"Arman Financial Services Limited Q2 FY '25 Conference Call"

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MANAGEMENT:	**MR. JAYENDRA PATEL – VICE CHAIRMAN AND MANAGING DIRECTOR – ARMAN FINANCIAL SERVICES LIMITED** **MR. ALOK PATEL – JOINT MANAGING DIRECTOR – ARMAN FINANCIAL SERVICES LIMITED** **MR. VIVEK MODI – GROUP CHIEF FINANCIAL OFFICER, ARMAN FINANCIAL SERVICES LIMITED**
MODERATOR:	**MR. MAYANK MISTRY - JM FINANCIAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Arman Financial Services Q2 FY '25 Conference Call hosted by JM Financial.

As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touch tone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Mayank Mistry from JM Financial. Thank you and over to you, sir.

Mayank Mistry: Thank you, Sidharth. Good afternoon, everyone, and welcome to the Q2 FY '25 Earnings Conference Call of Arman Financial Services. First of all, I would like to thank the management of Arman Financial Services for giving us the opportunity to host this call.

From the management team, we have Mr. Jayendra Patel – Vice Chairman and MD; Mr. Alok Patel – Joint Managing Director; and Mr. Vivek Modi – Group CFO.

I would now like to hand over the call to Mr. Patel for his "Opening Remarks", post which we will open the floor for Q&A. Thank you and over to you, sir.

Aalok Patel: Good afternoon, Thank you, Mayank and to JM for hosting this call. Hopefully, I am audible to everybody. And on behalf of Arman Financial Services Limited, I extend a warm welcome to our Q2 FY '25 Earnings Conference Call.

Joining me today is, of course, Mr. Vivek Modi, who is the Group CFO and also the Investor Relations team. I hope you have had the opportunity to review the Q2 and H1 FY '25 results, the press release and the presentation, available on the stock exchanges and our website as well. I apologize, those were uploaded with the slight delay this time, so my apologies for that.

Today, I wish to start by addressing the key developments in the industry and discuss our performance in the context of the significant challenges currently facing by the microfinance industry. As you may know, the industry is experiencing a substantial rise in impairment cost. This increase is largely due to over leveraging in the rural retail unsecured lending space, impacting both microfinance institutions and MFIs. Over leveraging has trained borrower repayment capacities leading to a rise in delinquencies and higher default rates. Additionally, high attrition rates among the field staff across the industry have affected collection efficiency, as turnover disrupts the consistency and effectiveness of borrower interactions, which is a crucial component for timely repayments in microfinance.

In our past interactions with capital market participants, we have briefly discussed and anticipated as well an increase in the credit cost from over leveraging. And I think this discussion was since early last year. However, the severity of these challenges has been much greater than expected, at least for me personally and compounded by an evolving macroeconomic and regulatory environment. Given these conditions, we have opted for a cautious growth strategy, emphasizing collections and portfolio health over expansion. This conservative approach is crucial to preserving the quality of our assets and maintaining a stable financial position. And has also worked well for us in the past credit cycles. For H1 FY '25 total disbursements were Rs. 832 crores, down from Rs. 1,068 crores in H1 at FY'24. This reduction reflects our decision to prioritize asset quality and to focus on collections rather than growth.

Our assets under management as of 30th September stood at Rs. 2,465 crores, while gross non-performing assets or GNPA stood at 3.74% and net non performing assets or NNPA to that 0.64%. At least today, that level remains manageable in the broader industry context for us. Our pre provisioning operating profit for the period was Rs. 163 crores, an increase from Rs. 133 crores in first-half of FY '24. This improvement in PPoP highlights our commitment to operational efficiency and disciplined cost management despite the challenging macroeconomic environment. The impairment cost were at Rs. 99 crores for the first-half of FY '25, reflecting the current risk environments impact on our financials. We recognize that these impairment costs are a natural consequence of the increased risk, and we are taking or at least trying to take all necessary measures to manage and mitigate them.

