI} / \text{Avg. AUM (On + Off-Book)}$; $\text{RoE} = \text{PAT} / \text{Avg. Equity}$; $\text{GNPA \%} = \text{GNPA} / \text{AUM (On + Off-Book)}$; $\text{NNPA \%} = \text{NNPA} / \text{AUM (On + Off-Book)}$. Yields, NIM, ROAA and ROE figures are annualized.



Differentiated Operations



KEY STRATEGIC DIFFERENTIATORS

Focus on **small-ticket retail loans** to the **large under-served informal** segment customer in **rural & semi-urban** geographies

Diversifying products, geographies, sources of funds and delivering **growth by increase in volumes** rather than ticket sizes

Conservative operations framework with focus on risk & asset quality

Completely in-house operations with bottoms up driven credit appraisal models and rigorous collections practices – tailored for the areas of operations

Business model centered around conservative approach to high yielding assets to deliver a sustainable ROA of 3-5%

Business Progression



Company incorporated. Started bill discounting & machine leasing

Launched 2W Loans

Raised PE funding from Incofin; Disbursement crosses 50 Cr

Expanded to Maharashtra, MP, UP & Uttarakhand; listing on NSE

Crosses 100 branches across 5 states & 3 products; Disbursement crosses 500 Cr

Disbursement cross 750 Cr; 100% Cashless disbursements; Expanded into Rajasthan

1992

1995

1998

2010

2011

2013

2014-16

2017

2017-18

2018

2019

2020

Listing on BSE – Issue subscribed 22x

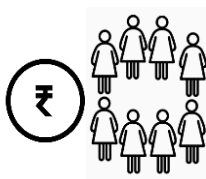
Launched Microfinance business

Demerged MFI operations into “**Namra Finance**”; Disbursement crosses 100 Cr

Launched MSME Loans business

Raised PE funding from SAIF Partners

AUM & Disbursements cross 800 Cr; Branch Network crosses 200





Product Overview

- **JLG model with small ticket loans** (Avg. Ticket Size – INR 26,000) given to women borrowers for income generating activities such as Livestock, Dairy, Agri allied, Kirana Stores
- Operations in **6 states; 170 MFI branches; 3.73 lakh live customers**
- Arman MFI operating model –
 - **High touch monthly collection model**
 - **Rural concentration:** ~85% rural & semi-urban portfolio (vs 43% for MFI industry)
 - **Conservative risk framework**
 - 100% Cashless disbursement
 - JLG groups formed by customers themselves
 - Loan utilization checks to ensure loan for income generating purpose
 - **Controlled growth targets** driven by bottom-up projections

FY20 – Key Metrics (Mn)

| | | |
|-----------------------|-----------------------|------------------------|
| 6,215 | 6,531 | |
| AUM (INR Mn) | Disbursement (INR Mn) | |
| 1,484 | 252 | 28,000 |
| Total Income (INR Mn) | PAT (INR Mn) | Avg. Ticket Size (INR) |

FY20 – Key Metrics (%)

| | | |
|--------------|--------------|--------------|
| 25.8% | 14.7% | 4.6% |
| Yield | NIM | ROAA |
| 0.9% | 0.01% | 26.2% |
| GNPA | NNPA | ROE |

Product Overview: 2W & Rural 2W Loans



Product Overview

- Hypothecation (secured) loans given to self-employed / cash-salaried customer in the informal segment in semi-urban / rural areas for a 2W
- Currently operates only in Gujarat; across 70+ showrooms
- **Piloting new Rural 2W product:** Operating in Tier 3-4 & below locations for higher yields; higher ROA business; key growth driver going forward
- Growth levers –
 - Increase in finance penetration
 - Geographical & new product expansion
- Arman 2W & Rural 2W operating model –
 - Focus on **quick turn around time**
 - Excellent **relationships with dealers and OEMs**
 - **In-house feet-on-street** model for **rigorous collections**

FY20 – Key Metrics (Mn)

951

AUM (INR Mn)

843

Disbursement (INR Mn)

251

Total Income (INR Mn)

42,000

Avg. Ticket Size (INR)

FY20 – Key Metrics (%)

25.5%

Yield

16.5%

NIM

3.0%

GNPA

1.4%

NNPA

Product Overview: MSME Loans



Product Overview

- Individual enterprise / working capital loans for small rural businesses in low competition areas
- Currently operates across 3 states – Gujarat, MP & Maharashtra, with 35 branches
- Arman MSME operating model –
 - Dual credit bureau check** for both customer and spouse on CRIF (for MFI loans) and CIBIL (for non-MFI loans)
 - High-touch monthly cash collection model**
 - Cash Flow assessment** using tailored appraisal techniques
 - Locally drawn field force** with personal knowledge of the market
 - In-house teams** for pre-lending field investigations and appraisals, with **centralized final credit approval**
- Highest ROA product at Arman**; focus on growing this business over time
- Focus on quality underwriting & rigorous collections to ensure asset quality

FY20 – Key Metrics (%)

| | |
|-----------------------|------------------------|
| <u>1,433</u> | <u>1,362</u> |
| AUM (INR Mn) | Disbursement (INR Mn) |
| <u>421</u> | <u>70,000</u> |
| Total Income (INR Mn) | Avg. Ticket Size (INR) |

FY20 – Key Metrics (%)

| | |
|--------------|--------------|
| <u>34.7%</u> | <u>23.8%</u> |
| Yield | NIM |
| <u>0.5%</u> | <u>0.3%</u> |
| GNPA | NNPA |

MSME Process Overview

Sourcing

- In-house sourcing team (No DSAs)
- Feet-on-Street sales team model
- Door-to-door knocking & cold calling
- BTL activities such as pamphlet distribution, stalls at village level gatherings
- Referrals from existing customers

“Sales team logs-in the case & collects KYC docs”

Underwriting

“Trigger sent to independent credit team for FI”

- Credit bureau check (CRIF & CIBIL)
- Physical FI & PD by in-house credit manager at residence & work place
- Capacity to Pay** - Use of non-traditional income & expense estimation methodologies
- Willingness to pay** – Reference checks
- Final sanction by centralized credit team

Collections

“Door-step cash collection”

- X-bucket (current) collections to be handled by sales team
- Door-to-door collection allows Company to maintain relations with customer and ensures high collection efficiency
- Monthly collections – High touch, relationship driven model

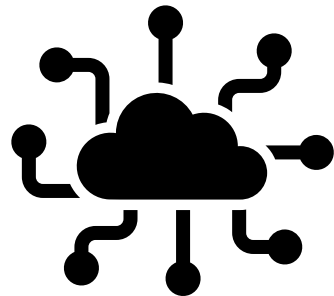


Technological Initiatives to Strengthen Operations

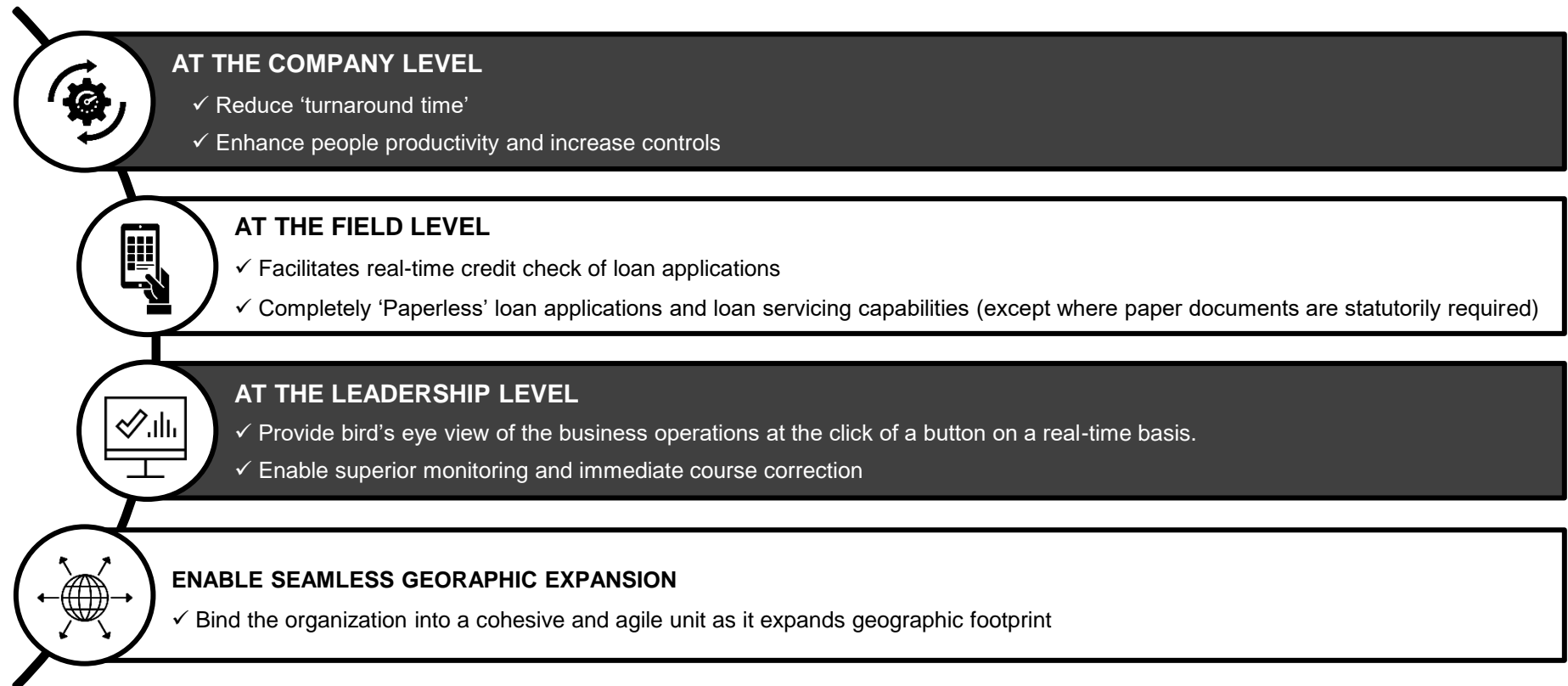


- ❖ In FY19, the company launched an integrated mobile interface for its MFI field staff to enable seamless on-boarding of MFI customers by digitizing & standardizing the loan origination and appraisal process. **‘This technology has been successfully implemented across all the MFI branches now.’**
- ❖ Rolled-out the **‘Jayam’ initiative** across the company’s MFI operations to transform business processes from physical to digital. **‘As a part of this initiative, the ‘integrated loan origination system (LOS) & loan management system (LMS)’ is hosted on the Cloud. This system manages and tracks originations and recoveries on a real-time basis.’**
- ❖ In the next phase, the company will be implementing these initiatives for its MSME & 2W operations as well. However, the next phase will a bit delayed due to the Covid disruption

ADVANTAGES OF IMPLEMENTING THE ‘JAYAM’ INITIATIVE & INTEGRATED MOBILE INTERFACE FOR FIELD OPERATIONS



DRIVING DIGITAL TRANSFORMATION

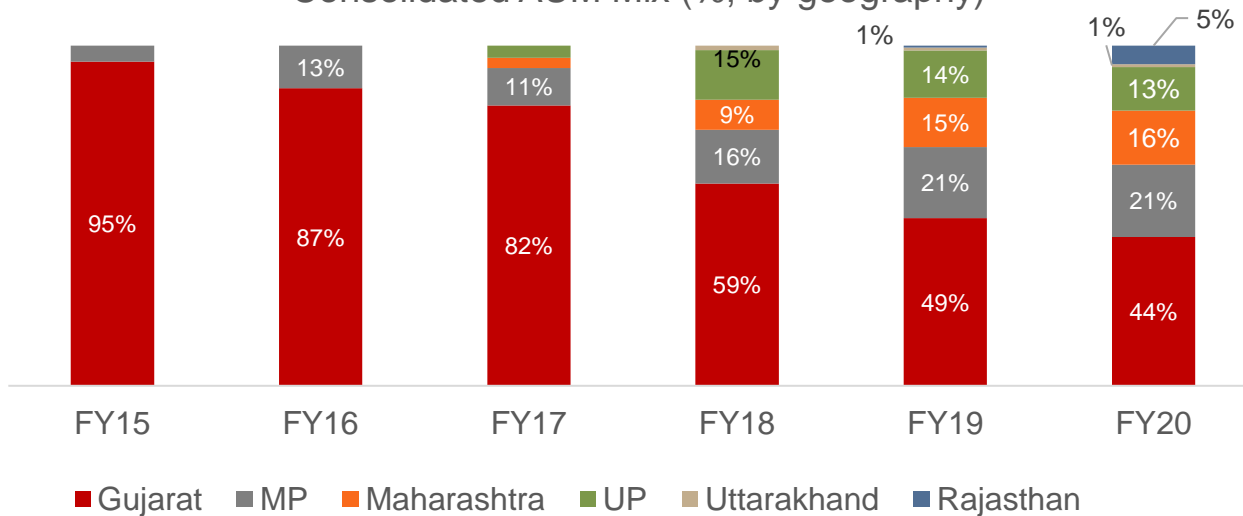


Growth Strategy - Focus on Geographical Diversification

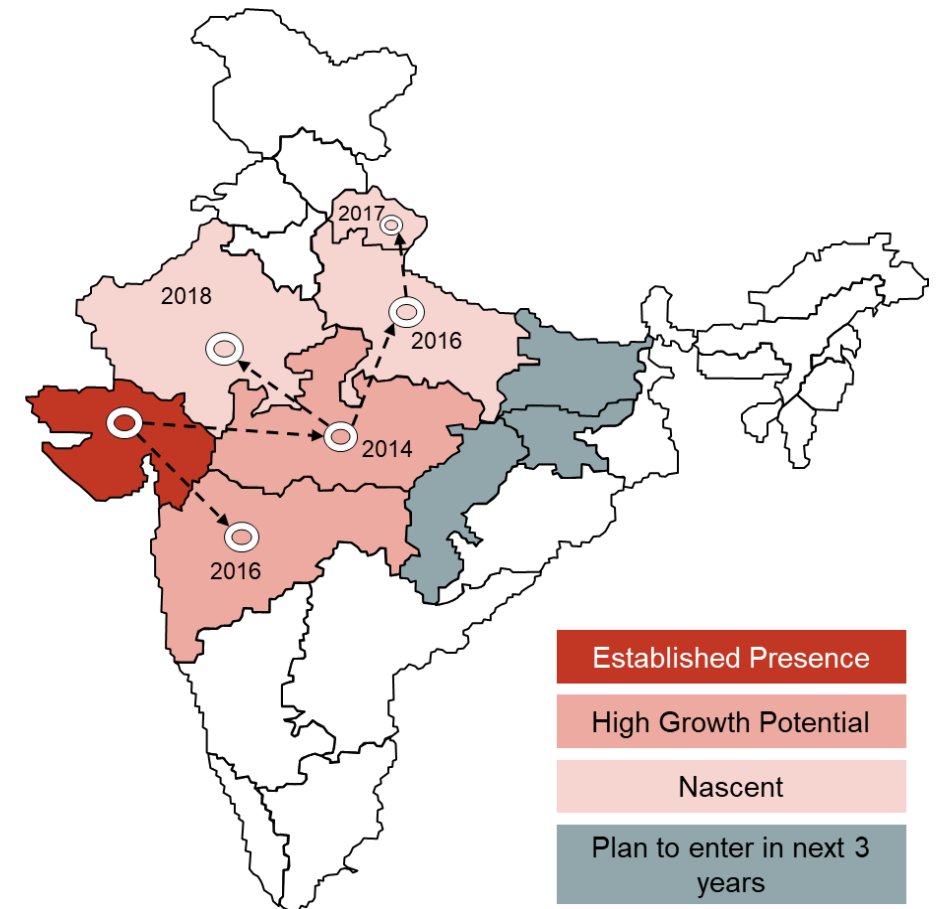


Share of Non-Gujarat States Increased to 56% in Total AUM

Consolidated AUM Mix (% by geography)



Contiguous Expansion from Gujarat Since 2014



| | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|-----------|------|------|------|------|------|------|
| States | 2 | 2 | 4 | 5 | 6 | 6 |
| Districts | 24 | 22 | 52 | 67 | 82 | 78 |
| Branches | 45 | 62 | 93 | 127 | 168 | 211 |

Enter a new state with MFI

- MFI penetration
- Population density
- Delinquency levels reported by other MFIs
- Population density
- 'Second mover advantage'

Stabilize business & monitor portfolio quality

- Experienced & trusted team for initial setup
- No disbursement targets for the first 3-6 months
- Learn & adapt processes to fit the area

