



Arman Financial Services Ltd.

Q2 FY21 Pre-Provision Profit grew by 10% YoY to ₹ 21 Crore Consolidated Collection Efficiency Improves to 91% in Oct'20 vis-à-vis 66% in June '20

Ahmedabad, India, 12 November 2020: 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 second quarter and half year ended 30th September 2020.

Particulars (In ₹ Crores)	Q2 FY21	Q2 FY20	YoY%	H1 FY21	H1 FY20	YoY%
Assets Under Management (AUM)	704.3	753.1	(6%)	704.3	753.1	(6%)
Total Disbursement	50.7	231.0	-	50.7	421.6	-
Gross Total Income	51.7	54.4	(5%)	101.1	102.6	(1%)
Pre-Provisioning Operating Profit	20.6	18.8	10%	37.5	36.4	3%
Total Provisioning & Write-Offs	18.7	2.2	736%	28.9	3.7	679%
Profit After Tax	1.5	12.0	(87%)	6.8	24.2	(72%)
GNPA %	1.1%	1.1%	(2 bps)	1.1%	1.1%	(2 bps)
NNPA %	0.2%	0.6%	(45 bps)	0.2%	0.6%	(45 bps)
RoE % *	3.4%	32.6%	-	7.7%	33.8%	-

Note: * RoE figures have been computed on a fully diluted equity base and annualized for Q2 FY21 & Q2 FY20

Consolidated Financial Highlights – Q2 & H1 FY 2021

- **Assets under management** as on 30th Sep'20 stood at ₹ 704.3 crores lower by 6% YoY as higher repayment rates combined with lower disbursements led to a run-down in the loan book.
- **Gradually resumed disbursements across all segments from Aug'20 onwards.** Loan Disbursements during Q2 FY21 stood at ₹ 50.7 crores; with a gradual pick up expected from Q3 FY21 onwards.
 - In microfinance, the company is primarily renewing loans of existing customers who have made already their repayments and completed their tenure.
 - In the MSME & two-wheeler segments, the company has tightened the underwriting process.
- **Shareholders Equity** stood at ₹ 181.4 crores as on 30th Sep'20 (BVPS is ₹ 215)
- **Comfortable Leverage Position:** Debt-Equity Ratio as on 30th Sep'20 was 3.3x (excludes direct assignment)
- **Gross Total Income** declined marginally by 5% YoY to ₹ 51.7 crores even though the average AUM for Q2 FY21 was higher on a YoY basis due to softer yields in the 'MFI' segment and lower booking of processing fees on account of lower disbursements.
- **However, Net Total Income increased by 4% YoY to ₹ 33.1 crores** driven by lower finance costs as total borrowings declined by 15% sequentially from ₹ 756 crores in June '20 to ₹ 644 crores in Sep'20, combined with low-cost debt funds raised from NABARD, SIDBI, and MUDRA..
- **Pre-Provisioning Operating Profit** increased by 10% YoY to ₹ 20.6 crores in Q2 FY21 driven by higher net total income and lower operating expenses. Cost-to-income ratio improved by ~320 bps to 37.6% in Q2 FY21 versus 40.8% in Q2 FY20.
- **Provisions** for the quarter increased to ₹ 18.7 crores, as the company prudently created provisions of ₹ 14.1 crores and took a write-off of ₹ 4.6 crores. Bolstering the provision coverage will help the company deal with potential asset quality risks arising due to the Covid-induced disruption while aggressive write-offs are aimed at reducing the NPA burden of Pre-Covid doubtful assets. Cumulative Total Provisions stood at ₹ 43.8 Crore as on 30th Sep'20, covering 6.2% of the on-book AUM
- **Given the higher provisioning, Profit after tax stood lower at ₹ 1.5 crores.** Adjusted for the higher provisioning on account of the Covid-induced disruption, Profit after tax would have been substantially higher.