Both the industry and Arman are actively implementing strategies, both big and small to address these issues. The MFIN guardrails have been introduced to manage overleveraging and we are currently in the process of also, establishing an independent credit teams across all branches by the end of this fiscal year. These teams will strengthen our credit assessment processes, enhance oversight, and quality control at branch level. This initiative is designed to improve our risk management capabilities and better equip us to assess and respond effectively to borrower needs. Once again, our focus remains on quality over quantity as we navigate the current challenges in the rural environment and await the end of this down-cycle. We believe that by prioritizing quality, we will be in a stronger position when the industry environment stabilizes.

Now let me run through the "Key Financial" and "Operational" numbers for the quarter and half-year ended 30th September 2024. Consolidated for Arman, the gross total income for the quarter stood at Rs. 182 crores, registering a growth of 13% year-on-year, while gross total income for first-half stood at Rs. 366 crores, registering a growth of 18% year-on-year. The net total income for the quarter stood at Rs. 116 crores, registering a growth of 25% year-on-year. While the net total income for the first-half of FY '25 stood at Rs. 235 crores, registering a growth of 32% year-on-year. Profit after tax for the quarter stood at Rs. 15 crores, registering a degrowth of 63% year-on-year. While profit after tax for the first-half stood at Rs. 47 crores, registering a de-growth of 42% year-on-year. The lower PAT was obviously on account of higher impairment cost.

Consolidated yields for the quarter stood at 25.4%. Cost to income for the quarter stood at 33.3%. Collection efficiency for the month of September 2024 stood at 24.9%. Total borrowing stood at Rs. 2019 crores, which includes off balance sheet transactions such as direct assignment, DA's and other of balance sheet debt. As on 30th September 2024, the company has a healthy liquidity position with Rs. 281 crores in cash and bank balances, liquid investments and undrawn CC limits. In addition, the company has Rs. 157 crores of undrawn sanctions from existing lenders.

Now moving on to Arman's standalone business, which includes our MSME, two-wheeler and the newly formed LAP business, assets under management stood at Rs. 483 crores, registering a growth of 35% year-on-year. Total disbursements stood at Rs. 206 crores in the first-half, registering a growth of 35% year-on-year while disbursements for the quarters to that Rs. 104 crores. The gross total income for the quarter stood at Rs. 43 crores, registering a growth of 24% year-on-year. While the gross total income for the first-half stood at Rs. 86 crores, registering a 32% growth year-on-year. Net total income for the quarter stood at Rs. 31 crores, registering a growth of 35% year-on-year. Well the net total income of the first-half stood at Rs. 64 crores, registering a 52% growth year-on-year.

Profit after tax for the quarter stood at Rs. 8 crores, registering an 11% degrowth year-on-year, while profit after tax for the first-half stood at Rs. 21 crores, registering a growth of 21% year-on-year. Segment wise collection efficiency for the first-half stood at MSME, which was 96.8% and two-wheeler at 96%. Gross non-performing assets for the MSME business stood at 2.54%, while the NNPA stood at 0.57%. GNPA for two-wheeler business stood at 4.79%, while the NNPA stood at 0.87%.

On the microfinance side, which is managed by Namra finance, the wholly-owned subsidiary of Arman, assets under management stood at Rs. 1,981 crores. Total disbursements to at Rs. 625 crores in first-half, while the disbursements for the quarter stood at Rs. 269 crores. Gross total income for the quarter stood at Rs. 138 crores, registering a growth of 9% year-on-year, while gross total income for the first-half stood at Rs. 281 crores, registering a 14% growth year-on-year. Net total income for the quarter stood at Rs. 84 crores, registering a growth of 19% year-on-year, while the net total income for the first-half stood at Rs. 170 crores, registering a 23% growth year-on-year. Profit after tax stood at Rs. 6 crores, registering a degrowth of 81% year-on-year, while profit after tax for the first-half stood at Rs. 25 crores, registering a degrowth of 61% year-on-year. Collection efficiency for the first-half stood at 95%, GNPA stood at 4.03%, while NNPA stood at 0.65%.