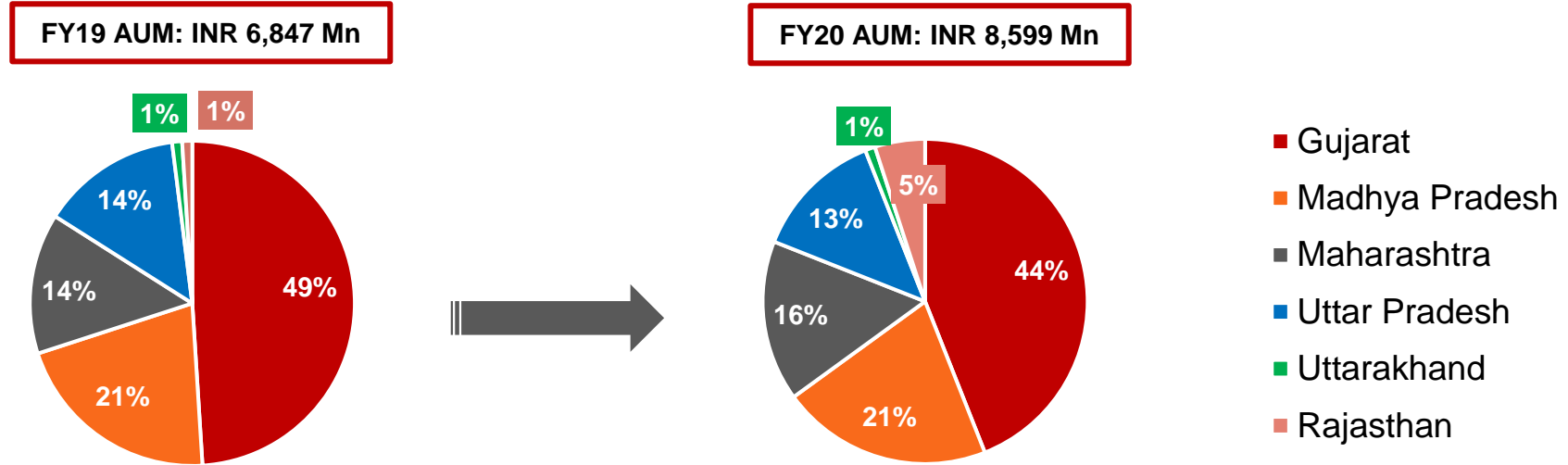
Add other products; expand to contiguous locations

- Enhance presence in the market by adding MSME & 2W loans
- Expand to contiguous locations in the state
- Scout for adjoining states

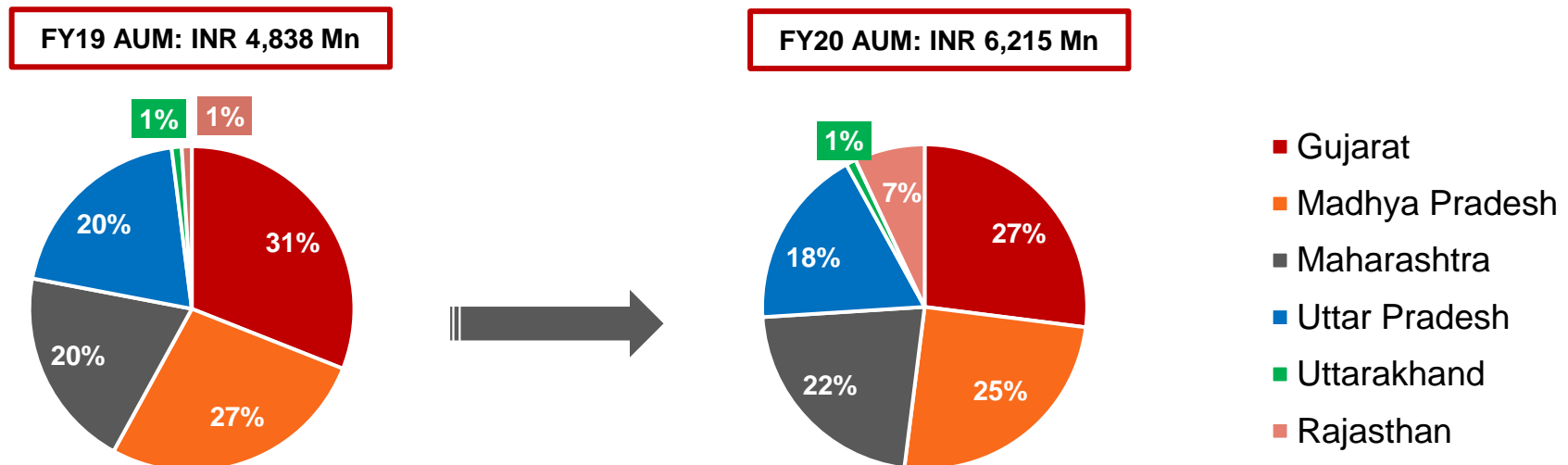
MFI & Consolidated AUM Regional Mix (%) - FY20 vs. FY19



'Consolidated AUM' Regional Mix (%) – Share of Non-Gujarat States Increased to 56% in FY20



'Microfinance AUM' Regional Mix (%) – Share % of Rajasthan & Uttarakhand Increased from ~2% in FY19 to 8% in FY20



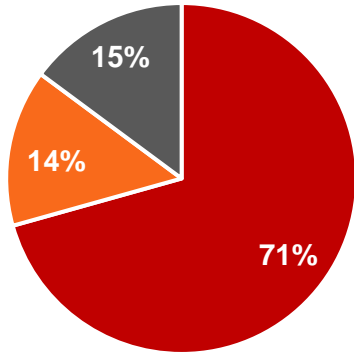
AUM & Income from Operations Mix (%) - FY20 vs. FY19



Share % of Microfinance & MSME Book in the Total AUM 'Increased from 85% in FY19 to 89% in FY20'

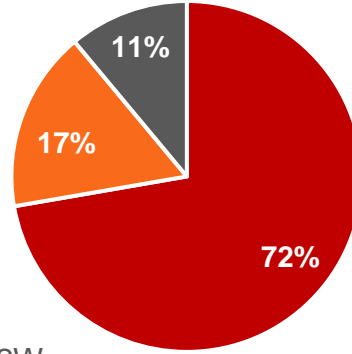
FY19 - AUM Mix %

INR 6,847 Mn



FY20 - AUM Mix %

INR 8,599 Mn



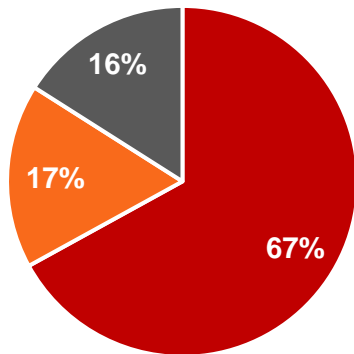
■ Microfinance ■ MSME ■ 2W

| Segment | AUM (INR Mn) | | | Active Customer Base (in Lakhs) | | |
|-----------------------|--------------|--------------|------------|---------------------------------|-------------|------------|
| | FY19 | FY20 | YoY % | FY19 | FY20 | YoY % |
| Microfinance | 4,838 | 6,215 | 28% | 3.73 | 2.73 | 37% |
| MSME | 992 | 1,433 | 44% | 0.41 | 0.26 | 57% |
| 2W | 1,017 | 951 | -6% | 0.33 | 0.36 | (7%) |
| Total (INR Mn) | 6,847 | 8,599 | 26% | 4.48 | 3.35 | 33% |

Share % of Microfinance & MSME Business in the Total Income from Operations 'Increased from 84% in FY19 to 88% in FY20'

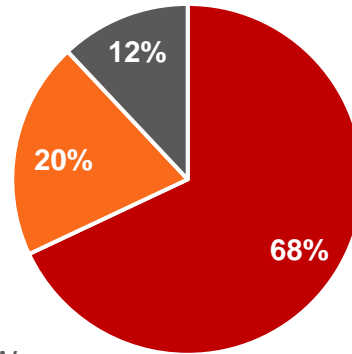
FY19 – Income from Operations Mix %

INR 1,389 Mn



FY20 – Income from Operations Mix %

INR 2,115 Mn



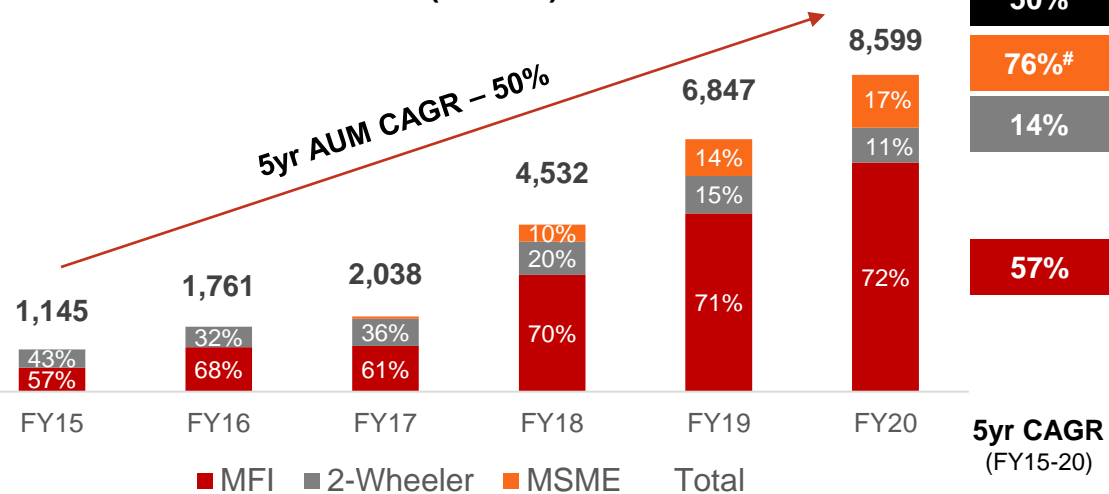
■ Microfinance ■ MSME ■ 2W

| Segment | FY19 | FY20 | YoY % |
|-----------------------|--------------|--------------|------------|
| Microfinance (INR Mn) | 930 | 1,443 | 55% |
| MSME (INR Mn) | 235 | 421 | 82% |
| 2W (INR Mn) | 224 | 251 | 10% |
| Total (INR Mn) | 1,389 | 2,115 | 52% |

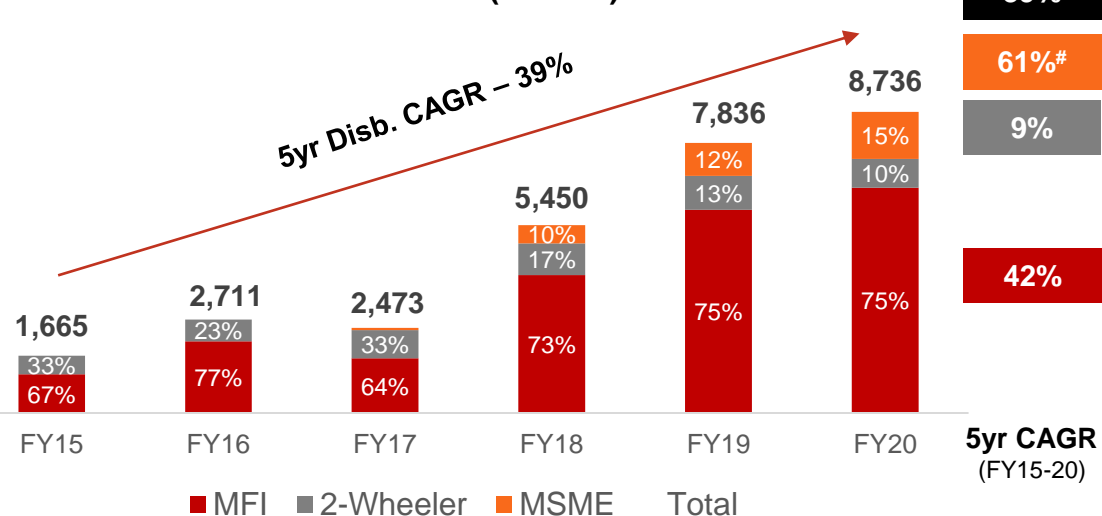
Strong Growth in AUM & Disbursements....



Total AUM (INR Mn)



Total Disbursements (INR Mn)



- Diversified portfolio of 8,599 Mn in FY20 split between –
 - Microfinance: INR 6,251 Mn (71%),
 - MSME Loans: INR 1,433 Mn (17%)
 - 2-Wheeler Loans: INR 951 Mn (11%)
- Strategically forayed into MSME Loans in 2017. Successfully scaled up the business to INR 1,433 Mn (17% of Total AUM) in the last 2 years
- Further, we recently launched a new product “*Rural 2-wheeler loans*”(currently in pilot stage) to effectively meet the under-served market.
 - Higher ROA business offering immense growth potential
- Plan to reduce share of MFI book in overall AUM to ~60% over time

Asset Strategy at Arman

Small ticket, granular loans - Ticket size INR 20,000 – 1,50,000

Self-employed / cash-income informal segment customers

High-yield rural focused products – 20%+ yields

Stringent underwriting

Rigorous collections practices – in-house, feet-on-street model

Aim to deliver 3-5% post-tax ROA

Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. # - MSME started in FY17; MSME CAGR is 2yr CAGR (FY18-20)



Arman Financial Services Ltd.

Financial Performance Update - FY20



FY20 - Financial Performance Highlights



Total AUM increased by 26% YoY to INR 8,599 Mn (FY19 AUM: INR 6,848 Mn)

Adjusted for the lower new loan booking of INR 750-800 Mn due to Covid, the FY20 AUM would have grown by 35-40% YoY



Total Disbursements Grew by 12% YoY to INR 8,736 Mn in FY20

Adjusted for the lower disbursements due to Covid, disbursements growth in FY20 would have been ~20% YoY



Shareholders Equity Stood higher by 40% YoY at INR 1,722 Mn in March 2020 (BVPS is INR 204)



Gross Total Income increased by 54% YoY to INR 2,152 Mn in FY20; Net Total Income increased by 57% YoY to INR 1,276 Mn in FY20



Pre-Provisioning Operating Profit increased by 73% YoY to INR 738 Mn in FY20



For the full year FY20, PAT recorded strong growth of 57% YoY to reach INR 415 Mn

Adjusted for the contingent provision created for the Covid, Profit After Tax would have stood at INR 482 Mn (+82% YoY) for FY20



Branch Network Expansion Update: Added 43 new branches in FY20. Total Number of Branches stood at 211 in FY20 (168 in FY19)

Added 32 branches in MFI (170 in FY20 vs. 138 in FY19); and 11* branches in MSME (35 in FY20 vs. 24 in FY19)*

FY20 - Consolidated & Segmental Profit & Loss Statement



| | Consolidated | | | Namra Finance | | | Standalone | | |
|--|----------------|----------------|------------|----------------|--------------|------------|--------------|--------------|------------|
| Particulars (INR Mn) | FY20 | FY19 | YoY (%) | FY20 | FY19 | YoY (%) | FY20 | FY19 | YoY (%) |
| Assets Under Management (AUM) | 8,599 | 6,848 | 26% | 6,215 | 4,838 | 28% | 2,384 | 2,010 | 19% |
| Disbursements | 8,736 | 7,836 | 12% | 6,531 | 5,896 | 11% | 2,205 | 1,940 | 14% |
| Income from Operations | 2,115.1 | 1,389.1 | 52% | 1,458.5 | 934.8 | 56% | 671.1 | 466.0 | 44% |
| Other Income | 36.4 | 6.7 | 442% | 25.6 | 5.0 | 417% | 29.9 | 17.8 | 68% |
| Gross Total Income | 2,151.5 | 1,395.8 | 54% | 1,484.2 | 939.8 | 58% | 701.0 | 483.8 | 45% |
| Finance Costs | 875.9 | 583.4 | 50% | 670.3 | 438.2 | 53% | 220.3 | 156.9 | 40% |
| Net Total Income (NTI) | 1,275.5 | 812.5 | 57% | 813.9 | 501.6 | 62% | 480.7 | 326.9 | 47% |
| Employee Benefits Expenses | 364.6 | 256.4 | 42% | 232.3 | 161.9 | 43% | 132.3 | 94.6 | 40% |
| Depreciation and Amortisation | 8.0 | 4.8 | 65% | 6.9 | 3.7 | 83% | 1.1 | 1.1 | 1% |
| Other Expenses | 165.1 | 123.8 | 33% | 113.0 | 77.4 | 46% | 52.2 | 46.4 | 13% |
| Pre-Provision Operating Profit | 737.8 | 427.4 | 73% | 461.8 | 258.6 | 79% | 295.1 | 184.8 | 60% |
| Regular Provisions & Write-offs * | 133.3 | 65.1 | 105% | 87.9 | 37.1 | 137% | 45.0 | 28.0 | 60% |
| Additional Covid-Specific Provision | 66.8 | - | - | 45.3 | - | - | 22.0 | - | - |
| Profit After tax (Reported) | 415.2 | 264.3 | 57% | 252.0 | 156.8 | 61% | 182.4 | 123.6 | 48% |
| Profit After tax (Adjusted for Covid Provision) | 482.0 | 264.3 | 82% | 297.3 | 156.8 | 90% | 204.4 | 123.6 | 65% |
| GNPA % | 1.1% | 1.0% | 6 bps | 0.9% | 0.5% | 38 bps | 1.5% | 2.2% | (69 bps) |
| NNPA % (After ECL Impact) | 0.2% | 0.5% | (28 bps) | 0.0% | 0.1% | (5 bps) | 0.7% | 1.5% | (79 bps) |
| Return on Avg. AUM % | 5.4% | 4.6% | 73 bps | 4.6% | 3.9% | 64 bps | 8.3% | 7.3% | 98 bps |
| Return on Avg. Equity % # | 28.1% | 29.8% | (161 bps) | 26.2% | 27.1% | (92 bps) | 35.4% | 32.5% | 286 bps |

