



Arman Financial Services Ltd.

Arman Financial Declares Q3 & 9M FY21 Results Q3 Disbursements Grow 260% Sequentially Accelerated Provisioning to minimise Future Volatility

Ahmedabad, India, 12 February 2021: Arman Financial Services Ltd (Arman), a Gujarat based non-banking financial company (NBFC), with interests in microfinance, two-wheelers, and micro-enterprise (MSME) loans, announced its financial results for the quarter and nine months ended 31st December 2020.

Particulars (In ₹ Crores)	Q3 FY21	Q3 FY20	YoY%	9M FY21	9M FY20	YoY%
Assets Under Management (AUM)	720.0	823.8	(13%)	720.0	823.8	(13%)
Total Disbursement	181.9	225.8	(19%)	234.5	648.8	(64%)
Gross Total Income	47.9	57.0	(16%)	148.9	159.6	(7%)
Pre-Provisioning Operating Profit	18.0	22.5	(20%)	55.5	58.9	(6%)
Total Provisioning & Write-Offs	14.7	4.4	236%	43.6	8.1	440%
Profit After Tax	2.9	13.5	(78%)	9.7	37.7	(74%)
GNPA %	*0.7%/4.1%	1.2%	(290 bps)	*0.7%/4.1%	1.2%	(290 bps)
NNPA %	*0.0%/0.6%	0.5%	(10 bps)	*0.0%/0.6%	0.5%	(10 bps)
RoE % #	5.00%	27.7%	(2270 bps)	5.6%	25.7%	(2010 bps)

Note: # RoE figures have been computed a fully diluted equity base and annualized for Q3 FY21 & Q3 FY20; *GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order

Consolidated Financial Highlights – Q3 FY2021

- **Assets under management** as on 31st Dec'20 stood at ₹ 720.0 crores, lower by 13% YoY as higher repayment rates combined with lower disbursements led to a run-down in the loan book.
- **Disbursements picked-up the pace gradually across all segments from Oct'20 onwards.** Loan Disbursements during Q3 FY21 stood at ₹ 181.9 crores, up 260% QoQ; the pace of disbursements is expected to reach pre-covid level from Q1FY22 onwards.
 - In microfinance segment, the company primarily focused on renewing loans of existing customers who have made their repayments and completed their tenure during Q3.
 - In the MSME & two-wheeler segments, the company has taken a cautious approach while disbursing the fresh loans by increasing underwriting and reducing ticket sizes.
- **Shareholders Equity** stood at ₹ 184.3 crores as on 31st Dec'20.
- **Comfortable Leverage Position:** Debt-Equity Ratio as on 31st Dec'20 was 3.1x (excluding direct assignment)
- **Gross Total Income** declined by 16% YoY to ₹ 47.9 crores on account of lower booking of processing fees due to lower disbursements and a decline in the portfolio. Similarly, Net Total Income decreased by 14% YoY to ₹ 30.7 crores.
- **Finance cost came down by 19% YoY to ₹ 17.2 crores** as the average borrowings reduced on YoY basis, combined with raising of debt funds at relatively lower rates from NABARD, SIDBI & MUDRA.
- **Pre-Provisioning Operating Profit** decreased by 20% YoY to ₹ 18.0 crores due to lower net total income as a result of a decline in the portfolio. The cost-to-income ratio stood at 41.3% in Q3 FY21 versus 37.1% in Q3 FY20.
- **Provisions** for the quarter increased to ₹ 14.7 crores, as the company prudently continued to undertake aggressive provisioning to protect against potential asset quality risks on account of the Covid-induced disruption. Cumulative Total Provisions stood at ₹ 51.7 Crore as on 31st Dec'20, covering 7.5% of the on-book AUM on a consolidated basis.
- **Given the higher provisioning, Profit after tax stood lower at ₹ 2.9 crores for 3 months ended and ₹ 9.7 crores for the 9 months ended 31-Dec-20.** Adjusted for the higher provisioning on account of the Covid-induced disruption, Profit after tax would have been substantially higher.