Now to conclude, we do acknowledge that the challenges encountered in the first-half of FY '25 have impacted our performance. However, these issues are industry wide and not unique to Arman . The rural sector in particular has faced significant pressures from various factors, including unpredictable weather. Election related uncertainties and disruptions, broader economic headwinds, all of which have contributed and affected borrower repayment capacities. Despite the near-term challenges, we are confident in our long-term strategy which we believe will support future growth. With a 32-year legacy, Arman is no stranger to credit cycles. We have navigated similar situations in the past and emerged stronger each time and also more resilient. Our experience and proven management practices give us the confidence to continue our long-term part. We remain steadfast, well capitalized and prepared to manage these headwinds effectively. Supported by a dedicated team and a clear focus on risk mitigation, we are well equipped to overcome current challenges and drive sustainable growth for our stakeholders.

Thank you very much and we will now open the call for any questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question from the line of Ashlesh Sonje from Kotak Securities. Please proceed.

Ashlesh Sonje: Firstly, if I look at slide number 31, where you have presented the PAR-31 to 90 book, there is a sharp increase across the MSME and two-wheeler segments as well. So, can you talk about what is causing this increase? And if you can also share the overlap between your customers across these segments with MFI?

Aalok Patel: What slide did you say ?

Vivek Modi: 31.

Ashlesh Sonje: Slide no 31. The PAR-31 to 90 book, which you have shared.

Vivek Modi: Yes. MSME has also seen some increase, that is what I think.

Aalok Patel: So, it is not fair to say, the MSME is completely different than microfinance. These customers will be one or two steps above microfinance customers, but that said, of course, MSME does have little pressure, but it is much better than. Now, as far as overlap is concerned, obviously as far as our books are concerned, there is very little overlap or no overlap. Some microfinance customers do graduate to MSME, but there is no cross sell, so essentially, it would be one loan, one customer. So, we do not do multiple loans to the same customer. But whether if your question is more asking how much overlap would there be between the MSME, that we service and the microfinance industry? Obviously there would be some level of overlap.

Ashlesh Sonje: And secondly, when it comes to implementing the MFIN guardrails, do you see all the lenders now implementing this in letter and spirit?

Aalok Patel: Its hard to say, like the disbursements have been down sharply for all the industry players. And my guess is that, like us, people have increased underwriting and self preservation is an inane human instinct. And so, I think everybody is following guardrails and to be honest, going beyond the guardrails. So, the guardrails is one thing, but I would say that. You need something more than guardrails as well. I mean the guardrails will not get you all the way where you need to go.

Ashlesh Sonje: Sir, at least in the recent underwriting, can you infer that the quality of at least the recently originated book has now improved? Or is it too early to say that?

Aalok Patel: Too early, it’s too early. There is very little like non starters in microfinance. So, we do get like, it will be less than 1%. But instinctually, I would say that yes, it has created an impact, but probably not as much as I would have liked. But again, it is early to tell as far as data is concerned.

Moderator: Thank you. Next question is from the line of Karthik from Unifi Capital. Please go ahead.

Karthik: So, I have just two questions. So, on the regulatory front, what are we seeing as the headwinds because, post this circular from RBI directing few NBFCs to stop disbursements. How are we taking it? Is it directive in terms of the interest rates or is it in terms of NIMs? Or what is the RBI’s call for all the MFIs, that is my first question.

Aalok Patel: I only heard part of your question, the quality of the audio was not very clear. But I got the gist of your question, I think you are asking about the, basically, the RBI circular regarding interest rate, other factors and stuff like that. See, it will be very difficult for me to comment on such matters. All I have to say is that RBI is the regulator, so if they ask us to jump all, we can say is how high and to an extent, RBI had been issuing a lot of notice, they are both publicly and privately had been discussing with many MFIs and other institutions about many things such as transparency and interest rates and NIMs and other factors. I was surprised to be honest, again, I do not know the internal matters, if it was just about interest, then I was a little bit surprised this was what the outcome was.

Considering that to a certain extent the punishment has to fit the crime. In certain of the NBFC's I know the rates were. Again, it is not fair for me to comment on this. I am not exactly sure what is appropriate, but the rates were clearly on the higher side, whether you call that usurious or not, I do not know. At least on the MFI side, I am just not sure whether it is '25 usurious and '24 not or is '26 usurious and '24 not it. It is very difficult to judge, what is going on. In this stage, in today's context, obviously we are discussing the matter at great length internally with our board with RBI as well, we are engaged with them as well. Whatever steps are required to protect Arman, particularly and Namra of particularly to any kind of regulatory risk we are taking all measures which we feel are prudent. So, again, I really want to specifically comment more than this.

