"Arman Financial Services Limited
Q4 FY2021 Earnings Conference Call"

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MODERATOR: **LADIES AND GENTLEMEN, GOOD DAY AND WELCOME TO THE ARMAN FINANCIAL SERVICES Q4 FY2021 EARNINGS CONFERENCE CALL HOSTED BY EMKAY GLOBAL FINANCIAL SERVICES. WE HAVE WITH US TODAY, MR. JAYENDRA PATEL, VICE CHAIRMAN & MANAGING DIRECTOR, MR. AALOK PATEL, JOINT MANAGING DIRECTOR, AND MR. VIVEK MODI, GROUP CFO. AS A REMINDER, ALL PARTICIPANT LINES WILL BE IN THE 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 TOUCHTONE PHONE. PLEASE NOTE THAT THIS CONFERENCE IS BEING RECORDED. I NOW HAND THE CONFERENCE OVER TO MR. JIGNESH SHIAL FROM EMKAY GLOBAL FINANCIAL SERVICES. THANK YOU AND OVER TO YOU SIR!**

Jignesh Shial: Thank you Mallika and good evening everyone. On behalf of Emkay Global, I would like to thank the management of Arman Financial for allowing us this opportunity and we have with us Mr. Jayendra Patel, the Vice Chairman & MD, Mr. Aalok Patel, Joint MD, and Mr. Vivek Modi, Group CFO. I will hand it over to Mr. Aalok Patel, Joint MD for the opening remarks and then we can go ahead for question and answers. Over to you Aalok!

Aalok Patel: Yes, thanks a lot Jignesh and hi and very good evening to everybody. Thanks for taking the time out of your busy schedule to join us over this call to discuss our financial performance for the fourth quarter and the year ended March FY2021. We have issued a detailed press release and investor presentation for the past quarter hopefully all of you had a chance to review it. If any of you were watching the FM speech just a few minutes back some big announcements for MFIs with regard to a credit guarantee schemes to the MFI customers so a little early to get into the details at this point, but at least I am glad to see that MFIs are continuing to be recognized as an integral part of the overall financial sector especially the rural sector of India. Anyway to start I hope that all of you and your loved ones are keeping safe and healthy and doing well during these unprecedented times.

Despite FY2021 starting off on a challenging note for the microfinance industry as a whole due to the pandemic and subsequent lockdowns in the first half of FY2021 the company's performance has been more resilient in the second half of FY2021. In the final quarter of FY2021 it seems the repayments and disbursements were both edging towards normalcy. The company enjoyed adequate liquidity and a strong balance sheet position, which makes it well positioned and agile to achieve growth over the medium to long-term. The demand from the market remains strong. We also welcome RBIs announcement to harmonize the regulatory framework for various regulated lenders in the microfinance space, which would stop the regulatory arbitrage amongst the non-NBFC MFIs, microfinance practitioners and create a more robust industry to prevent overleveraging among the microfinance customers. The removal of the pricing gaps will allow us to price the product according to risk and competition and also allow us to service previously underserved areas in the underserved districts of India.

Now I will give a brief overview of our financial performance for the fourth quarter and post that touch upon collections, liquidity and disbursements in a little bit more detail. At the end of the fourth quarter our consolidated loan book stands at Rs.814 Crores over by 5% year-over-year as the repayment rates combined with lower disbursements during the year led to a rundown in the loan book. As you all know that being a very conservative lender, we had essentially stop disbursements during the moratorium period and slowly started disbursements from August. In the microfinance division we initially focused on renewal loans for our existing customers who have completed their previous loans. From the fourth quarter we have started servicing new customers as well. In the previous quarters it was riskier to service new customers as lot of the credit bureau data was stale. In the two-wheeler and MSME segments we created more stringent underwriting processes, as a policy we did not indulge in any top of loans in any of our products to prevent evergreening of our portfolio and to ensure good credit discipline.

Loan disbursement for the quarter stood at Rs.275 Crores up 51% Q-over-Q as compared to the third quarter. The total disbursements for the year was Rs.510 Crores 42% lower compared to the previous year for obvious

COVID pandemic related reasons, the pace of disbursements against lockdown in the first quarter of FY2022 due to the second wave of the pandemic. Disbursement levels are expected to reach pre-COVID levels and even exceed pre-COVID levels in the coming second quarter as the second wave situation seems to be normalizing. The disbursements in the microfinance segment reached a peak of 90 Crores in March 2021 as a result of branch openings and economic recovery post COVID lockdowns. The company primarily focused on renewing loans of existing customers and starting to disburse new loans to new customers as well. The MSME segment had reached average disbursements of pre-COVID levels in March while two-wheeler segment is yet to reach pre-COVID levels.