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- Asset quality continued to remain robust due to the RBI announced moratorium March thru August 2020 – Consolidated GNPA stood stable at 1.1%; NNPA improved to 0.2%.
- Total operational branches as on 30th Sep'20 stood at 211 (170 in MFI, 35 in MSME and 6 in 2W)

Update on Collections

Business Segment	June 2020	July 2020	Aug 2020	Sep 2020	Oct 2020
Microfinance	59%	76%	75%	84%	89%
MSME	84%	95%	92%	93%	94%
Two-Wheeler	95%	97%	97%	96%	97%
Total Collection Efficiency %	66%	82%	80%	87%	91%

- Collections have improved significantly across all 3 segments since June 2020, reducing the loan book under moratorium. Priority of the company remains on getting the repayment rates back to normal (especially in the MFI segment) in the upcoming months. The company has taken significant strides towards achieving this objective in Oct'20.
 - **Microfinance:** ~93% of customers have paid at least one instalment in the period 'Apr '20 – 'Oct'20'. There are 24,904 customers who have not made any payment during this period.
 - **MSME:** ~96.4% of customers have paid at least one instalment from the period 'Apr '20 – 'Oct'20'. There are 1,502 customers who have not paid any instalments during this period.
 - **2-Wheeler:** ~97.1% of customers have paid at least one instalment from the period 'Apr '20 – 'Oct'20'. There are 783 customers who have not made any payments during this period.

Update on Liquidity

- Healthy Liquidity position with ₹ 135 crore in cash/bank balance, liquid investments, and undrawn CC limits
- Strong pick-up in collections along with the incremental debt capital raised (₹ 50 crore from July '20 onwards) has materially improved the company's liquidity position. The company has duly repaid all the debt obligations that were due in Q2 FY21, and also repaid the moratorium obligations of April & May 2020 (i.e. voluntarily cancelled moratorium retrospectively) to reduce the moratorium interest burden.

Commenting on the company's performance in Q2 FY21, Mr Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services said, Post a subdued first quarter, the company witnessed signs of recovery in Q2 FY21. Despite a decline in AUM in the last 6 months, which was not unexpected given the COVID situation, our pre-provisioning operating profit for the quarter increased by 10% YoY to ₹ 20.6 Crore led by lower finance costs and rationalization of operating expenses."

In keeping with our conservative approach, we bolstered our provision coverage by prudently creating provisions of ₹ 14.1 crores, and additionally, we also took an aggressive write-off of ₹ 4.6 crores. Overall, the cumulative total Provisions stood at ₹ 43.8 Crore as on 30th Sep'20, covering 6.2% of the AUM; this will help us to deal with any possible impairments on account of Covid in the future. The company will continue to recognize higher provisions on account of Covid in the next couple of quarters if required. Our asset quality continues to remain low and steady, with Net NPAs improving to 0.2%.

Most importantly, collections across all the three segments have improved significantly since June 2020. Repayment rates for October 2020 dues closed at 89% for the MFI segment; 94% for the MSME segment; and 97% for the 2-wheeler segment. Overall, we have achieved a blended collection efficiency of ~91% in October 2020. It is especially encouraging to see the strong pick-up in MFI collections over the last couple of months.

Furthermore, we have gradually resumed disbursements across all the three segments from August 2020 onwards. However, we have tightened our underwriting process keeping in mind the uncertain environment.

As we advance, our foremost priority will be on improving our collections from the field and restoring it to pre-Covid levels. The continuous progress on repayment front on a month-to-month basis is encouraging and shows both the resilience and the positive intentions of our customers. Furthermore, we will also be focusing on scaling-up our disbursements in a calibrated





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manner and expect the pace of disbursements to pick-up in the forthcoming quarters. While the provisioning may remain elevated for the next 1-2 quarters, we hope to restore our net profit to healthy levels from the beginning of next fiscal year as provisions decline. On the whole, we continue to remain confident that we will be able to successfully navigate our way through this storm and emerge stronger. On behalf of the company, I wish all the stakeholders a very Happy Diwali.