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- Consolidated GNPA stood at *0.7%/4.1%; NNPA stood at *0.0%/0.6%. Provision Coverage Ratio (PCR) for PAR 60+ assets is 110%.
- The company has provided relief to distressed customers by allowing a one-time restructure. The restructuring was provided to willing MFI and MSME customers who showed genuine distress and an EMI reduction was feasible by increasing tenor. As of December 31st, 2021, 5.6% of loans (of which 3.4% were 90+ overdue) have been restructured.
- Total operational branches as on 31st Dec'20 stood at 212 (171 in MFI, 35 in MSME and 6 in 2W)

Update on Collections

Business Segment	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2020
Microfinance	84%	89%	91%	91%	92%
MSME	93%	94%	95%	95%	95%
Two-Wheeler	96%	97%	95%	96%	96%
Total Collection Efficiency %	87%	91%	92%	92%	93%

- Collections improved further across all the segments since September 2020. The repayment rate of new loans disbursed post Covid have a repayment rate of 99.8%+. The priority of the company remains on improving repayment rates (especially in the MFI segment).

Update on Liquidity

- Healthy Liquidity position with ₹ 126.4 crore in cash/bank balance, liquid investments, and undrawn CC limits
- Strong pick-up in collections along with the incremental debt capital raised (₹ 64 crore from Sep'20 onwards) has materially improved the company's liquidity position. The group has over ₹ 20 Cr of sanctioned undrawn Term Facilities. The company has duly repaid all the debt obligations that were due in Q3 FY21 and had accelerated the debt repayment for higher coupon debts in Q2FY21. The company continued to maintain sufficient cash reserves, and will begin reducing average cash reserves post the forth quarter.

Commenting on the company's performance in Q3 FY21, Mr. Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services said, "Despite the multiple challenges, Arman delivered sturdy performance in Q3 FY21. The company's consolidated AUM at the end of Q3 stood at ₹ 720 Crore, lower by 13% on a YoY basis. This was driven by a run-down in the loan book as there was virtually no disbursements during the Lock-Down and Moratorium period, coupled with higher collections efficiencies, and a cautious approach in disbursements.

The cumulative total provisions stood at ₹ 51.7 Crore as on 31st Dec'20, covering 7.5% of the on-book AUM; this will help the company to deal with any possible impairments on account of Covid-19 in the future. Furthermore, we strongly believe that the worst is behind us in terms of covid-19 related impact on our portfolio and we can expect steady improvements in repayment rates and disbursements going forward. Our asset quality continues to remain steady with Net NPA at about 0.6% [if ignoring the hon'ble Supreme Court Order]. Our liquidity position remains strong with ₹ 126.4 crore in cash/bank balance, liquid investments, and undrawn CC limits.

Most importantly, collections across all the 3 segments improved marginally since October 2020. Repayment rates for December 2020 dues closed at 91% for the MFI segment; 95% for the MSME segment; and 96% for the 2-wheeler segment. Overall, the company has achieved ~92% blended collection efficiency in December 2020, and it is especially encouraging to see the steady pick-up in MFI collections over the last 3-4 months. Our conservative disbursements post covid has paid off, with an collection efficiency of 99.87% for all newly disbursed loans.

After resuming the disbursements from August 2020 onwards, the company witnessed a significant uptick in the disbursements in Q3FY21 which grew 260% sequentially to ₹ 181.9 Crore. However, the company is undertaking disbursements through a very cautious lens. The company has tightened its credit assessment screenings, and the focus remains on maintaining the quality and profitability of the portfolio. We are also happy to announce that we have resumed our pan-india expansion strategy, with

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new branches opening in Harayana and Rajasthan in the fourth quarter. The plan is to build a solid growth and recovery foundation for FY2021-22; to that end, we plan to open 25-30 new branches before the fiscal year end.

Various RBI and government initiatives to support the NBFCs-MFI have helped the industry as well as Arman to reduce the incremental cost of debt significantly. We also welcome RBI's announcement to harmonise the regulatory frameworks for various regulated lenders in the microfinance space, which would stop the regulatory arbitrage amongst the 'Non-NBFC-MFI' microfinance practitioners, and create a more robust industry to prevent overleveraging by the microfinance clients and strengthen client protection principles, amongst other benefits. There was a genuine need for having such framework, which would be uniformly applicable to all regulated lenders in the microfinance space and put all practitioners on a level playing field. .

Going forward, Arman's foremost priority will be to improve its collections from the field and restoring it to the pre-Covid levels. Further, the company will also be focusing on scaling-up disbursements in a calibrated manner and expects the pace of disbursements to pick-up in the forthcoming quarters."