Our microfinance portfolio stood at Rs.643 Crores while MSME and two-wheeler portfolio stood at Rs.171 Crores at the end of Q4 so the microfinance portfolio was higher by 4% and MSME and two-wheeler portfolio combined was lower by 28% Y-o-Y respectively. In the urban two-wheeler segment our performance was impacted by the decline in two-wheeler sales for the last many years, but more severely in the last one year given the challenging macroeconomic environment in the two-wheeler segment. The sales in the two-wheeler industry have yet to recover; however, our pilot two-wheeler rural product has demonstrated a relatively slightly better performance reporting a year-on-year AUM growth of 4% despite the disruptions caused by the COVID-19 pandemic. The portfolio has reached about Rs.10.1 Crores at the end of March 2021 with plans to further expand in this lucrative segment. The two-wheeler rural book now constitutes of approximately 22% of the total two-wheeler portfolio.

Gross total income during the quarter declined by 20% year-on-year to Rs.44.3 Crores and net total income during the quarter decreased by 18% year-on-year to Rs.25.1 Crores. This is on account of the decline in the average portfolio during the year and also soften yields on average portfolio decline during the quarter. Including the additional provisions recognized during the quarter cumulative total provisioning at the end of

Q4 stood at approximately Rs.52 Crores at the consolidated level covering approximately 6.3% of our total loan book.

At the standalone level, For Namra cumulative loan provision stood at Rs.33.1 Crores at the end of March 2021 covering 5.3% of the total AUM. At the Arman level the cumulative total provision stood at Rs.18.4 Crores covering 10.8% of the total AUM. Our net profit stood lower at Rs.90 lakhs for the fourth quarter. The consolidated profit after tax for the fiscal year 2021 stood at Rs.10.6 Crores compared to Rs.41.5 Crores the previous year. This is largely due to the increased provisions in relation to numerous factors related to the pandemic which I am sure all of you are aware of.

Our GNPA and NNPA stood at 4.6% and 0.6% respectively as on March 31, 2021. Liquidity wise we are in a comfortable position right now. As of March 31, 2021 we had cash reserves of approximately Rs.132 Crores including the undrawn CC limits. Liquidity position has improved driven by the pickup in collections and incremental debt capital raised during the year. In the previous quarter the company had also accelerated repayments of high-cost borrowings and replaced it with lower cost borrowings.

Now to give a little bit more granular breakdown on the collections, in the microfinance segment particularly the improvement in the collection has been encouraging as repayment rates have jumped from 91% in December to 92% in January, 94% in February and 95% in March 2021. However due to the COVID second wave disruptions the repayment rates fell to 87% in April and 75% in May 2021. Repayment rates are bounced back quickly in June with easing of lockdown restrictions in most geographies. The collection efficiency in MSME and two-wheeler segment continued to be healthy at 94% in March 2021.

The sudden spread of the second wave of COVID-19 pandemic has created a challenging operating environment for us. The collections experienced a temporary decline in Q1 FY2022 on account of several intermittent lockdowns and restrictions being imposed across various states. The situation impacts the customers' ability to manage their activities as well as our ability to conduct meetings to recover our dues. Based on our months to date experience in June the repayment rate seems to be recovering a lot faster compared to COVID 1.0 lockdowns. COVID 2.0 was unexpected and disappointing in many ways. It is with great sadness that I report that COVID 2.0 resulted in the death of 5 of our team members and untold numbers of family members of our staffs. Overall confirmed infections in our staff members were about 180 people apart from again many 100s of family members of our team that were impacted. In light of the human tragedy across India it seems improper and even impolite to discuss the impact on the business; however, our business itself is very resilient, as I mentioned the prepayment recovery has been very steep during June and we expect it to reach manageable level starting from July. Disbursements were negatively impacted during Q1 of FY2022 and therefore the volumes will be lower than the approved business plan decided in March. It will be imperative to be extremely cautious in disbursing loans to customers with weak cash flows and having exposure to impacted sectors which is not always easy to evaluate in the microfinance segment and relies greatly on the judgment of your ground level people. On the flipside our confidence towards our customers who have managed to remain regular in their payments and have shown greater resilience to withstand downturns during both phases of the pandemic maybe able to absorb higher exposures.