Note:

- * Provisioning & Write-offs in FY20 include aggressive write-offs for Pre-Covid NPAs (Consolidated: INR 39 Mn, Namra: INR 24 Mn, Standalone: INR 15 Mn)
- # Fully-diluted equity base
- Income from Operations includes: Interest Income on loans and managed assets; processing fees, and other charges in respect of loans. Other Income includes capital gains on liquid funds
- There may be minor variations between Namra + Standalone figures and the consolidated figures due to eliminations / knock-offs
- RoE = PAT / Avg. Fully Diluted Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book). RoE and Return on Avg. AUM figures are annualized

FY20 - Consolidated & Standalone Balance Sheet



| Particulars (in INR Mn) | Consolidated | | Standalone | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | March 2020 | March 2019 | March 2020 | March 2019 |
| ASSETS | | | | |
| <u>Financial Assets</u> | | | | |
| Cash and cash equivalents | 584 | 383 | 3 | 46 |
| Bank Balance | 384 | 302 | 56 | 74 |
| Loans & Advances | 7,785 | 6,704 | 2,231 | 1,979 |
| Investments | 33 | 33 | 624 | 511 |
| Other Financial assets | 75 | 45 | 23 | 14 |
| Total Financial Assets | 8,861 | 7,468 | 2,938 | 2,624 |
| <u>Non-Financial Assets</u> | | | | |
| Current tax assets (Net) | 5 | 0 | 13 | 5 |
| Deferred tax Assets (Net) | 48 | 19 | 11 | 0 |
| Property, Plant and Equipment | 35 | 33 | 8 | 8 |
| Other Intangible assets | 2 | 3 | 0 | 0 |
| Right To Use Asset | 7 | 0 | 0 | 0 |
| Other non-financial assets | 4 | 6 | 2 | 2 |
| Total Non-Financial Assets | 101 | 60 | 34 | 15 |
| Total Assets | 8,962 | 7,528 | 2,972 | 2,639 |

| | Consolidated | | Standalone | |
|---|--------------|--------------|--------------|--------------|
| | March 2020 | March 2019 | March 2020 | March 2019 |
| LIABILITIES & EQUITY | | | | |
| Equity Share capital | 85 | 70 | 85 | 70 |
| Reserves & Surplus | 1,638 | 1,163 | 1,123 | 889 |
| Total Shareholders Funds | 1,722 | 1,232 | 1,207 | 958 |
| <u>Financial Liabilities</u> | | | | |
| Payables | 6,828 | 5,970 | 1,657 | 1,574 |
| Total Borrowings | 150 | 150 | 50 | 50 |
| Other Financial Liabilities | 241 | 128 | 50 | 42 |
| Total Financial Liabilities | 7,219 | 6,249 | 1,757 | 1,666 |
| <u>Non-Financial Liabilities</u> | | | | |
| Current tax liabilities (Net) | 8 | 5 | 4 | 2 |
| Deferred tax liabilities (Net) | 0 | 0 | 0 | 5 |
| Provisions | 0 | 29 | 0 | 0 |
| Other non-financial liabilities | 13 | 14 | 4 | 7 |
| Total Non-Financial Liabilities | 21 | 48 | 8 | 15 |
| Total Liabilities & Equity | 8,962 | 7,528 | 2,972 | 2,639 |



Microfinance (Namra Finance)

- ❖ **Witnessed healthy traction in AUM (+28 YoY) to INR 6,251 Mn driven by an increase in customer base and average ticket size**
- ❖ *Covid disruption hampered disbursements in March, leading to lower booking in AUM by INR 500-550 Mn. Adjusting for this, the AUM growth would have been in the corridor of 35-40% in FY20*
- ❖ In FY20, Net total income grew by 62% YoY to INR 813.9 Mn led by higher NIM's (NIM improved by 220 bps YoY to 14.7% in FY20 as against 12.5% in FY19)
- ❖ Increase in Opex (+45% YoY) was on account of branch expansion (170 in FY20 vs 138 in FY19) and increase in human capital in FY20 with a view to expand business.
- ❖ Cost-to-Income Ratio improved by ~520 bps YoY to ~43% in FY20 (48% in FY19) resulting in higher growth in the Pre-provisioning Operating Profit (+79% YoY)
- ❖ **Increase in Provision as the company recognized additional Covid specific provision of INR 45.3 Mn, and aggressive write-offs of INR 24 Mn for pre-Covid NPAs.**
- ❖ **Adjusted for the Covid provisioning of INR 45.3, the Profit After Tax would have stood at INR 297.3 Mn in FY20 (higher by 90% YoY)**
 - **FY20 Adjusted ROE : 30.9% (as against 26.2%); FY20 Adjusted ROAA : 5.4% (as against 4.6%)**
- ❖ GNPA and NNPA (post ECL adjustment) stood low at 0.9%.and 0.01% respectively

Two-Wheeler & MSME (Standalone)

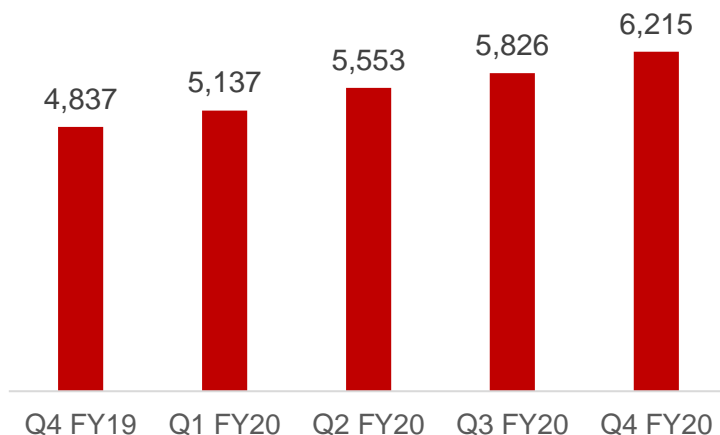
- ❖ **Standalone AUM grew by 19% to INR 2,384 Mn** led by strong growth in the MSME Book (+44% YoY) to reach INR 1,433 Mn, as no. of loans disbursed increased by 29% YoY.
 - 2W AUM de-grew in FY20, impacted by the ongoing slowdown in two-wheeler sales and the disbursements being hampered in March by the Covid disruption. However, Rural 2W saw good traction as AUM grew by 68% YoY to INR 114 Mn in FY20 (Share of Rural 2W portfolio increased to 12% in FY20)
- ❖ Covid disruption impacted the MSME & 2W disbursements in March, leading to lower booking in AUM by INR 270 Mn. Adjusting for this, the AUM growth would have been in corridor of 30-35%
- ❖ Net total income grew by 47% YoY to INR 480.7 Mn in FY20 led by AUM growth & higher NIMs (NIM's improved by ~250 bps to 21.9% in FY20 versus 19.4% in FY19)
- ❖ Cost-to-Income Ratio improved by ~485 bps YoY to 38.6% in FY20 (43.5% in FY19) resulting in disproportionate growth in the Pre-provisioning Operating Profit (+60% YoY)
- ❖ **Provisions were higher due to creation of additional Covid specific provision of INR 22.0 Mn, and aggressive write-offs of INR 15 Mn for pre-Covid NPAs**
- ❖ Prudent lending and lower NPA's in 2W segment led to lower NPAs in the standalone book – GNPA and NNPA improved to 1.5%, and 0.7% respectively (lower by 70-80 bps)
- ❖ **Adjusted for the Covid provisioning of INR 22 Mn, the Profit After Tax would have stood at INR 204.4 Mn in FY20 (higher by 65% YoY)**
 - **FY20 Adjusted ROE : 39.7% (as against 35.4%); Adjusted ROAA : 9.3% (as against 8.3%)**



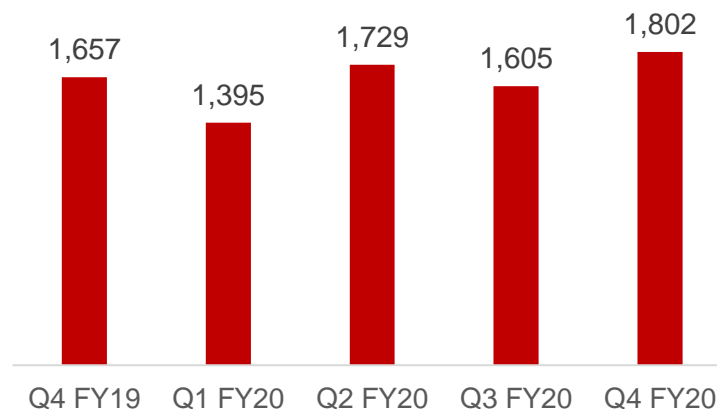
Microfinance - Quarterly Performance Update (FY20)



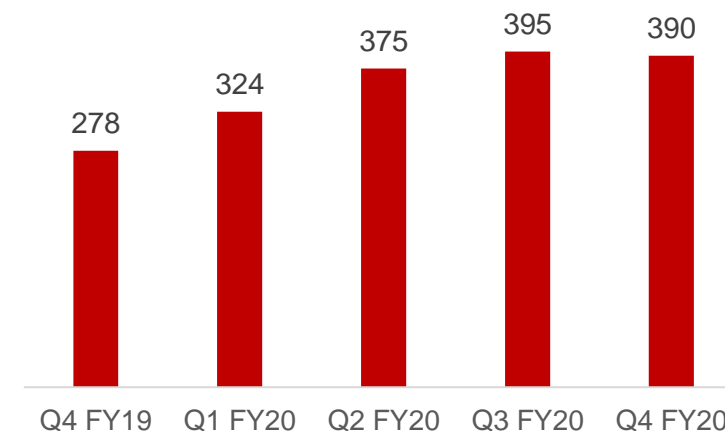
AUM (INR Mn)



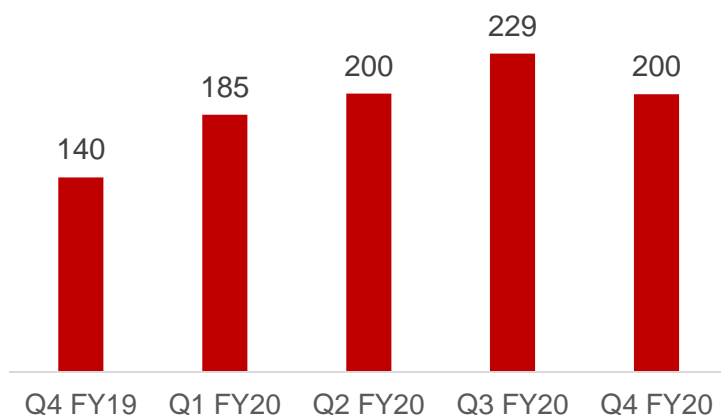
Disbursement (INR Mn)



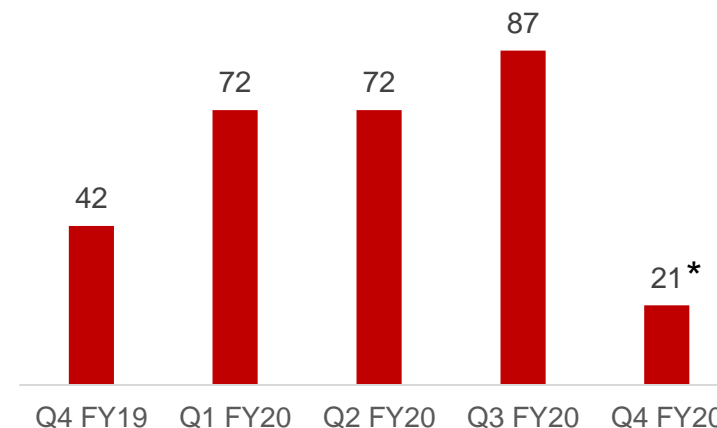
Gross Total Income (INR Mn)



Net Total Income (INR Mn)



PAT (INR Mn)



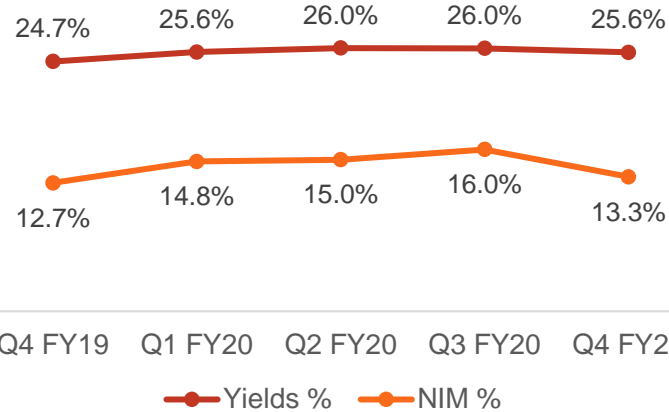
Note:

- * Adjusted for the Covid provisioning of INR 45.3 Mn, the Profit After Tax would have stood at INR 66.1 Mn in Q4 FY20
- All the figures are as per IND-AS accounting standards
- Net Total Income = Gross Total Income – Finance Cost

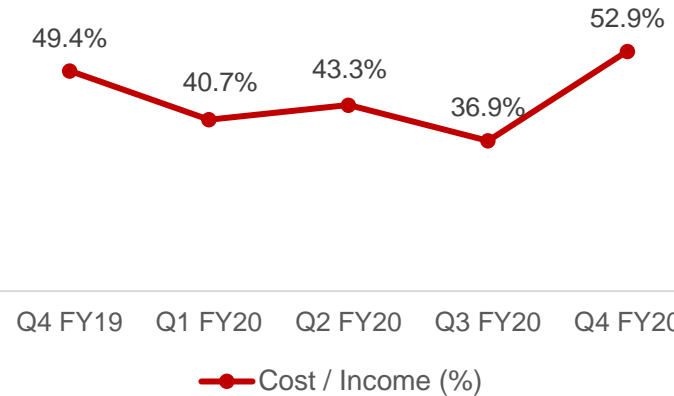
Microfinance - Quarterly Performance Update (FY20)



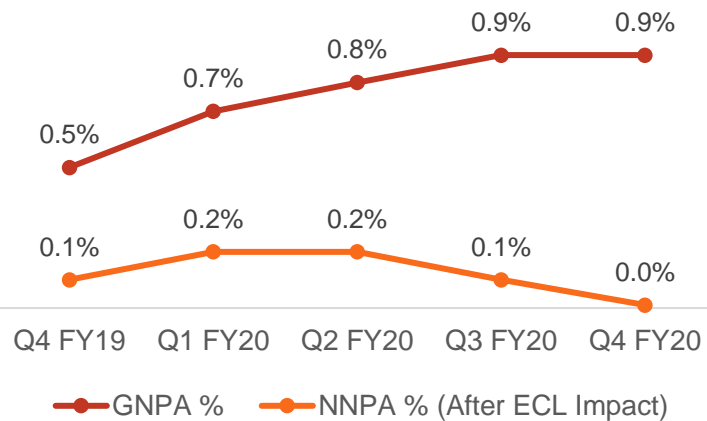
Yields % and NIM %



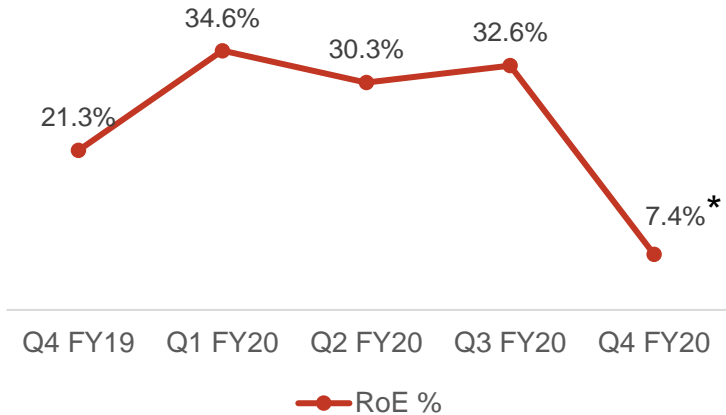
Cost-to-Income Ratio %



Asset Quality



ROE %



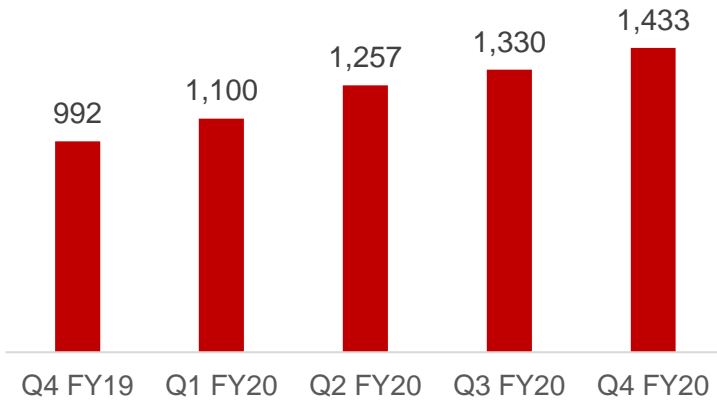
Note:

- * Adjusted for the Covid provisioning of INR 45.3 Mn, the Return on Equity would have stood at 23.3% in Q4 FY20
- All the figures are as per IND-AS accounting standards
- NIM = NTI / Avg. AUM (On + Off-Book); Yields = Gross Interest Income / Avg. AUM (On + Off-Book); Cost-to-Income Ratio = Opex (excl. provisions) / Net Total Income; NNPA % = NNPA / AUM; RoE = PAT / Avg. Equity. RoE, Yields and NIM % figures are annualized

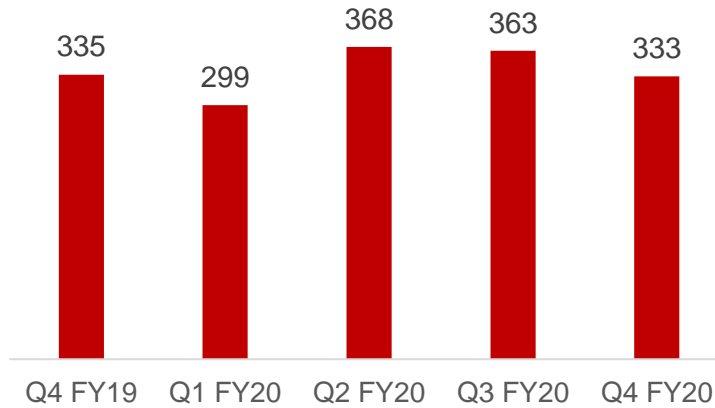
MSME - Quarterly Performance Update (FY20)



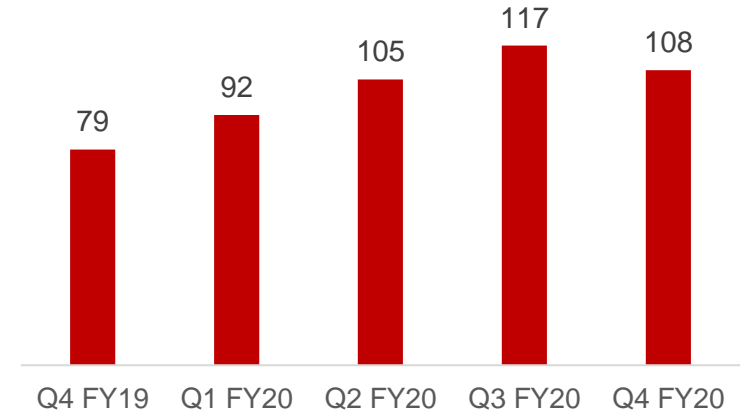
AUM (INR Mn)



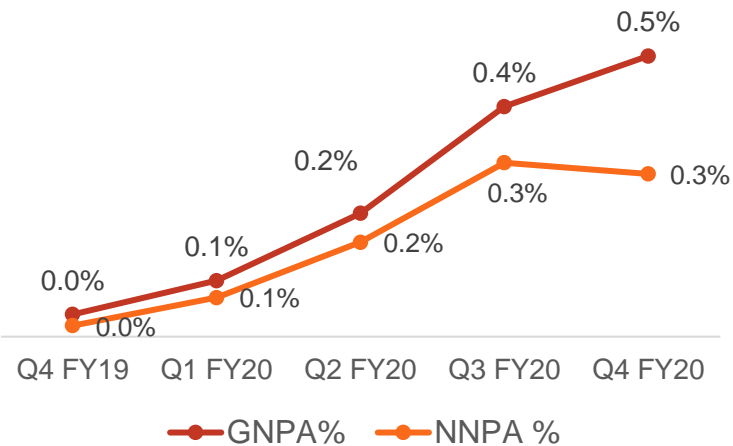
Disbursements (INR Mn)



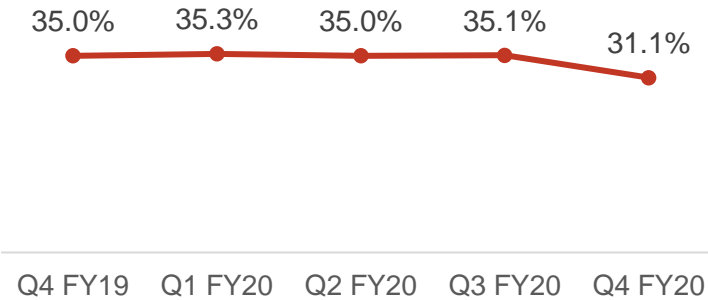
Gross Interest Income (INR Mn)



Asset Quality



Yields %



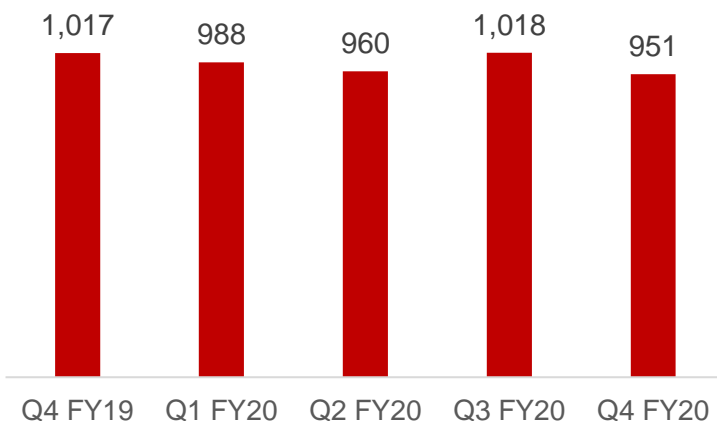
Note:

- All the figures are as per IND-AS accounting standards
- Gross Interest Income = Interest Income + processing fees / other charges, Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NNPA % = NNPA / AUM. Yields % figures are annualized.

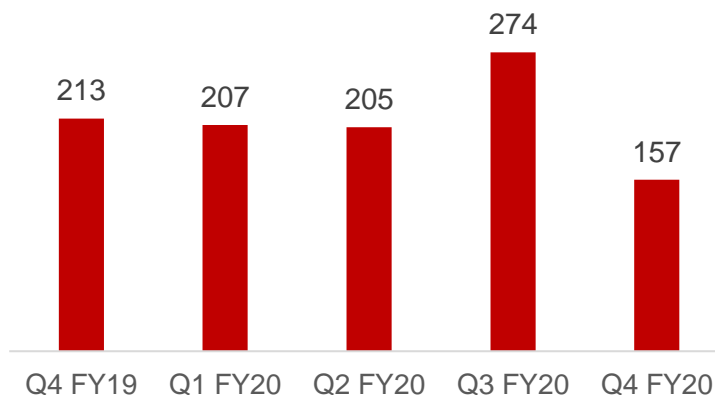
2W - Quarterly Performance Update (FY20)



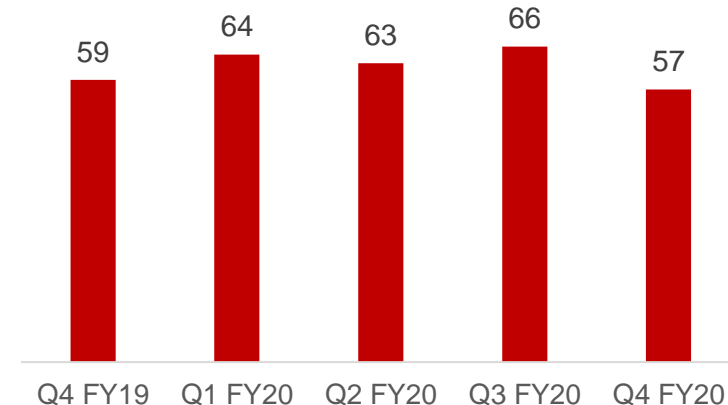
AUM (INR Mn)



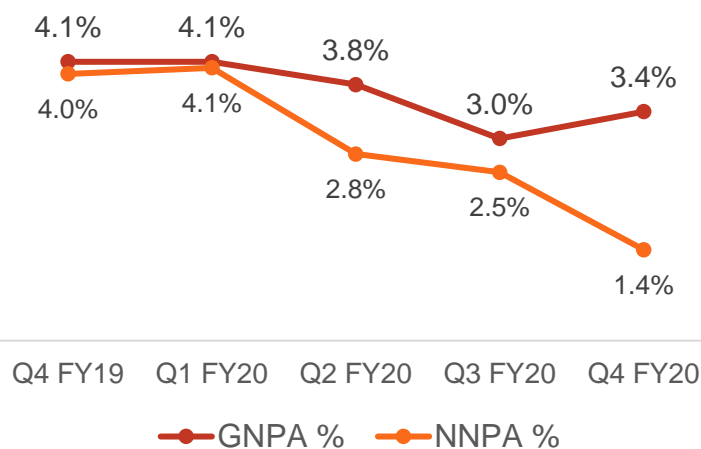
Disbursement (INR Mn)



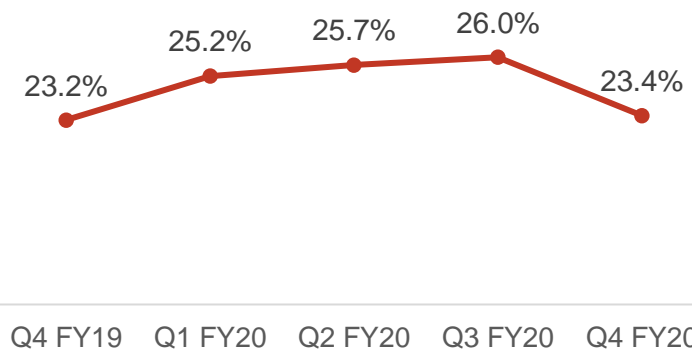
Gross Interest Income (INR Mn)



Asset Quality



Yields %



Note:

- All the figures are as per IND-AS accounting standards
- Gross Interest Income = Interest Income + processing fees / other charges, Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NNPA % = NNPA / AUM. Yields % figures are annualized

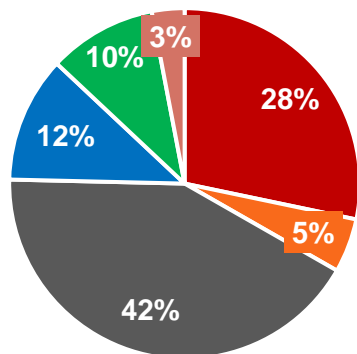
Efficient Liability Management



Funding profile is well diversified with increase in share of funds from Banks/SFB's and NCDs

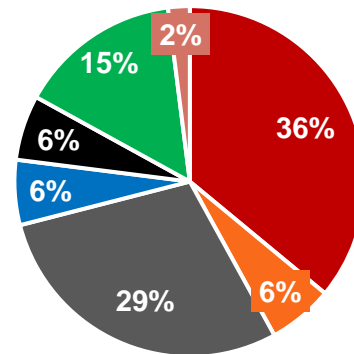
Q4 FY19 - Borrowing Mix %

INR 5,885 Mn



Q4 FY20 - Borrowing Mix %

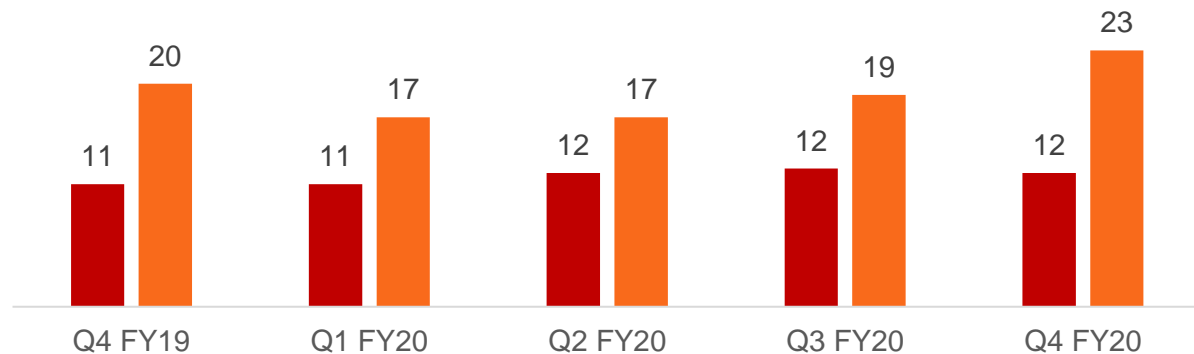
INR 7,655 Mn *



- Banks & SFBs
- NABARD & MUDRA
- NBFC / FI
- Securitization
- ECB
- NCD
- Subordinate Debt

Note: * INR 7,655 Mn includes direct assignment of INR 581 Mn

Positive ALM (in Months)



■ Average Tenor of Active Assets (months) ■ Average Maturity of Active Borrowings (months)

- Well-diversified borrowing mix with increasing share of NCD's, ECB's, NABARD Refinance, MUDRA, Sub-ordinate Debt and Securitization
 - Share of NCD's, ECB's, MUDRA, NABARD Refinance, Subordinate Debt and Securitization represented **~35% of borrowings in Q4 FY20**
- **Share of Banks / SFB's increased from 28% to 36%**
- **Constant rating upgrades** have helped lower cost of funds in recent years
 - Credit rating has moved up **1 notch** in last year: Upgraded to **BBB+ in FY19 (CARE Ratings)**
 - **Ratings Reaffirmed recently to BBB+ for FY-20 by CARE Ratings**
 - Group has A2 rating by CARE Ratings for **short-term bank facilities**
- **Comfortable liquidity position backed by Positive ALM**

Lending partners



Bank Borrowings



Non-Bank Borrowings



Securitization Partners





Arman Financial Services Ltd.