Segmental Performance Update – Q3 FY21 v/s. Q3 FY20

Microfinance - Financial Highlights

Particulars (In ₹ Crores)	Q3 FY21	Q3 FY20	YoY%	9M FY21	9M FY20	YoY%
Assets Under Management	548.7	588.8	(7%)	548.7	588.8	(7%)
Total Disbursement	147.3	160.5	(8%)	187.8	472.9	(60%)
Gross Total Income	33.2	39.5	(16%)	102.1	109.4	(7%)
Pre-Provisioning Operating Profit	11.8	14.5	(18%)	33.5	36.8	(9%)
Total Provisioning & Write-Offs	11.4	2.8	311%	29.0	5.5	427%
Profit After Tax	0.8	8.7	(91%)	4.1	23.1	(82%)
GNPA* %	*0.5%/3.5%	0.9%	260 bps	*0.5%/3.5%	0.9%	260 bps
NNPA %	0.0%	0.3%	(30 bps)	0.0%	0.3%	(30 bps)

- MFI AUM stood at ₹ 548.7 crores – marginally lower by 7% vis-à-vis last year
- Gross NPA % was higher at 3.5% in Q3 FY21. Post ECL adjustment, NNPA % stood at 0.0%.
- Pre-provisioning Operating Profit decreased by 18% YoY to ₹ 11.8 Crore in Q3 FY21.
- Cumulative Total Provisions as of 31 Dec'20 stood at ₹ 33.6 Crore covering 6.4% of the total AUM.
- Interest recognized on NPA assets (90+DPD) was 3.08 cr. There is a 100% provision on this not included in ₹ 33.6 Crore mentioned above.

Two-Wheeler & MSME – Financial Highlights

Particulars (In ₹ Crores)	Q3 FY21	Q3 FY20	YoY%	9M FY21	9M FY20	YoY%
Assets Under Management	171.3	235.0	(27%)	171.3	235.0	(27%)
Total Disbursement	34.5	65.3	(47%)	46.6	175.8	(73)
Gross Total Income	15.4	19.0	(19%)	49.7	52.9	(6%)
Pre-Provisioning Operating Profit	6.6	8.6	(23%)	23.8	23.6	1%
Total Provisioning & Write-Offs	3.3	1.5	120%	14.6	2.6	462%
Profit After Tax	2.6	5.4	(53%)	7.5	16.1	(53%)
GNPA* %	*1.4%/6.0%	1.9%	(410 bps)	*1.4%/6.0%	1.9%	(410 bps)
NNPA* %	*0.0%/2.3%	1.3%	(100 bps)	*0.0%/2.3%	1.3%	(100 bps)

- 2W & MSME AUM stood at ₹ 18.13 crores in Q3 FY21
 - MSME AUM stood at ₹ 116.8 crores

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- 2W AUM declined by 47% YoY to ₹ 54.4 crores, as the 2W sales declined in the last one year given the challenging economic environment. Further, lower disbursements in 9M FY21 along with high repayment rates have led to a run down in the book.
- **In-line with the decline in AUM, Pre-Provisioning Operating Profit** declined by 23% YoY to ₹ 6.6 crores.
- **GNPA % and NNPA %** stood at *1.4%/6.0% and *0.0%/1.9% respectively. (GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order)
- Cumulative Total Provisions stood at ₹ 18.1 crores as on 31 Dec'20, covering 11% of the AUM. (Cumulative Total Provisions includes Cumulative Covid Provision of ₹ 12.9 crores as on 31 Dec'20). Interest recognized on NPA assets (90+ DPD) was 1.29 cr. There is a 100% provision on this interest, which is not included in ₹ 18.1 crores above

About Arman Financial Services Limited

Arman Financial Services Ltd (NSE: ARMANFIN; BSE: 531179) is a category 'A' Non-Banking Finance Company (NBFC) active in the 2-Wheeler, MSME, and Microfinance Lending business. The Microfinance division is operated through its wholly-owned subsidiary, Namra Finance Ltd, an NBFC-MFI. The group operates mostly in unorganized and underserved segment of the economy and mostly serves niche rural markets in Gujarat, Madhya Pradesh, Uttar Pradesh, Maharashtra, Uttarakhand, and Rajasthan through its network of 211 branches and 55+ dealer touchpoints.

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.

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For. Arman Financial Services Limited

Director

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