Significant effort from MFIN has ensured MFIs to be listed as essential services in many states which helped a great deal in many areas to continue our operations. This also reinforces recognition by the government on the importance of MFIs in enabling financial stability at the bottom of the pyramid. We shall closely evaluate the business impact of ongoing disruptions and derive our experience of FY2021 to stabilize our business. We shall evaluate and support our borrowers using various measures available to us. Our strong balance sheet, adequate liquidity and capital, stable credit ratings and strong relationship with our lenders should enable us to receive continued funding access over the coming months. Further our demonstrated capability of managing asset quality stress as witnessed multiple times in the past that by a resilient business model and coupled with highly experienced and stable management team should give comfort and confidence to our lenders, investors and various stakeholders.

Finally to conclude I would like to express my gratitude to all our stakeholders for their continued support during these very difficult times and a special note of appreciation for the company's field staffs many who juggled between infection risk during their duties. Now I would request the operator to open the floor for question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir first question is for the June month how has been the collection efficiency with respect to microfinance and other divisions?

Aalok Patel: It has improved quite a bit so from last month in the microfinance segment it was about 75% still another 3 odd days to go on this month we are expecting to close the month anywhere between 87% to 89% repayment rate in the microfinance segment and 90% plus in both the two-wheeler and the MSME segment.

Sarvesh Gupta: You said that you are expecting July to be sort of a normal month so you are expecting July to be similar to let us say a March month is that understanding correct?

Aalok Patel: No, it was similar to May but it is not similar to, May was only about 75% so this represents almost 12% to 14% increase from the previous month.

Sarvesh Gupta: Similar to April I meant, you are expecting June to be similar to April right?

Aalok Patel: Yes, it is more than it but yes. V shape curve as far as recovery is concerned and frankly speaking I do not think this time is as bad as last time given the short nature of the lockdowns and it was not on a nationwide level there were only certain areas that were more lock than others for example Maharashtra or Rajasthan and that too more so in some districts than others.

Sarvesh Gupta: Given the situation Sir while we have saved a lot of money on the other expenses so you would expect a lot of that to come back right?

Aalok Patel: We have saved a lot of money on other expenses and I am not sure I understand your question.

Sarvesh Gupta: You would expect cost of income can normalize for most of the part of this year compared to let us say in FY2020?

Aalok Patel: Yes, that is generally speaking the plan let us see how this year progresses, we made a lot of plans only to kind of have it go out of the window so we had pretty large plans and detailed plans for FY2022 and now it has of course will have to go back on the drawing board and workout what else do we look like, but in generally speaking yes we expect them to remain in comparison with FY2020.

Sarvesh Gupta: On your two-wheeler financing book can you split up the gross NPA for two-wheeler financing and secondly what is the expectation going forward are you seeing some better indicators on that front?

Aalok Patel: S,o the NPAs in the two-wheeler group is slightly higher so two-wheeler Vivek you have those figures the two-wheeler NPA figures.

Vivek Modi: Two-wheeler NPA is about 8.3% and net NPA is about 1.9%.

Sarvesh Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Savi Jain from 2Point2 Capital. Please go ahead.

Savi Jain: I just want to understand what percentage of your book is restructured?

Aalok Patel: That is about 3% that will be on the books right now so after December we have not done any restructure that being said as long as you brought this topic up I think there might be some restructures that we do in the form of just plain moratoriums for the people who might have missed April and May's repayments so we might just push the tenure forward by two months and these were only the customers who were completely regular on March 31, 2021 exactly that is the plan and that is what we discussed during the board meeting.

Savi Jain: How is the collection?

Aalok Patel: Collection went as high as about 40% in March, during May that number came down to about 7% on the restructured and June I would have to look it up to be honest I do not have that in hand.

Savi Jain: Sir as far as the cost of goods including provisioning and write-off I think it is almost taken more than 9% on the book as provisioning and write-off so is that correct?

Aalok Patel: No, I do not think 9% I think it will be about 6%.

Savi Jain: Including write-off and provisioning both?