Karthik: And last question, so what would be the proportion of Namra plus 4 in our current portfolio, sir, Namra plus 4 like the customers who have.

Aalok Patel: I know people have been reporting this number and I have been seeing it as well. I will give you that number because I figured somebody would ask that and we do have those numbers ready. But before we give you that number, I want to specifically give a disclaimer here. That there is no standard way to report these numbers and whether this was the status of a particular customer at origination or did you do a scrub analysis from the credit Bureau? Did you do it at a customer level or did you do it at the household level, for example, including both the customer and the spouse? Did you do it for MFI loans, MFI plus retail or all loans? Again, there is little clarity on this. So, the disclaimer here is that the numbers that Vivek will just tell you right now, are numbers that we had during origination at the family level for all loans.

So, what that means is the customer, their spouse, whatever loans they had and whatever the outstandings of those loans added up to before the disbursements that we made, that is the status available to us. As far as scrub analysis goes, we have done it on a limited basis on a state-to-state level, but we have not done it at the household level. So, I do not think it would be very prudent for me to share those numbers with you.

Vivek Modi: But at the household level to answer your questions more specifically, the lenders at the time of origination at household level. I mean, was 22.8%, which is Namra plus 4 or more. And Namra plus 3 would have been about 18%. Basically, if you look at the outstanding, practically none of the customers at the household level for us had a outstanding of more than two years. So, that was the underwriting that we used. I think it was less than 2% of customers who had more than Rs. 2 lakh of outstanding. So, again, when you are looking at household numbers, that 22% might seem quite high. But you have to remember that at the spouse level also there is lot of these KCC type loans and other loans that are sometimes not very, very large.

So, many customers may have multiple lines. But what we were largely concentrating on was total outstanding and total EMI per, over and above the number of loans that a customer had. But Vivek, you want to just read out what it was for number loan Namra loan, Namra plus 1, Namra plus 2, Namra plus 3, or whatever.

Vivek Modi: So, Namra alone was 21.8%, Namra plus 1 is about 16.9%. Namra plus 2 turns out to be 19.9%, Namra plus 3 18.6% and Namra plus 4 or more was 22.8%. Along with that with the outstanding when we gave the loan excluding our loan, the outstanding at the time of giving the loan being less than 50,000 being 47%. Rs 50,000 to Rs. 1 lakh was 25%, Rs. 1 lakh to Rs. 1.5 lakh was 18%, Rs. 1 lakh to Rs. 2 lakh was 8% and customers with more than Rs. 2 lakh of outstanding when we gave out the loan was 2%.

Moderator: Thank you. Our next question is from the line of Amit Jeswani from Stallion Asset. Please go ahead.

Amit Jeswani: Hi, Aalok ji. Aalok ji, how are things looking in October and November, now that we finished 45 days in the quarter?

Aalok Patel: I wish I could say it was good news and things are looking up, but unfortunately that is not the case. But November has been fairly disrupted due to the Diwali festival. So, as far as availability of customers and everything is concerned that became an issue. Right now, obviously its covering up and covering up very quickly, so that is good news at least. But yeah, I do not think this down cycle has ended and neither can you expect it to end. So, quick as well to be perfectly frank with you. But I would say, I guess if you want to count a silver lining. The rate of descent is slowing down significantly so. So, we will take that win, I guess if nothing else.

Amit Jeswani: I was just saying that COVID we picked around 6% GNPA, what do you think would be our GNPA at this time? Sorry, we picked at 7.9% GNPA in March '22. What do you think this GNPA will end this?

Aalok Patel: So, Amit, I understood your question. The problem is that COVID and this is not very, very comparable. Because during COVID, you had a lot of different schemes available by RBI and Finance Ministry and a lot of this, first was the moratorium, so you could kind of delay recognition of GNPAs until the moratorium got over. After that, there was a restructuring available and a lot of other things were available so. I am not saying that that was done maliciously or anything like that. But there were a lot of different things available during COVID. Now if you look at the credit cost today, we are nowhere close to what COVID cost us, for example. You can take that as a silver lining to an extent. What is different this time is COVID was like a heart attack and then like quick recovery period. So, the problem this time is it is like an extended addition. It is a headache, not a heart attack. But it is a bad migraine, sorry, maybe not a very good analogy. So, your NPAs as long as you keep writing off assets and taking them as impairment in your P&L, it is possible that the GNPA may never rise to more than what it is today also. As long as you stay on top of it and keep either providing for it or writing it off. I do not know, Vivek. You have anything to add to that?