Dealing with the Impact of Covid-19 Pandemic on Operations

Impact of Covid-19 Pandemic on the Operations



Impact on Loan Losses & Provisions, and Profitability

| All Figures in INR Mn | Q1 FY21 | | | | | FY20 | | | | |
|-----------------------|--------------|---------------------------------|--------------------|-----------------|----------------|--------------|---------------------------------|--------------------|-----------------|----------------|
| Business Segment | Reported PAT | Contingent Provisioning (COVID) | COVID Adjusted PAT | Adjusted ROAA % | Adjusted ROAE* | Reported PAT | Contingent Provisioning (COVID) | COVID Adjusted PAT | Adjusted ROAA % | Adjusted ROAE* |
| Consolidated | 53 | 102 | 130 | 6.2% | 29.5% | 415 | 67 | 482 | 6.2% | 32.6% |
| Microfinance | 27 | 57 | 70 | 4.5% | 23.7% | 252 | 45 | 297 | 5.4% | 30.9% |
| Standalone | 33 | 45 | 66 | 11.6% | 43.1% | 182 | 22 | 204 | 9.3% | 39.7% |

Note: ROAE refers to Return on Avg. Equity; ROAA refers to Return on Avg. AUM

Update on Liquidity

- ❑ **Healthy Liquidity position with INR ~1,600 Mn in cash/bank balance, liquid investments, and undrawn CC limits**
- ❑ Successfully raised INR 750 Mn since April 2020
- ❑ Liquidity position has improved driven by the pick-up in collections and the incremental debt capital raised since the start of April. Consequently, the company has repaid all the debt obligations that were due from June'20 onwards and also repaid the moratorium obligations of April & May 2020 (i.e. voluntarily cancelled moratorium) to reduce moratorium interest burden

Update on Disbursements

- ❑ **Gradually resumed disbursements across all segments from August 2020 onwards**
 - In microfinance, the company is primarily renewing loans of existing customers who have made their repayments and completed their tenure.
 - In the MSME & 2-wheeler segments, the company has slowly started disbursing with a **more stringent underwriting process**
- ❑ **Incremental measures taken by the company to further tighten its 2-Wheeler and MSME credit appraisal process. These measures are over & above the existing requirements.**
 - **2W:** 1) Increased down payment and credit score requirements, 2) Currently, not making any fresh disbursements in areas witnessing higher default rates
 - **MSME:** 1) Tightened the positive cash flow requirement, 2) Added an Additional 'Covid Impact Assessment Layer' – where the 'credit team' assess the 'forward-looking impact on cash flows' for the 'occupations that have been impacted by the on-going Covid crisis' as a part of the appraisal process for evaluating fresh disbursals

April – May 2020

❑ MSME & MFI:

- In-line with the broader microfinance industry, and as advised by SRO bodies like MFIN and Sa-Dhan, **Arman had extended moratorium to almost all of its MFI and MSME customers for the months of April & May 2020**. Further, government restrictions and multiple on-ground challenges also prevented the field officers from physically meeting and collecting cash from customers during this period.
- Throughout this period, field officers remained in regular touch with the customers (via phone calls) – ‘to enquire about their safety, understanding the on-ground situation, and assessing the income impact

- ❑ **2-Wheeler:** In the 2W segment, as the collections are received in the electronic form via “NACH/Direct Debit”, **the company continued to accept collections in April & May**, granting moratorium to only the customers that specifically requested for it. In April & May, the bounce rates were 45-50% compared to the normalized level of 15-20%

June – August 2020

❑ From June 2020 onwards, Collections have improved across all 3 segments, reducing the loan book under moratorium (*details given in the table below*)

- Healthy pick-up in 2W and MSME collections in July & August 2020, with both segments recording over 90% repayment rates. The moratorium book is now in single digits as % of the standalone loan book
- August 2020 repayment rates have shown a minor decline compared to July 2020 owing to - 1) Many festivals and holidays falling in the month of August; 2) Heavy rains in numerous areas of operations which created logistical issues; and 3) Continued intermittent lockdowns in several areas of operations

❑ Cumulative Provisions stood at INR 297 Mn as of 30th June 2020 covering 3.9% of the on-book AUM

- **Namra:** Cumulative Provisions stood at INR 192 Mn covering 3.4% of the on-book AUM (June'20). **Standalone:** Cumulative Provisions stood at INR 105 Mn covering 5.1% of the on-book AUM (June'20)

- ❑ *“The collection efficiency is expected to improve over the next 2-3 months as unlocking of economy gains pace, restrictions are further relaxed, and the RBI moratorium period comes to an end.”*

Collection Efficiency % (June – August 2020)

| Business Segment | Collections Due (Jun'20) | Amount Collected (Jun'20) | Collection Efficiency % (Jun'20) | Collections Due (July'20) | Amount Collected (July'20) | Collection Efficiency % (July'20) | Collections Due (Aug'20) | Amount Collected (Aug'20) | Collection Efficiency % (Aug'20) |
|------------------|--------------------------|---------------------------|----------------------------------|---------------------------|----------------------------|-----------------------------------|--------------------------|---------------------------|----------------------------------|
| Total | 884 | 580 | 66% | 863 | 694 | 81% | 844 | 666 | 80% |
| Microfinance | 672 | 393 | 59% | 657 | 497 | 76% | 651 | 485 | 75% |
| MSME | 140 | 119 | 85% | 139 | 132 | 95% | 129 | 119 | 92% |
| Two-wheeler | 72 | 68 | 95% | 68 | 66 | 97% | 63 | 61 | 97% |

Note: All the amounts are in INR Mn.



Thank You



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Arman Financial Services Ltd.



Financial Performance Update - Q1 FY21

Q1 FY21 - Consolidated & Segmental Profit & Loss Statement



| | Consolidated | | | Namra Finance | | | Standalone | | |
|--|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Particulars (INR Mn) | Q1 FY21 | Q1 FY20 | YoY (%) | Q1 FY21 | Q1 FY20 | YoY (%) | Q1 FY21 | Q1 FY20 | YoY (%) |
| Assets Under Management (AUM) | 8,231 | 7,241 | 14% | 6,051 | 5,137 | 18% | 2,180 | 2,104 | 4% |
| Disbursements | - * | 1,901 | - | - * | 1,395 | - | - * | 506 | - |
| Income from Operations | 490.6 | 477.8 | 3% | 330.6 | 320.1 | 3% | 161.8 | 158.5 | 2% |
| Other Income | 3.3 | 4.1 | (20%) | 2.8 | 4.1 | (32%) | 6.6 | 3.1 | 109% |
| Gross Total Income | 493.9 | 482.0 | 2% | 333.4 | 324.3 | 3% | 168.4 | 161.7 | 4% |
| Finance Costs | 223.5 | 187.2 | 19% | 172.2 | 139.3 | 24% | 53.1 | 48.7 | 9% |
| Net Total Income (NTI) | 270.4 | 294.8 | (8%) | 161.2 | 184.9 | (13%) | 115.2 | 113.0 | 2% |
| Employee Benefits Expenses | 83.0 | 80.1 | 4% | 57.2 | 49.9 | 15% | 25.7 | 30.0 | (14%) |
| Depreciation and Amortisation | 2.1 | 1.6 | 31% | 1.8 | 1.3 | 35% | 0.3 | 0.2 | 9% |
| Other Expenses | 16.6 | 36.5 | (55%) | 11.8 | 24.0 | (51%) | 4.9 | 12.7 | (62%) |
| Pre-Provision Operating Profit | 168.7 | 176.6 | (4%) | 90.4 | 109.7 | (18%) | 84.4 | 70.1 | 20% |
| Regular Provisions & Write-offs * | 0.5 | 14.8 | (96%) | 0.5 | 8.6 | (94%) | - | 6.2 | - |
| Additional Covid-Specific Provision | 101.9 | - | - | 57.2 | - | - | 44.7 | - | - |
| Profit After tax (Reported) | 53.1 | 121.1 | (56%) | 26.6 | 71.9 | (63%) | 32.5 | 52.3 | (38%) |
| Profit After tax (Adjusted for Covid Provision) | 129.9 | 121.1 | 7% | 69.5 | 71.9 | (3%) | 66.1 | 52.3 | 26% |
| GNPA % | 1.1% | 1.1% | 6 bps | 0.9% | 0.7% | 27 bps | 1.6% | 2.0% | (41 bps) |
| NNPA % (After ECL Impact) | 0.1% | 0.5% | (45 bps) | 0.0% | 0.2% | (20bps) | 0.3% | 1.3% | (102 bps) |
| Return on Avg. AUM % | 2.5% | 6.9% | (435 bps) | 1.7% | 5.8% | (403 bps) | 5.7% | 10.2% | (447 bps) |
| Return on Avg. Equity % # | 12.1% | 36.0% | (2386 bps) | 9.3% | 35.0% | (2,579 bps) | 21.8% | 39.8% | (1802 bps) |

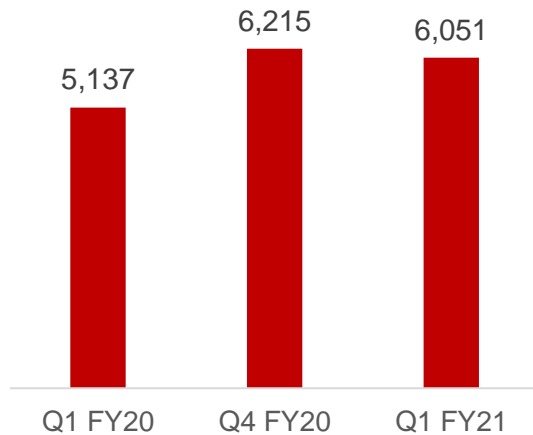
Note:

- * Nationwide Lockdown and the Covid-19 induced disruption led to the disbursements being halted. Company's priority was on improving the collection efficiency
- # Fully-diluted equity base
- Income from Operations includes: Interest Income on loans and managed assets; processing fees, and other charges in respect of loans. Other Income includes capital gains on liquid funds
- There may be minor variations between Namra + Standalone figures and the consolidated figures due to eliminations / knock-offs
- RoE = PAT / Avg. Fully Diluted Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book). RoE and Return on Avg. AUM figures are annualized

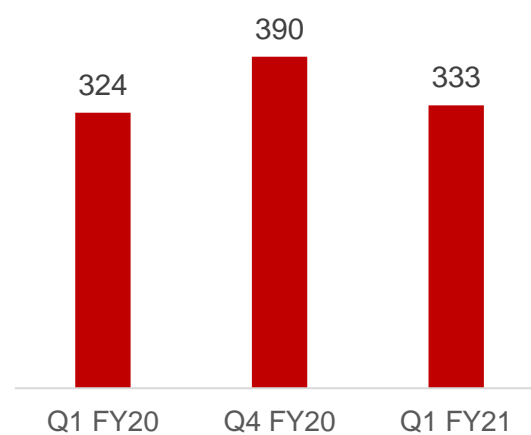
Q1 FY21 - Microfinance Performance Update



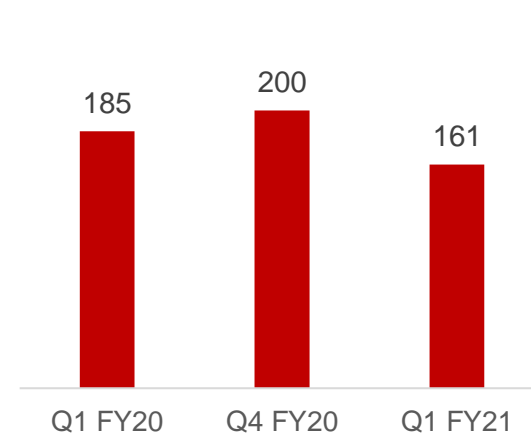
AUM (INR Mn)



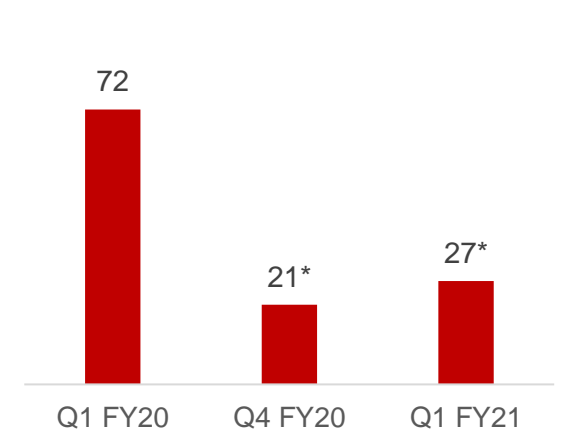
Gross Total Income (INR Mn)



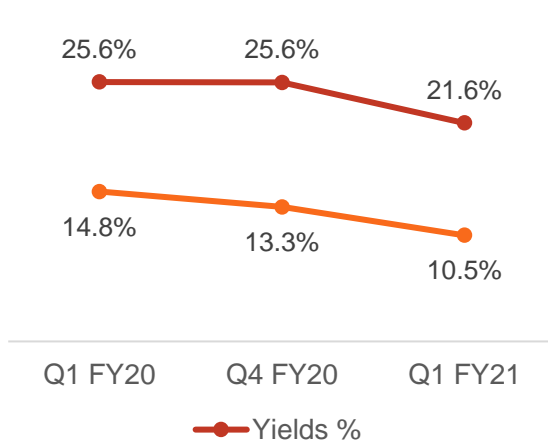
Net Total Income (INR Mn)



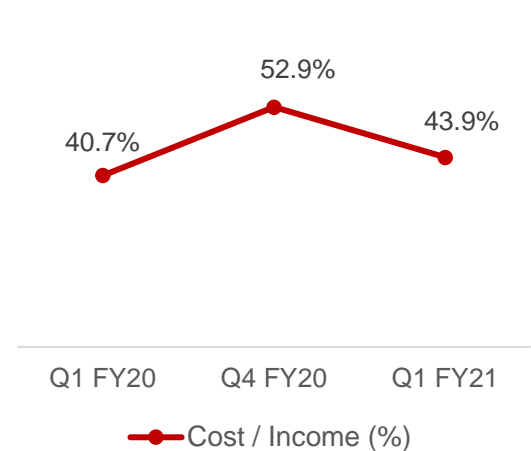
PAT (INR Mn)



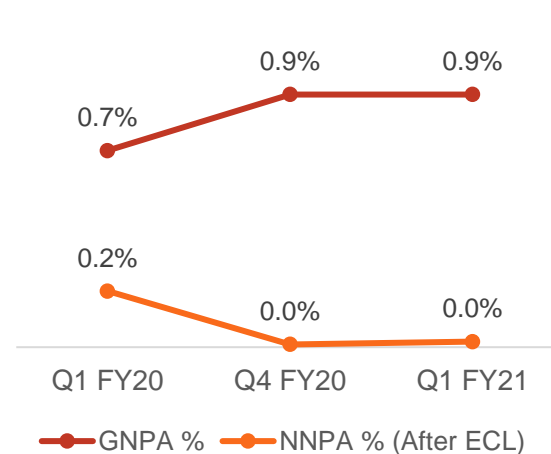
Yields % and NIM %



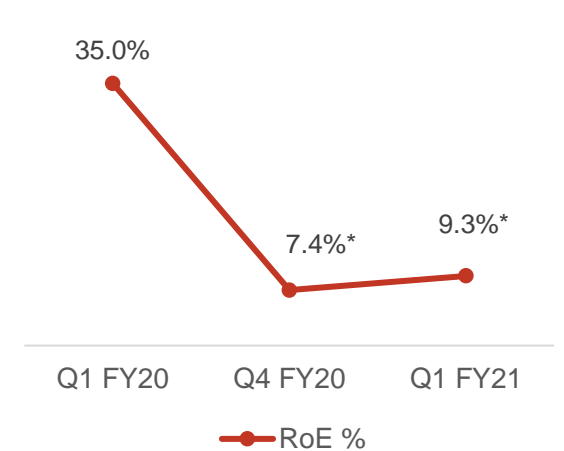
Cost-to-Income Ratio %



Asset Quality



ROE %



Note:

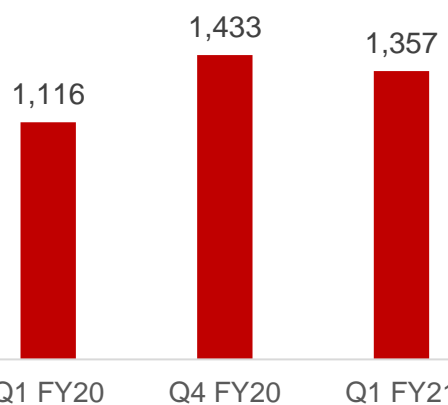
- * Includes Covid specific provision of INR 45.3 Mn in Q4 FY20 and INR 57.2 Mn in Q1 FY21
- NIM = $NTI / \text{Avg. AUM (On + Off-Book)}$; Yields = $\text{Gross Interest Income} / \text{Avg. AUM (On + Off-Book)}$; Cost-to-Income Ratio = $\text{Opex (excl. provisions)} / \text{Net Total Income}$; NNPA % = $NNPA / AUM$; RoE = $PAT / \text{Avg. Equity}$. RoE, Yields and NIM % figures are annualized

Q1 FY21 - MSME & 2W Performance Update

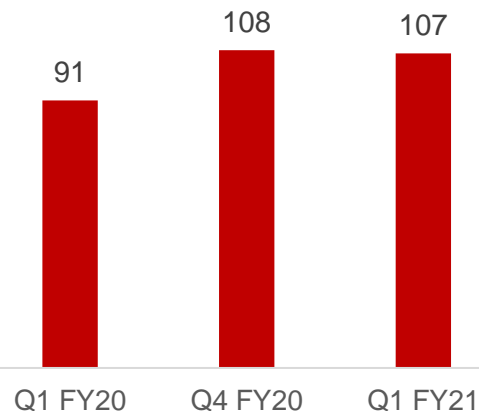


Q1 FY21 – MSME Segment Performance Update

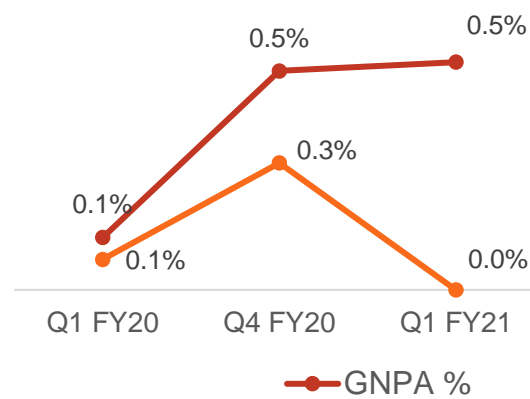
AUM (INR Mn)



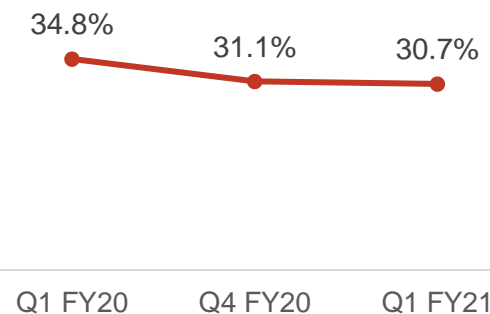
Gross Interest Income (INR Mn)