Segmental Performance Update – Q2 FY21 v/s. Q2 FY20

Microfinance - Financial Highlights

Particulars (In ₹ Crores)	Q2 FY21	Q2 FY20	YoY%	H1 FY21	H1 FY20	YoY%
Assets Under Management	523.0	555.3	(6%)	523.0	555.3	(6%)
Total Disbursement	38.6	172.9	-	38.6	312.4	-
Gross Total Income	35.6	37.5	(5%)	69.0	70.0	(1%)
Pre-Provisioning Operating Profit	12.7	11.4	11%	21.7	22.3	(3%)
Total Provisioning & Write-Offs	11.8	1.9	532%	17.6	2.7	545%
Profit After Tax	0.6	7.2	(91%)	3.3	14.4	(77%)
GNPA %	0.9%	0.6%	32 bps	0.9%	0.6%	32 bps
NNPA % (after ECL Impact)	0.1%	0.2%	(12 bps)	0.1%	0.2%	(12 bps)

- **MFI AUM stood at ₹ 523.0 crores – marginally lower by 6% vis-à-vis last year**
- Gross NPA % was slightly higher at 0.9% in Q2 FY21. Post ECL adjustment, NNPA % stood at 0.1%.
- **Operating performance improved as 'Pre-provisioning Operating Profit grew by 11% YoY to Rs 12.7 crores in Q2 FY21.**
- Strengthened provision coverage by prudently earmarking ₹ 8.0 crore for provisions in this quarter. Additionally, the company also took an aggressive write-off of Rs 3.8 crores.
- **Cumulative Total Provisions as of 30 Sep'20 stood at ₹ 27.1 crore covering 5.2% of the total AUM. (Cumulative total provision includes Cumulative Covid provision of ₹ 13.6 crores as on 30 Sep'20).**

Two-Wheeler & MSME – Financial Highlights

Particulars (In ₹ Crores)	Q2 FY21	Q2 FY20	YoY%	H1 FY21	H1 FY20	YoY%
Assets Under Management	181.3	221.8	(18%)	181.3	221.8	(18%)
Total Disbursement	12.1	58.6	-	12.1	109.2	-
Gross Total Income	17.4	17.8	(2%)	34.3	34.0	1%
Pre-Provisioning Operating Profit	8.8	8.0	9%	17.2	15.1	14%
Total Provisioning & Write-Offs	6.9	0.5	1317%	11.3	1.1	921%
Profit After Tax	1.7	5.4	(69%)	5.0	10.7	(53%)
GNPA %	1.6%	2.2%	(67 bps)	1.6%	2.2%	(67 bps)
NNPA %	0.5%	1.6%	(116 bps)	0.5%	1.6%	(116 bps)

- **2W & MSME AUM stood at ₹ 181.3 crores in Q2 FY21**
 - MSME AUM stood at ₹ 118.8 crores
 - 2W AUM declined by 35% YoY to ₹ 62.5 crores, as the 2W sales have declined in the last one year given the challenging economic environment. Further, lower disbursements in H1 FY21 along with high repayment rates led to a run down in the book.
- **Despite the decline in AUM, Pre-Provisioning Operating Profit** grew by 9% YoY to ₹ 8.8 crores aided by higher contribution from the MSME business and efficient cost management
- **Asset quality improved** as GNPA % and NNPA % stood lower at 1.6% and 0.5% respectively, owing to increased provisioning and reduced portfolio.





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- **Provisions** increased in Q2 FY21 as the company undertook aggressive provisioning to deal with possible future Covid related impairments. Cumulative Total Provisions stood at ₹ 16.7 crores as on 30 Sep'20, covering 9.2% of the AUM. (Cumulative total provision includes Cumulative Covid provision of ₹ 12.3 crores as on 30 Sep'20).

About Arman Financial Services Limited

Arman Financial Services Ltd (NSE: ARMANFIN; BSE: 531179) is a category 'A' Non-Banking Finance Company (NBFC) active in Microfinance, Micro-Enterprise, and 2-Wheeler 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