Vivek Modi: Just adding to Aalok's comments, one the differentiator between COVID and today is obviously the environmentally during COVID there was a lot of support that came in. In this, I think we will have two kind of internally ring sense as much as we can do in terms of improving the collection efficiencies and the monitoring and so and so forth. For whatever has already been disbursed and put into place a much superior underwriting processes to ensure the forward lending or the future lending is far more ring fenced to that extent. Having said that, I think worrying down to a specific number may not be a great idea at this point of time.

Amit Jeswani: So, my other question is how does the problem solve itself, just by we lending less and people are getting deleverage or the only way to come out of a bubble is to create an even bigger bubble and basically lend more so that liquidity improves and everything becomes okay?

Vivek Modi: Well, Amit, you kind of hit the nail on the hammer here, the. See one of the bigger problems which why things are continuing to go down is the fact that lending has stopped. And whenever you stop credit or at least slow down credit to any economy that is going to have worse effects. In effect to prevent people from getting over leveraged, you are also stopping credit to people who may really need it. And if they do not get it, they are also defaulting. So, it is a two edged sword. A lot of people say that, it is evergreening which, I do not know. I think like evergreening term gets tossed around quite a bit, and I am not denying its existence. But Arman itself, we borrow every month and beat every month like, is that evergreening? I do not know. I mean, it is just business for us, right? And lot of the borrowed money might be going into repaying also for us, but we are running a valid business.

So, I do not want to toss around term like evergreening and other things, fully acknowledging that it does happen. And of course we are aware of it that it happens as well. But yes, I think one of the bigger problems is that credit has stopped and until the credit resumes to a meaningful level, it will be even more difficult to get out of it. And so you are stuck in sort of a catch 22 situation. And so ideally speaking, I would want everybody else to start disbursing and I would be conservative. But unfortunately that is not how the world works. I do not know, I am not exactly sure how to answer your question, except the fact that during both demonetization and COVID, lending did resume slowly, slowly and it did get up back to what it previous levels were. Does that answer your question?

Moderator: We will move on to the next question, which is from line of Pranav Gupta from Aionios Alpha Investment Managers. Please go ahead.

Pranav Gupta: Just few questions, a lot of my questions already been answered. But when we look at collection efficiency and your collection efficiency have not really fallen for us, when you compare to 2Q or 1Q, but how are we seeing the collections in next bucket, because that is what will give us sense to us to see to understand as to when things are actually going to start improving. That is the first question.

Aalok Patel: So, I would say things will not improve until the zero DPD bucket repayment rate goes up to at least 99%, 98.5% to 99%, which is what typically what we used to. But even if it gets back up to 98.5%, I am confident to say, okay, the worst is behind us and things will progress forward. Now as far as the other buckets are concerned, 1 to 30 bucket, 30 to 60 bucket, 60 to 90 bucket and so on and so forth. Honestly, I do not have any such formula for that. 1 to 30 bucket ranges anywhere from 40% to 70% on a month-to-month basis and it goes down from there. Obviously even in write-offs and other cases there is some level in basis points or in small percentage terms, collection obviously keeps trickling. But the major strategy that people follow, to arrest the problem is to concentrate on zero DPD collections and ensure that remains pristine. Rest of it will take care of itself.

Pranav Gupta: Absolutely that is the question I was asking, are we seeing, are we seeing zero DPD collections improve even though slightly there is still time to go for year.

Aalok Patel: No, there still some time to go. I think before anybody ask me this question, people have been asking me a lot offline and other times also, when I think this will get over. And so, before anybody asks, let me first say I am not a guru. I am not an expert, people have predictions, people in the stock market have predictions, which are wrong all the time, I have no idea. With that said in my experience, once a credit cycle starts, it takes at least a year for things to start getting back on track. And so if I say get this credit cycle started in April, which is when, it really kind of started surfacing very, very quickly. That would mean that by Q4 end we should start seeing things getting back on track or improving or getting better. Again, I have no basis or evidence to give that prediction except sort of a gut instinct, maybe.