Asset Quality

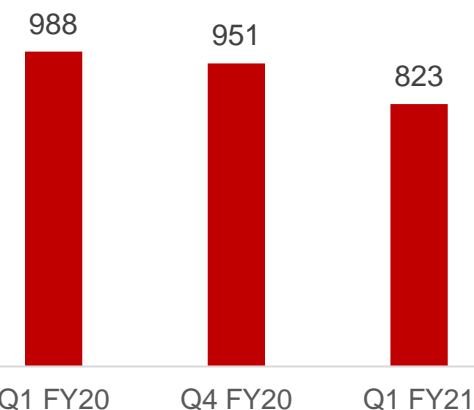


Yields %

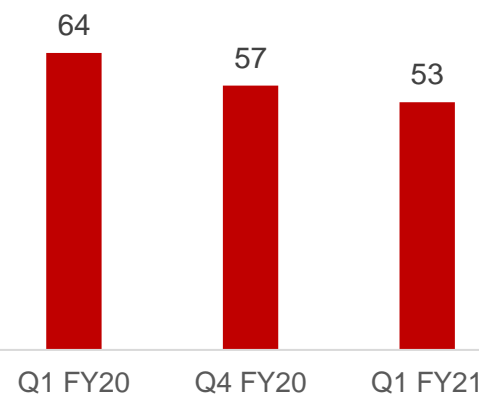


Q1 FY21 - 2W Segment Performance Update

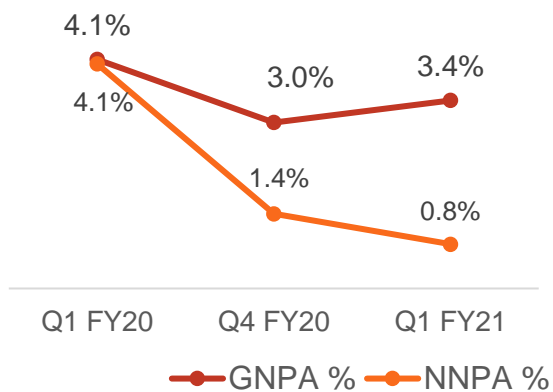
AUM (INR Mn)



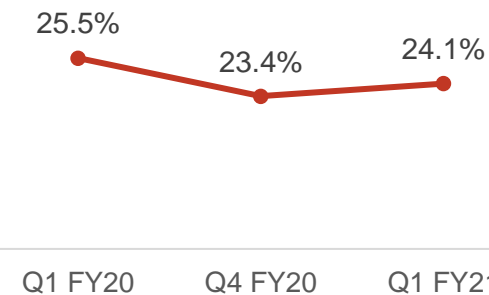
Gross Interest Income (INR Mn)



Asset Quality



Yields %



Note: Gross Interest Income = Interest Income + processing fees / other charges, Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NNPA % = NNPA / AUM. Yields % figures are annualized.



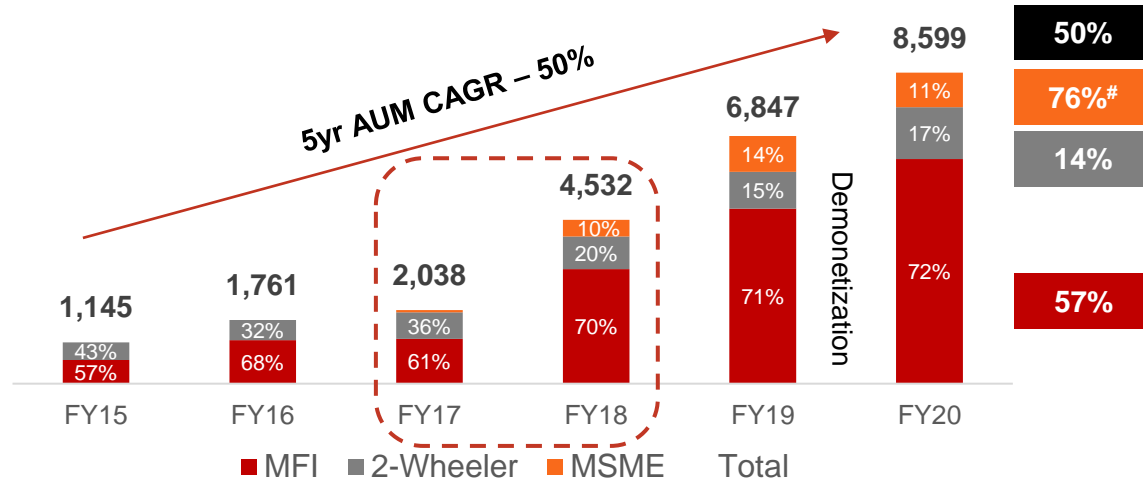
from ACCESS to INCLUSION

Annexures & Supplementary Information

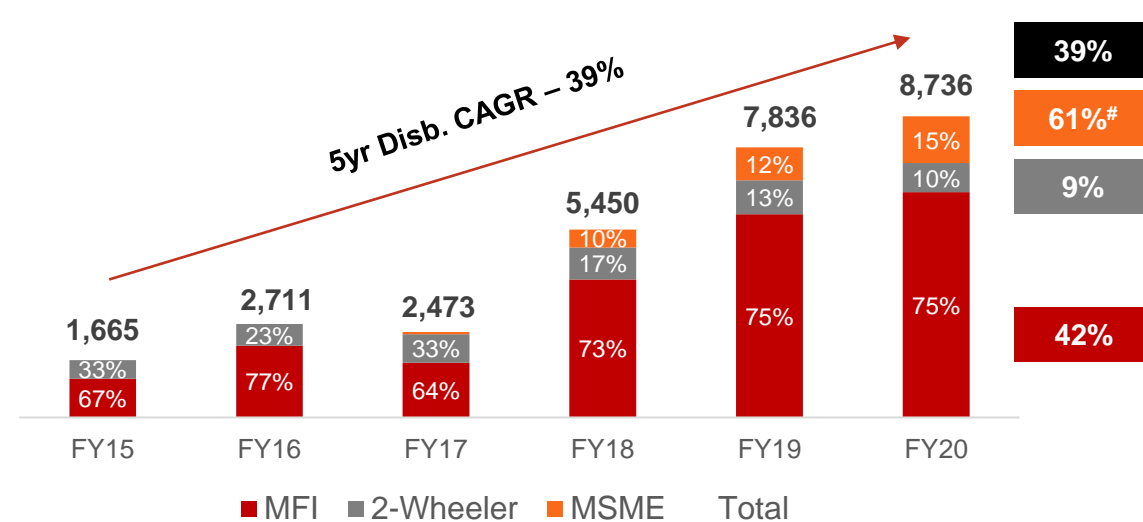
Strong Growth in AUM and Revenue....



AUM (INR Mn)



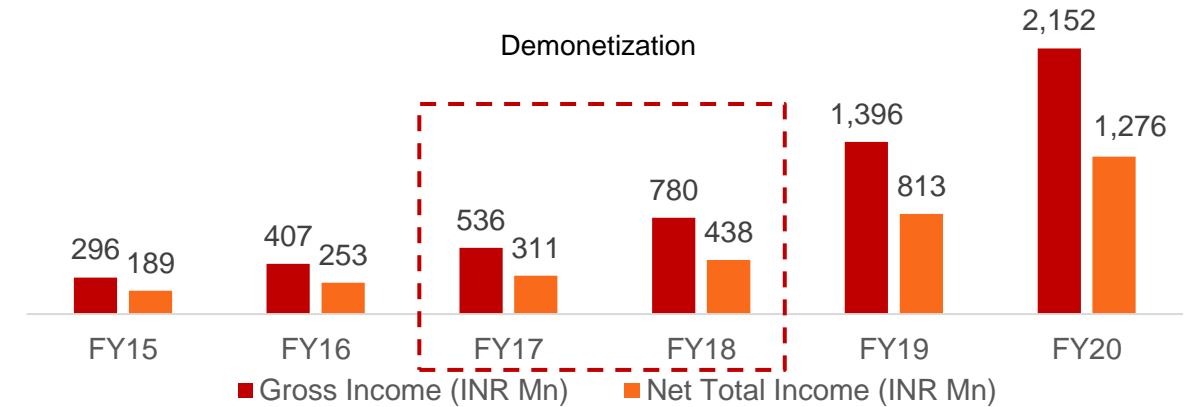
Disbursements (INR Mn)



Gross Income and Net Total Income (INR Mn)

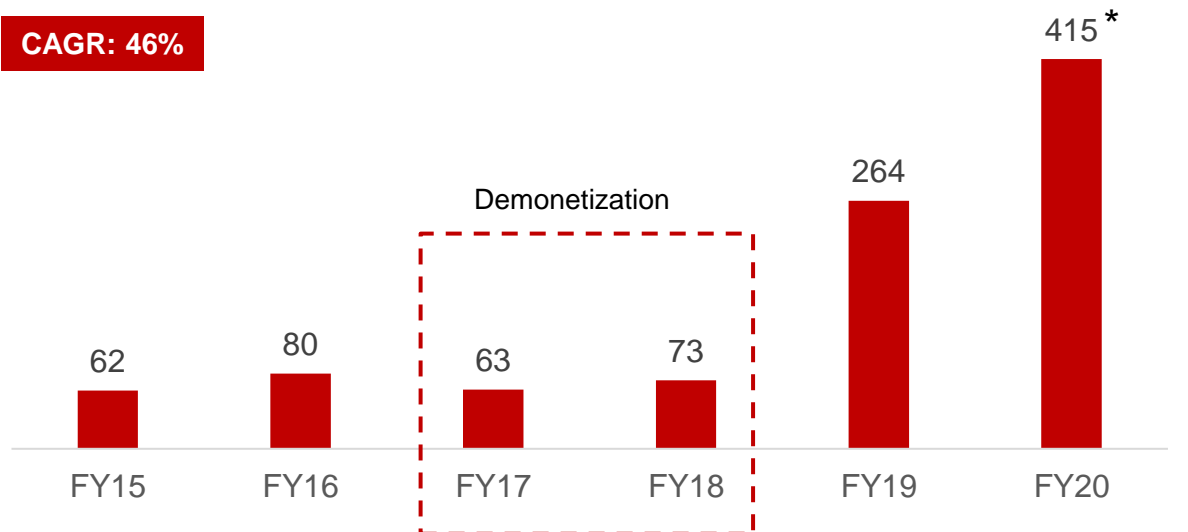
CAGR: 49%

CAGR: 47%



PAT (INR Mn)

CAGR: 46%

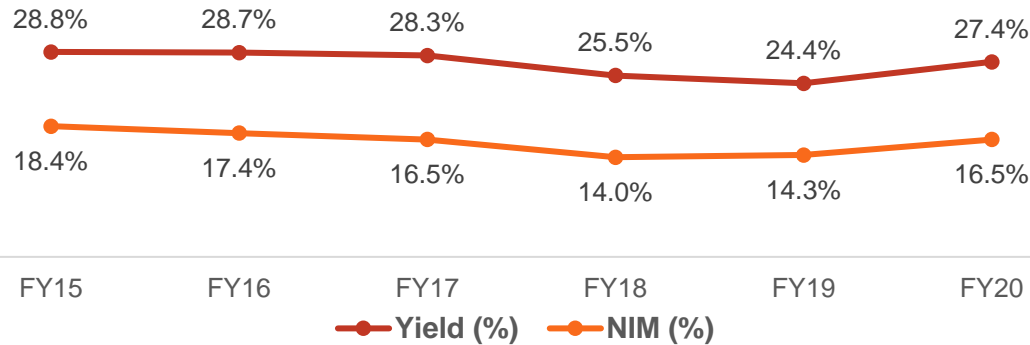


Note: * Includes Covid specific provisioning of INR 66.8 Mn. FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. # - MSME started in FY17; MSME CAGR is 2yr CAGR (FY18-20)

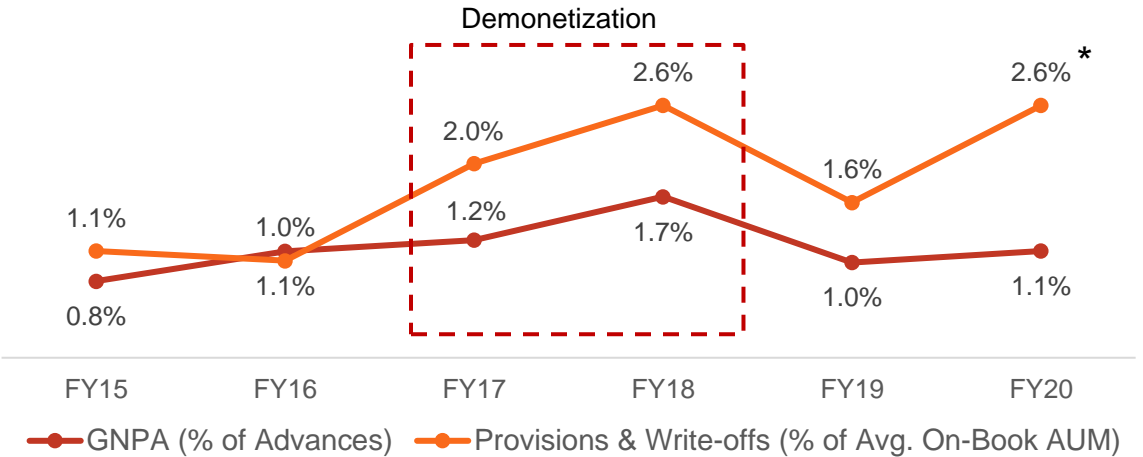
.....While Maintaining Superior Cost Efficiency & Asset Quality



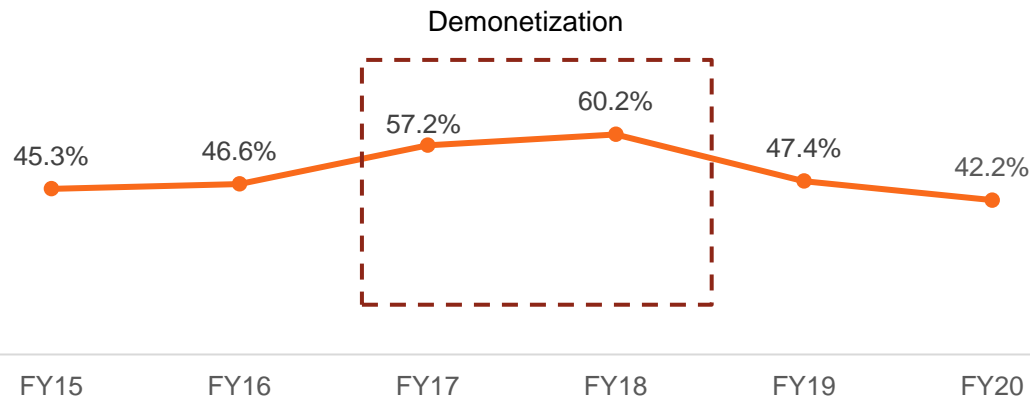
Yield % and NIM %



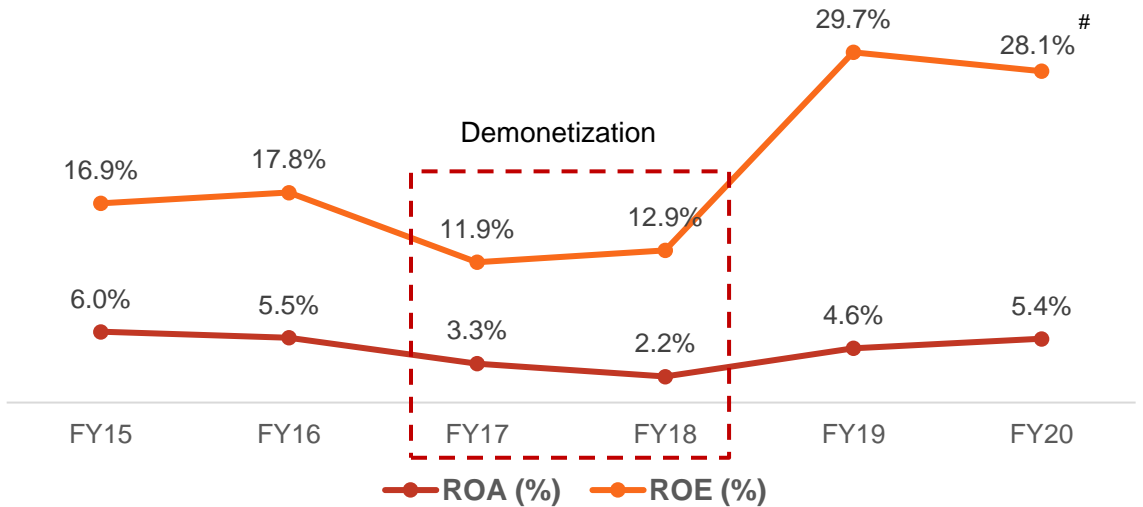
Focus on risk have led to immaculate through-cycle asset quality