Pranav Gupta: But just the thing that you mentioned, that wants to create cycle sort of kicks off again that is when we start seeing things are getting better. But say if you look at the last in 15 months, 24 months and possibly the last 12 months ending April, that is where we have seen a huge buildup of lenders lending to multiple borrowers and the number of borrowers for lender going up. And if we sort of take a lot of anecdotes from multiple companies that, it does not really seem like incomes have been hit in a big way. And then to see leverage go up for borrower in such a big way just indicates that most of this incremental credit has gone towards consumption rather than using for working capital or business.

Aalok Patel: That is a fair assessment.

Pranav Gupta: In that case, the question arises that does this really need a credit cycle to start going up again for these customers to start lending or is this just a pure case of most borrowers is being purely overleveraged. I mean, sending more to these customers might not really solve the problem. That is the thing I am trying to understand.

Aalok Patel: No, I understand and I fully agree with you. And that was along the line with my previous answer that okay, if we stop lending, will that create an issue? And as I said, it is a two edged sword, it will be. I mean we have 7 lakh customers there will be customers who are using it for income generating and need more money and they are not getting it either from me or the industry or whoever else. And there will be others that are purely using it for consumption or evergreening or other things and they might manage finding it might not also. So, it is very hard to distinguish the genuine needs versus the non genuine needs and so people like me sitting where I am, we always there on the side of conservatism and sake, stop lending. Of course, I know everybody I reject is going to be a bad customer, but it is what it is. When I am not able to determine whether somebody fits my risk profile or not, it is prudent of me to just simply not give the money, at least at a time like this.

Go back to your earlier question about, what started this crisis and everybody becomes a guru in hindsight. Obviously, nobody including myself were predicting this, and of course, I think I have been talking about over everything for a while. But, as I said during my initial comments that. I do not think anybody expected things to get to this level as quickly as it did. First of all, whenever things like this happen, there is never one thing. I mean, there might be one big thing which is over leveraging, but it is never one thing. It is it is multiple things that cascade together and kind of like the whole swiss cheese model.

And so first of all, as you or somebody else correctly said that, people started more and more trickling, using money for consumption. So, people started using it maybe more for consumption, maybe more for aspirations I think availability of loans is just became so easy. Four or five years ago, the people lending to these people were just MIF's 80% of they were MFI's, were were a close knit group. We kind of knew when things like COVID and stuff happen, obviously we got into some bit of trouble, but otherwise it was fine. It just seems that the world is crazy for offering loans. Even the companies who have nothing to do with loans, monetize their businesses with giving out loans as a supplementary business. And so I said this before, this is not an MFI business. Everybody who has lent money to this, the people are getting their hands but. So, obviously, I mean, look at, I am assuming today when you get cold call from people. How many people are trying to sell you refrigerators and air conditions? Very few, most of the cold calls you will be getting will be do you need a car loan or a personal loan or whatever. Like it is a little crazy.

So, I do not want to blame competition or anything like that, but people who had no business going into rural lending went into it very, very quickly, so that is one aspect. Just oversupply. The second part happened and before I say this, I want you to understand that I am not blaming RBI, the regulator. But when the deregulations happened in April 2022, where they removed pricing caps and also removed over leveraging caps. RBI assumed that the industry was mature enough to manage these things and that was really the right thing to do. but unfortunately people thought that they could price away the risk of, giving out more loans and that never works according to me. So, anyway, there are many, many other factors at play, but what I feel is that this is probably the larger issues.

Moderator: Thank you. Our next question is from the line of Sukriti from Laburnum Capital. Please go ahead.

Sukriti: Hi, Alok, I just want to understand a little bit more about the MSME, the Rs. 400 crores MSME book. So, I am looking at this, it is typically the same ticket size or little less than what I see pure MFIs in their individual MFI loans. Now, but you will understand as a separate network or different branches and there's a credit underwriting layer that you. I am actually a bit surprised to see the yield here 35%, 36% when the individual MFI loans that I see are much, much lower. So, I have two questions on this. And I think earlier in this call also, you did not mention that this customer is a little MFI plus customer. So, why is this guy coming to you when he could get a 1 lakh individual MFI loan from let us say G1 at 22%? And second on the regulatory aspect, given the yield , what is the risk on that? So, those are the two questions on MSME.

Aalok Patel: Typically our interest rates in MSME are between 28% to 32% and as far as this segment goes, this is little par for the course, because the operating cost in MSME are much, much higher than what they are in MSME. As you said, you require a separate credit. The rejection rate is very, very high. And largely, this is what the market has determined that. What the cost is giving money to these customers.

Vivek Modi: Additionally it is like individual level.

Aalok Patel: Yeah, so it is individual level doorstep collections. So, in a JLG group, you have to go down to the group level and collect from maybe five, six, seven customers. Here it is individual door to door collections, so that gets expensive very, very quickly.

Sukriti: From your perspective why this makes sense and this is probably the right yield. But the question is from the customer's perspective, why is he who is a MFI plus customer coming to you at 36 for a Rs. 80,000 loan when he will probably get a Rs. 1 lakh unsecured loan at 22%, 23% without having to go through this credit under that.

Aalok Patel: No, I mean this is a rabbit hole that really I do not want to get into. Eventually it will always lead to okay why does an MFI customer come to me. Why do not they go to SBI and get a loan at 8% or 9%, I mean? There is no right answer for this, except the fact that, there are many other things except interest rates. We are providing doorstep customers, the customer does not have to find the loan. We find the customer to give him the loan, right? So, that is 1 aspect. Second aspect is that I have a very, very quick turnaround. And I am very paper friendly, I do not ask for 30 different documents, tweak 30 knobs to get a result and stuff, so clearly the customer is seeing some advantage in paying a higher yield with me, versus going for maybe a more complicated but a lower yield.

I have always said this that a customer who's extremely price sensitive. I have probably lost that customer, that is not who I am really servicing. They will probably wind up going to HDFC Bank or whoever else. When I am in the market for a car loan, I make 20 calls because I am in the business and even 2 basis point difference, I will go with that person because for me, it is kind of an enjoyable experience of trying to get the lowest possible rate that I can manage. But I am not a microfinance customer or I am not an MSME customer. And again, I think largely if you look at it, the market is pretty huge, even in that case. As we are talking here about Rs. 400 crores of AUM with us, so I would probably look at your question also as an opportunity. I mean that we could probably go into those customers as well. But having said that, most of the SSDs technically push customers with ematchs. Now that could be a single largest differentiator because even today, when we try to push ematch with the customers, it is not as forthcoming as we would all want. I mean, until we stopped it, earlier we used to take for MSME PDC cheques, the number of rejections we would get because people not that they were unwilling to give it, but they just did not have cheques, Jan Dhan does not issue cheque books. So, they would have to go to the bank, apply for it, get it mailed. Then it would take 30 days and I would lose the customer. So, I do not think that these guys really compare interest rates or yields, they are more looking at the EMIs and the convenience and really like a difference between a 25% and a 30% is maybe Rs. 80 bucks a month. Some people do not care about that.

Sukriti: The same we have seen a little bit of crackdown on higher yielding loans. I know you partly answered this question, but the 36% book.

Aalok Patel: It is not 36%, I that will be probably with processing fees and a lot of other things also put into. So, it is not really 36%, but anyway, let us call it x percent. Please go ahead.

Vivek Modi: I think the question was about the regulatory risk. So, the regulatory risk just to kind of address that A, to certain extent, since Arman with his entire AUM is still in the base layout. And second, at least the kind of scope inspections that we have gone through in the last two or three years. The rates have been similar and there have been no major changes in that and I think that has not been specifically, being pointed out by the regulator A. Given the overall situation, that the kind of servicing that it entails in terms of door step recovery process and the entire evaluation mechanism and other things, that at least at this point of time, we are kind of confident that does not seem to be a major concern from the regulators point of view, at least at this point of time.