Cost to Income Ratio %



Consistently high through cycle ROA / ROE



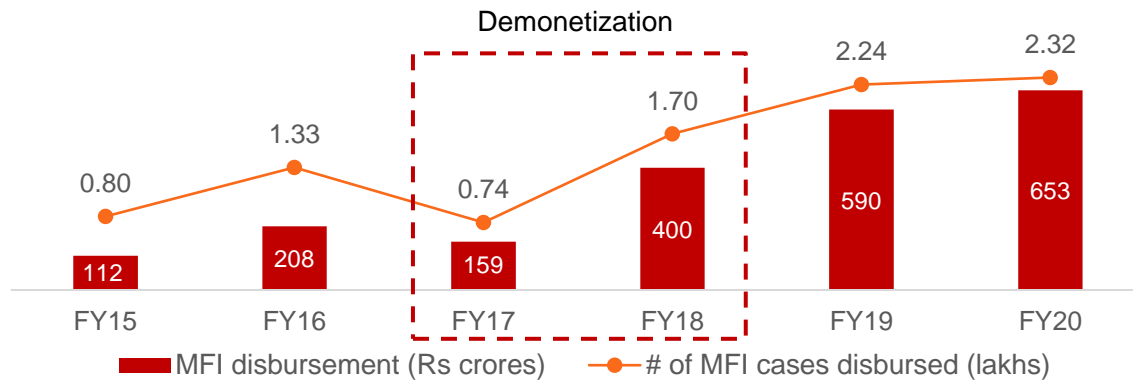
Note:

- * Includes Covid specific provisioning of INR 66.8 Mn. # Adjusted for the Covid Provisioning of INR 66.8 Mn, PAT would have stood at INR 482 Mn in FY20; and ROE would have been 32.6%
- FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. NIM = NII / Average AUM (On + Off-Book); Yields = Gross Income / Average AUM

Microfinance: 5-Year Performance



Disbursement growth is driven by customer & branch addition

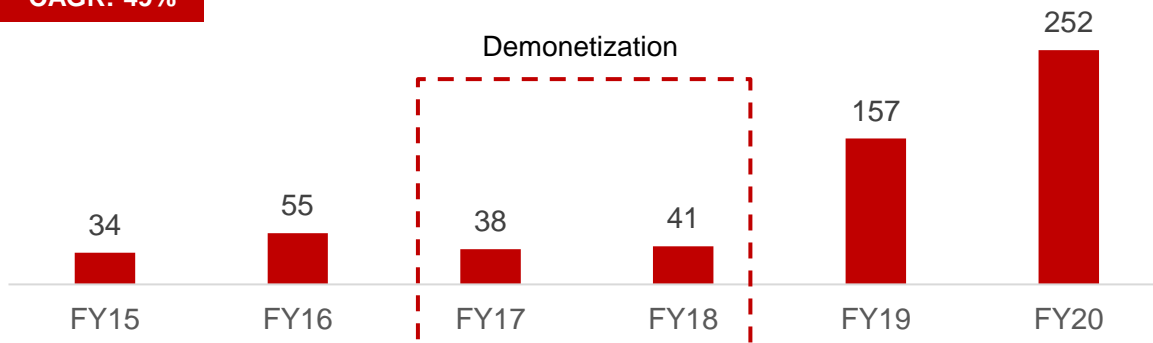


| | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|------------------------|--------|--------|--------|--------|--------|--------|
| MFI Branches | 39 | 55 | 80 | 107 | 138 | 170 |
| Avg. Ticket size (INR) | 13,937 | 15,583 | 21,477 | 23,517 | 26,358 | 28,133 |

| | Disbursement | Customers | Ticket size |
|------------------|--------------|-----------|-------------|
| FY15-20 CAGR (%) | 42% | 26% | 16% |

PAT (INR Mn)

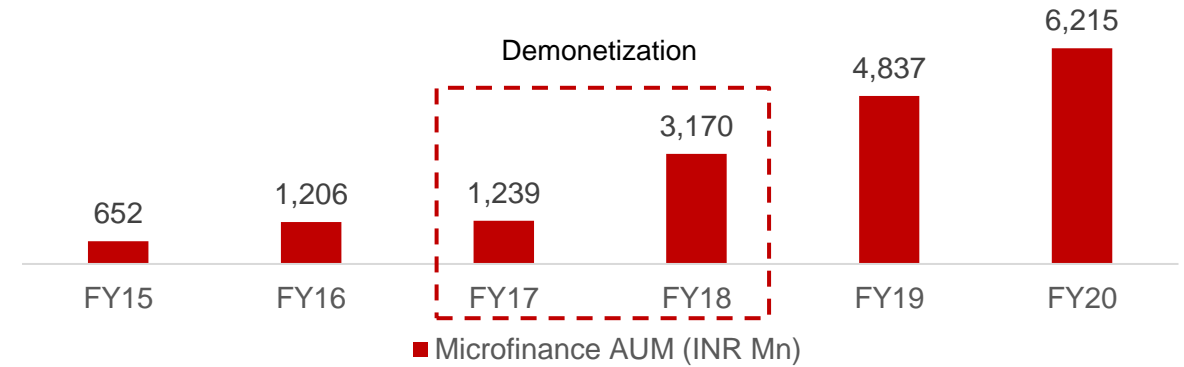
CAGR: 49%



Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP.

AUM growth exceeds MFI industry growth rates

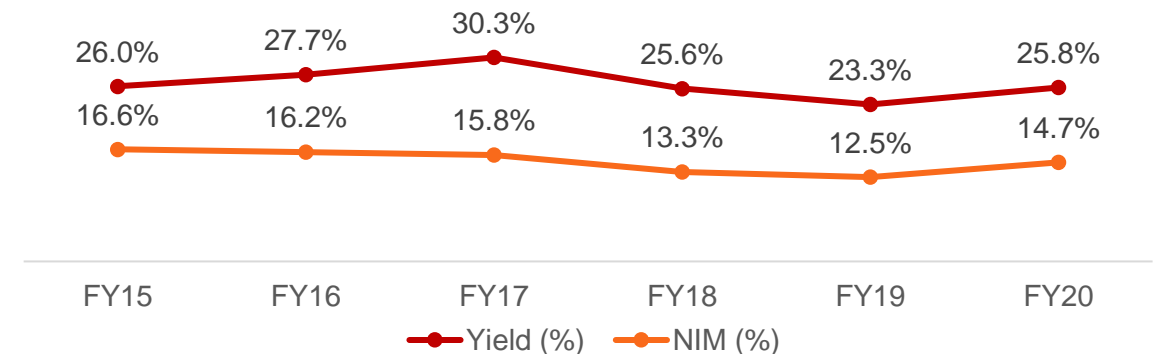
CAGR: 57%



| | 5yr AUM CAGR (%) | FY20 AUM growth (%) |
|------------------------|------------------|---------------------|
| MFI Industry | 23% | 18% |
| Namra (MFI Operations) | 57% | 29% |

*MFI Industry = NBFC-MFIs + SFBs only. Source - MFIN Micrometer Q4FY20

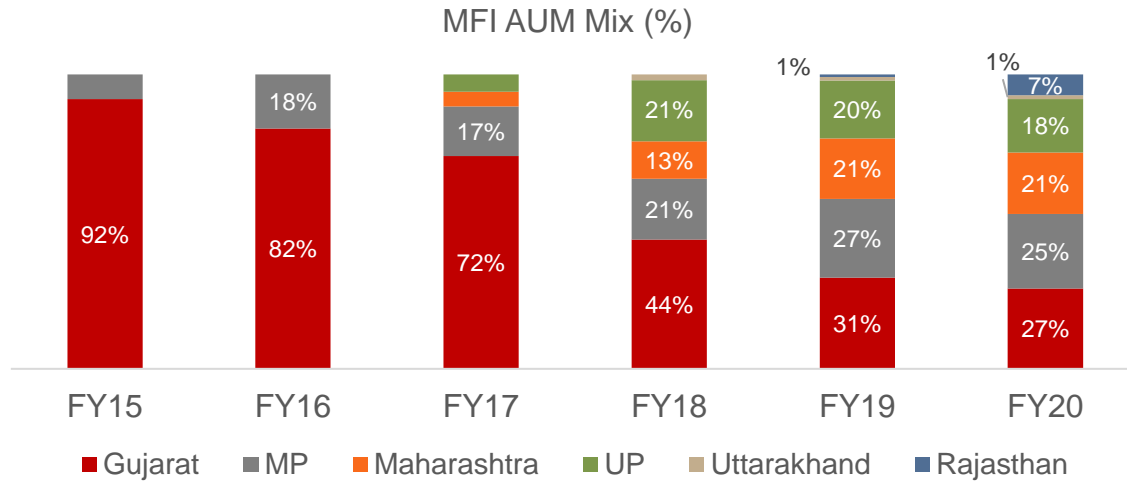
Yields (%) & NIM (%) Trend



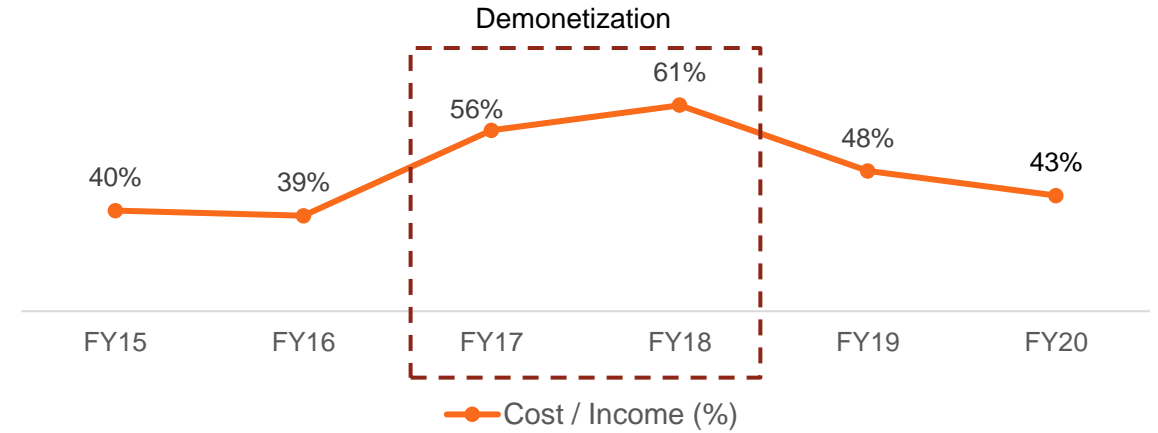
Microfinance: 5-Year Performance



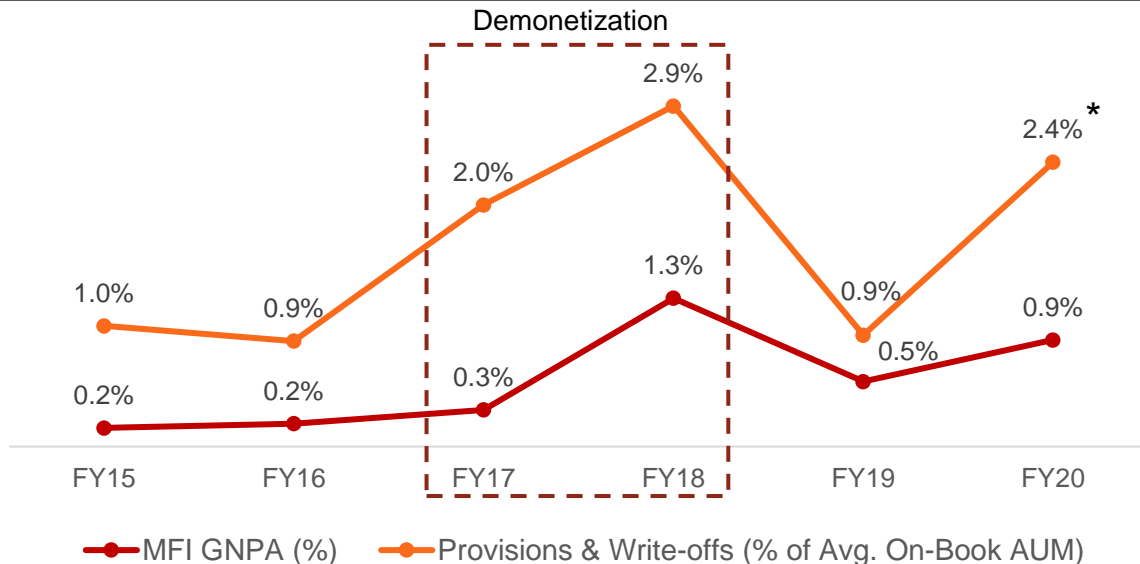
Well diversified across geographies



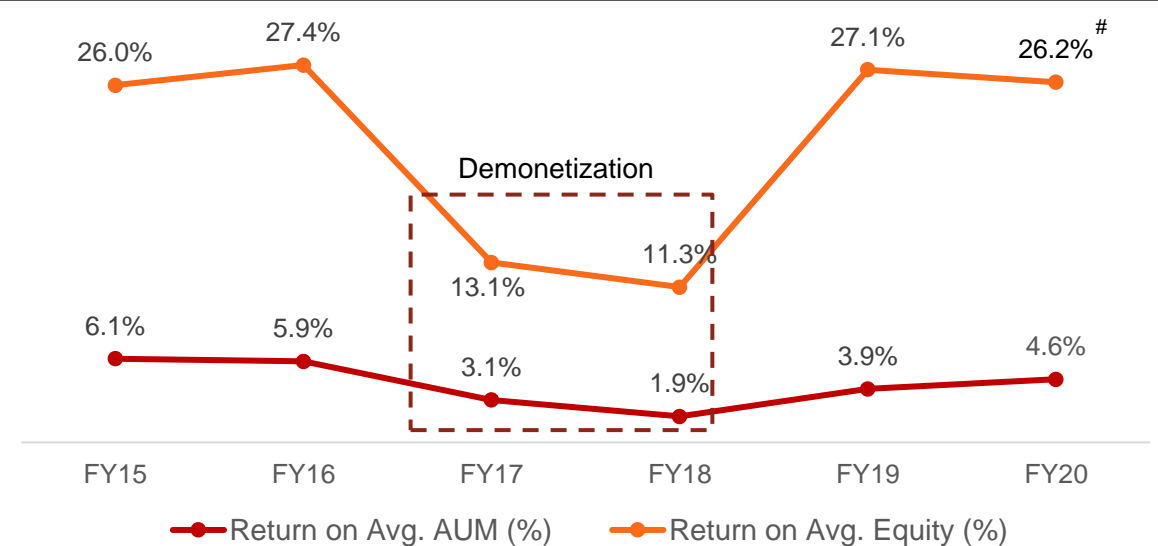
Maintaining high operational efficiency



Through cycle asset quality under control



Sustaining strong ROA (%) & ROE (%)

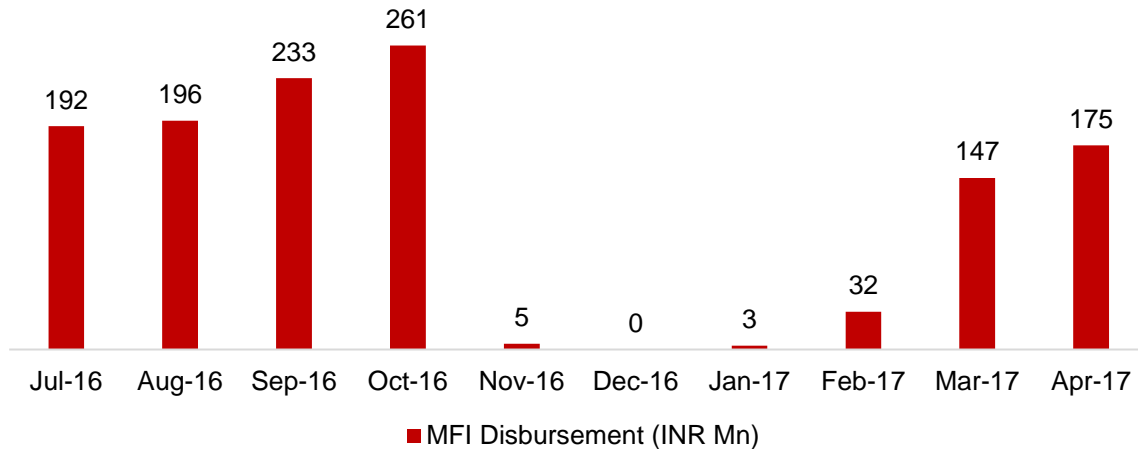


Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. * Includes Covid specific provisioning of INR 45.3 Mn. # Adjusted for Covid Provisioning, ROE stood at 30.9% in FY20