Aalok Patel: Honestly, it is getting a bit difficult to kind of predict what is in the regulators mind at this point. And so there is a lot of guesswork involved. What they want, what their intent is, I think the intent is quite clear, do not charge more than you want or than you should. So, when it is like the difference of 5%, 10%, obviously it is easy to determine, but if it is 1% or 2%, I do not know if it becomes that easy. But again. I think if you look at ROAs, ROEs, NIMs and yields and other factors. And if you look at the complete picture, as long as you are able to justify it in some mechanism given the risk, which you are taking and other factors, I think RBI is largely reasonable.

The second thing which I just want to say is that typically speaking, RBI does not do any knee jerk. And I am not aware of this specific four companies that they have come out against in the in the past few weeks. But I know for a fact, before they come out with anything public. There are many months of discussions and other things that go on even in the case of Paytm and other things , discussions happened not over months but over years. So. I would say RBI is largely reasonable and I would assume that if something like that, this is coming for Arman or Namra, hopefully, I should be able to see it coming and take corrective actions, whatever is necessary. Again, do not blame me if I turn out to be wrong nowadays. I am also scared to make predictions because it seems like I am getting more superstitious as time goes on. We will monitor it very, very closely.

Sukriti: On the point about credit, having stopped in the industry in this cycle. Again, how much of this is companies being cautious and saying look, my customers over leverage in the industry as a whole after Sa-Dhan guidance and MFIN guidance. And how much of that is a definitive regulatory push that no evergreening, no netting of?

Aalok Patel: As far as I am concerned, I would say that, as I said earlier that, self preservation will always trump greed. And so if there was fear versus greed, most people would air on the side of fear. And that said, I would say that most of the disbursement which is lowering in the industry is in an interest of self preservation. And not wanting to get into something that they do not know yet. How it will evolve? Rather than something that RBI has been preaching about lowering unsecured lending and other factors. But I am sure, it is some combination of both, but I would probably weigh the former more than the latter.

Sukriti: So, as in the lender being cautious?

Aalok Patel: Lenders being cautious, yes. Even inquiries, you will be surprised, but even inquiries have gone down from the customers. Even customers are being cautious now, which is a good sign.

Moderator: Thank you. We will take our last question from the line of Amit Mantri from 2Point2 Capital. Please go ahead.

Amit Mantri: Hi, Alok. My question is on the provisions that we have taken and might need to take going forward. So, on the GNPA side, we seem to be adequately covered, but given that we have a large power book, 30 to 90 days of almost 8% in microfinance and you mentioned that that number continues to see increase because X bucket collection fee, your collection efficiency is still low. So, how are we provisioned on this power book which is nonGNPA, but will probably flow through in the next few months? I think the simple answer is that we are probably not.

Aalok Patel: Amit, A, the management overlay has been kept high. The overall provision that you see there is about Rs. 114 crores for the console and of which I mean largely about 50%-odd would turn out to be the GNPA provision of the balance kind of is towards the 31 to 90 day bucket kind of a period. So, at this point of time, with the management overlay, I think we feel fairly confident that that should be a board provisioned number. But again, if need be there will be sufficient action that can be taken to kind of part of the provision. If situations were to go further down from there, but then, that is something in the future that we have to see. Second is when he is talking of the soft buckets, let us also kind of look at how these soft performance buckets have performed historically also. I mean every challenging period may not be very similar to the past. But still in the past, be it COVID, be it demon earlier we have seen customers, especially in the software bucket, which is means who are overdue for one to four installments generally have come back much faster once the cycle starts to improve.

Aalok Patel: So, yeah, I think Amit, if our margins and profits allow, we will definitely bumper that overlay as much as we can. But that does not seem, I do not see impairment cost coming down in the next quarter or anything like that. We will just have to take it in good stride.

Moderator: Thank you. Ladies and gentlemen, that was our last question for the day. I would now like to hand the conference over to Mr. Mayank Mistry for closing comments.

Mayank Mistry: Thank you all for joining the call today. And thank you to the management team of Arman Financial Services for giving us the opportunity to host the call. Thank you, everyone.

Aalok Patel: Thank you everyone.

Vivek Modi: Thank you.

Moderator: Thank you. On behalf of JM Financial, that concludes this conference. We thank you for joining us and you may now disconnect your lines.