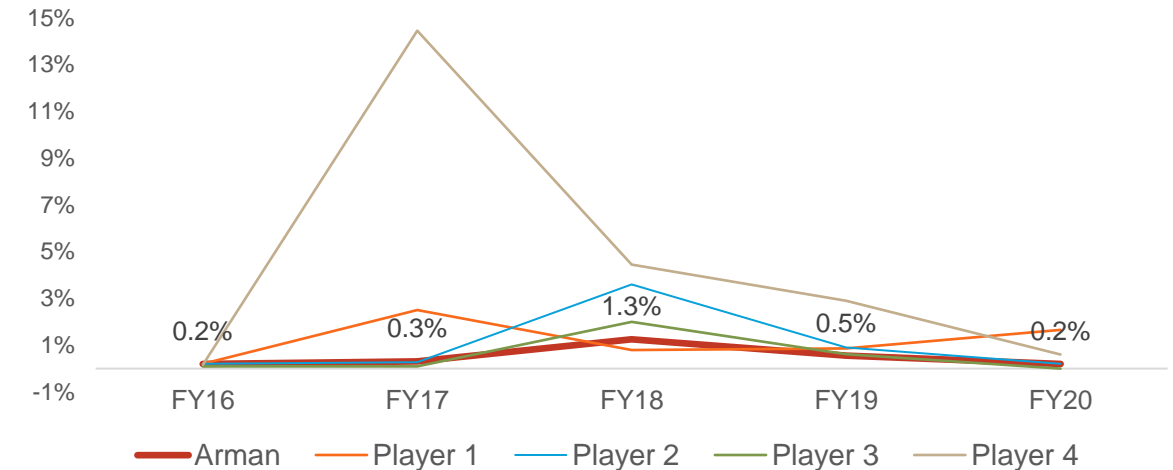
Demonstrated Resilience



MFI Disbursements were stopped from Nov 2016 to Feb 2017



Superior MFI GNPA performance as compared to listed peers



Conservative approach → Superior Asset Quality performance

Reasons for superior performance

- **Superior location selection** due to conservative risk framework –
 - Policy of opening branches in less concentrated areas
 - Focusing on growth by acquiring customers; consciously containing ticket size
- **Conservative leverage ratios** pre-demonetisation of 3.5x Debt / Equity
- **Sufficient liquidity cushion** - CRAR - 38.5% as of 31 March 2017

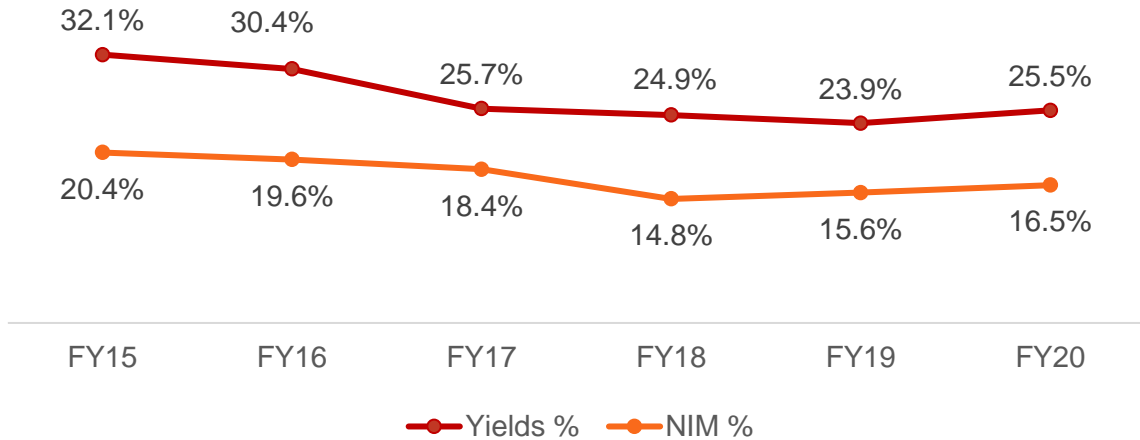
Changes at Arman post demonetisation

- Created **dedicated recovery team**
- Started **100% cashless disbursements**
- Arman proactively started focusing on **geographical and product diversification**
- MFI portfolio created post demonetization had a 99%+ repayment rate up to FY20 (Pre-Covid)

2W Loans: 5-Year Performance

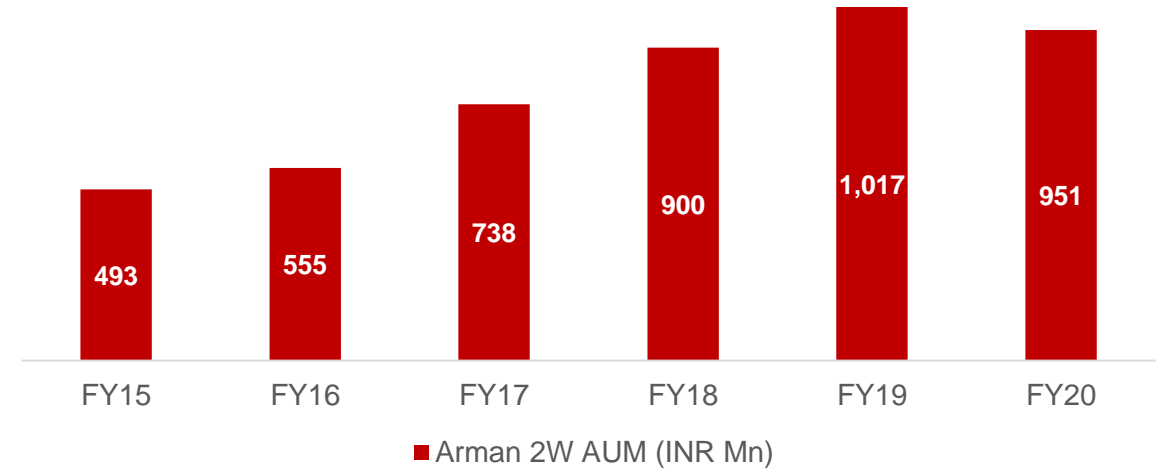


Yields (%) & NIM (%) Trend

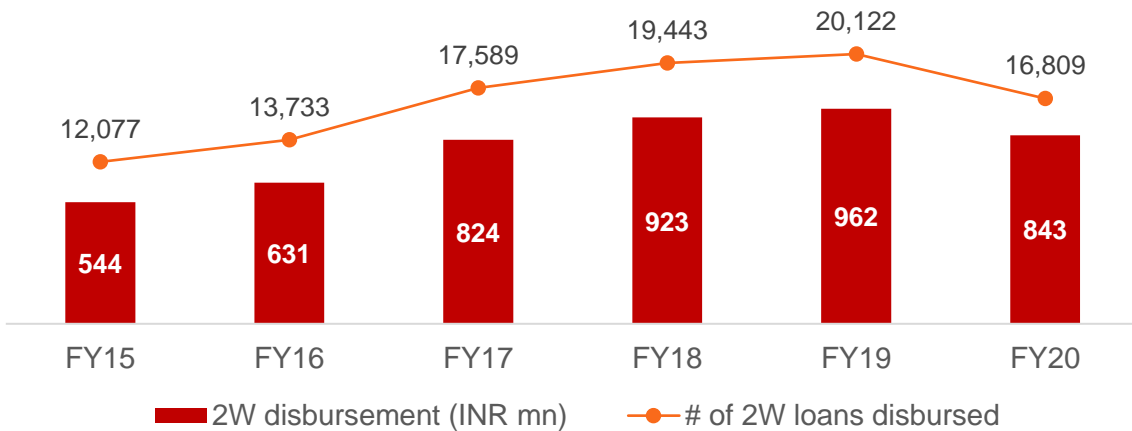


Arman 2W AUM/ has seen steady growth over FY15-20

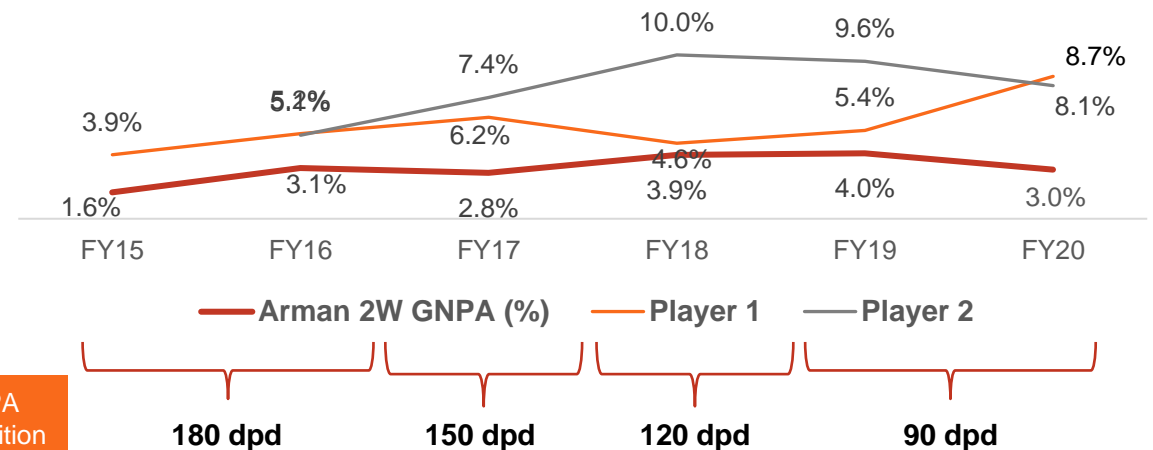
CAGR: 14%



Disbursement growth is driven by increase in 2W volumes



Collection focus has ensured superior NPA as compared to peers; NPA has inched up because of change in recognition norms



GNPA recognition

180 dpd

150 dpd

120 dpd

90 dpd

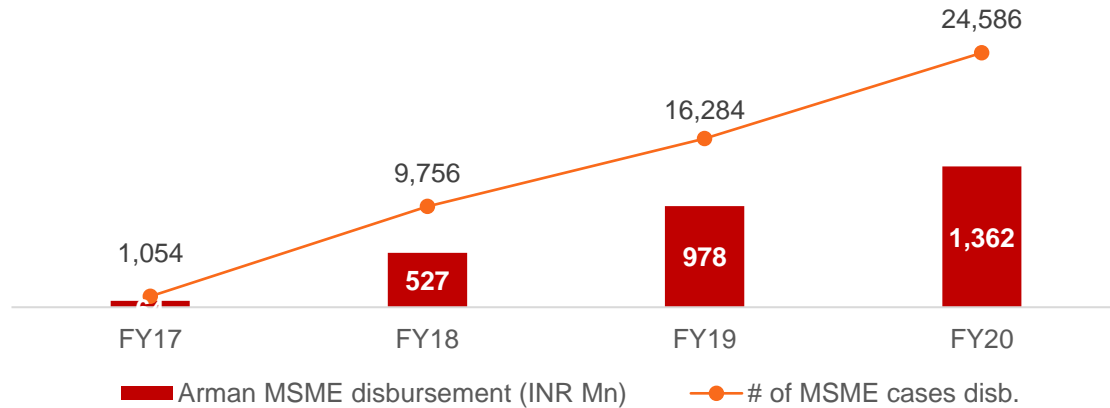
Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP.

MSME Loans: 3-Year Performance



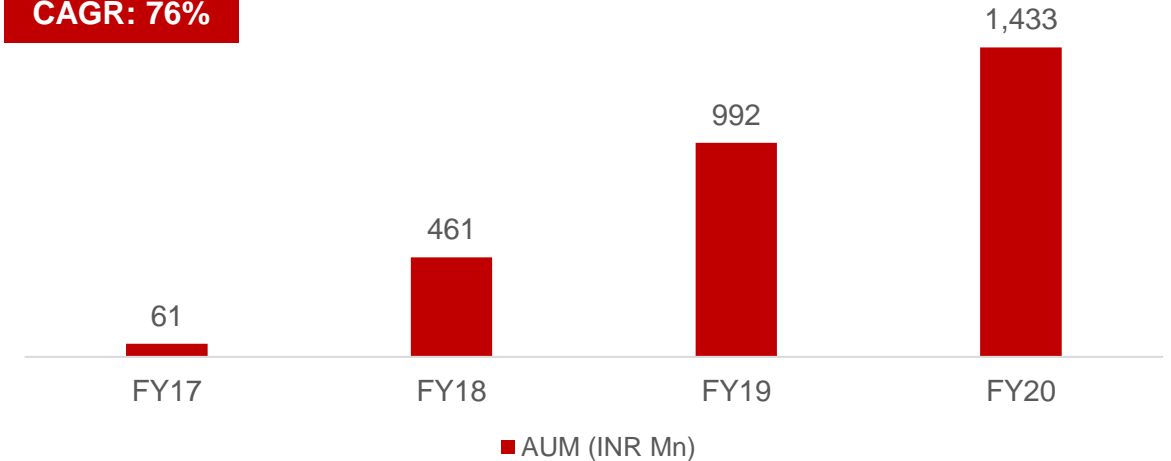
Disbursement Growth

CAGR: 61%

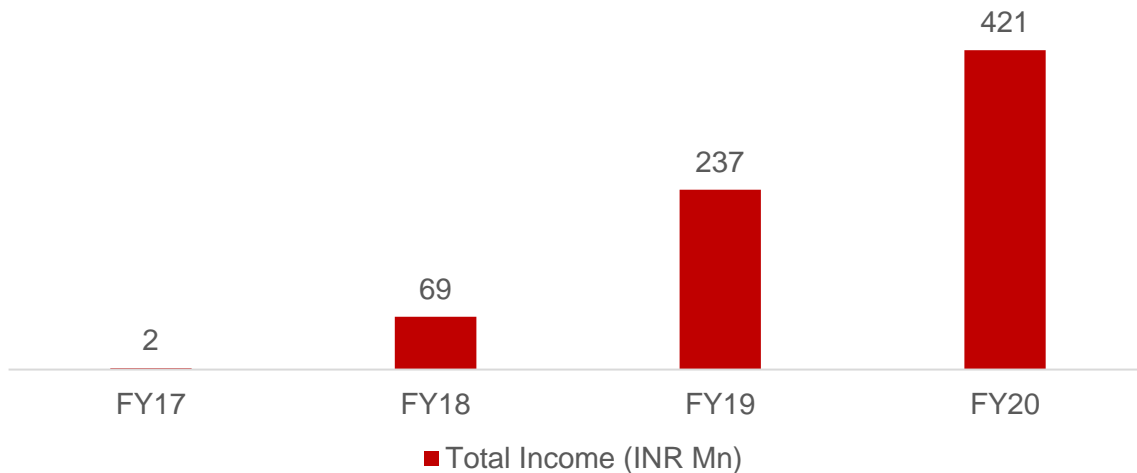


AUM Growth

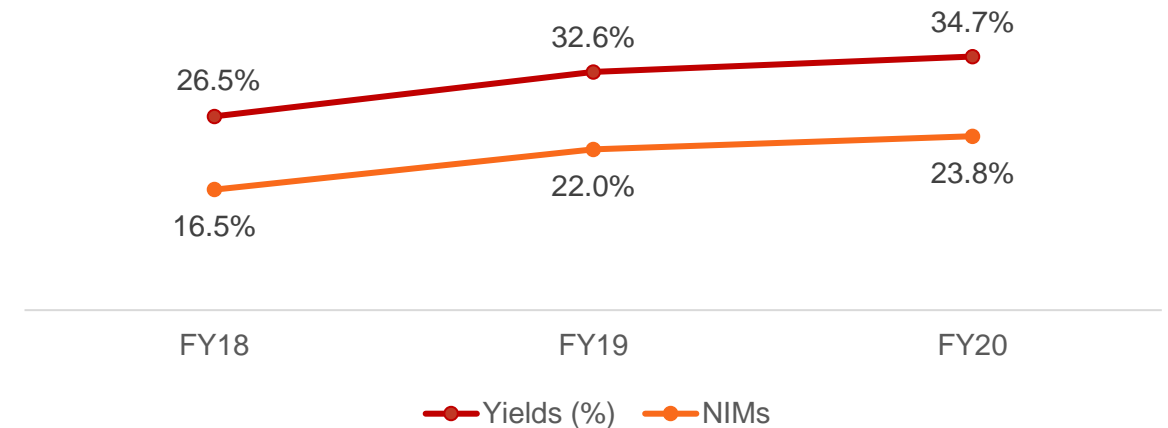
CAGR: 76%



Total Income Growth



Yields (%) & NIM (%) Trend



Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. # - MSME started in FY17; MSME CAGR is 2yr CAGR (FY18-20)