Aalok Patel: I do not think so Vivek I think including write-off and provisioning it was something like Rs.54 Crores last year. If I am getting your question right the provisioning that is available for the future is 6.3% and the write-off that has taken place is approximately Rs.16 Crores which would be about 2% so about 8%.

Savi Jain: That will take care of, you believe there will be no further requirement at least for the first wave, second wave obviously you are still evaluating?

Aalok Patel: Yes, so it is our belief that that amount was adequate to take care of COVID time.

Savi Jain: Yes, because I think in the beginning of the wave I think there were lot of discussions about what will be the credit cost due to this event and then at least the industry lot of players were saying it will be less than demonetization but it seems to be clearly significantly higher than demonetization and even in your case I think it is much higher.

Aalok Patel: I think for that effort I always said.

Savi Jain: Yes, so that’s why I said other players, as far as the second wave what do you think will be the incremental credit cost now assume that this is over so what do you think?

Aalok Patel: Yes, really I think it is a very good question I do not want to comment on it right now. A lot of the things we are seeing is that customers who were facing a problem during 1.0 and after a lot of struggle we got them into some semblance of normalcy where they were at least starting to make repayments, now again these guys have probably most of them through no fault of their own are slipped back into kind of overdues so how that will be managed converting them again to having some kind of back into repayments I would hope so but really there are too many variables and factors had played I really would not be able to comment it for at least another couple of months.

Savi Jain: I think just to get a sense of the magnitude it will definitely be much lesser than the first wave right the credit cost?

Aalok Patel: Yes, that will be much, much lesser because we have seen is much better very surprisingly as I said we expect to end this month at about maybe 87%, 88%, maybe even if we are lucky 89% so very quick recovery I think during COVID 1.0 when we have payments in June when the lockdowns were over it started at about 60% and then it took us about five months to reach the level of 90% so this time hopefully the way things are it never dip to such low levels and from May to June itself it should be almost good u turn.

Savi Jain: I am looking at April, May number significantly better than the industry is that because Gujarat was probably much better placed this time around or I am looking at other players' numbers it is more in the range of 60%, 65% for the April and May?

Aalok Patel: I do not know which players you are referring to I think most people were in the early to mid 70s as far as my market knowledge is concerned but off course you probably track this even more than I do as far as the competitors work, but at least the unlisted players and people that I have a regular conversation with were may be probably slightly above average but not by that big of a margin.

Savi Jain: On your disbursement what is the status now have you resumed or are you still waiting and watching this still evolves.

Aalok Patel: We are disbursing but see there is a different form of strategies you have to use as far as disbursement goes during times like this that we do not want to pressure your people, you do not want to give them hard targets and things like that. As I said in my speech, it is very imperative that we have at least microfinance there is not a lot of paperwork available to formulize a system about cash flows and things like that. So I think it is very imperative that you do not push your people too hard and you tell them you can do less business but make sure whatever we are doing is of a higher quality, much more emphasis on collections also is what we are telling our people so that gives them little less time for disbursement. That being said we are expecting this month around the disbursement of maybe about Rs.50 Crores in the microfinance book and maybe around Rs.12 odd Crores in the other books, so total Rs.62 to Rs.65 Crores somewhere around that neighborhood so compared to March that would be about 60%, 70% so not too bad overall but it will take us maybe another month or two months to get back on March levels.

Savi Jain: But even obviously, as you said not many people expected this second wave to be at this intensity so you will have much more conservative, in the third wave or something in your disbursement and growth?

Aalok Patel: Well, I think we were already quite conservative to begin with even post COVID 1.0. I do not know how much room I have to be so even more or so. There are various factors that I can create an underwriting that will much would accept so the answer is of course just and know we have to keep your eyes and ears open but our sense is I do not know if we can continue doing business by keep expecting the third wave and the fourth wave and the fifth wave take on as it comes.

Savi Jain: Previously you mentioned in the presentation about declining your high cost liabilities is with low cost so what is your cost of funds right now and also wanted to understand the impact of this base rate reduction that 2.75 times base I think that is applicable now and because of that will your NIMs decline going forward obviously with the harmonization guidelines that will be taken care off but that has still not been notified so in the interim…?

Aalok Patel: I think if you noticed in our presentation they have already declined, our average yields have also declined because of that 2.75%. The best point is that we have managed to offset it mostly partially or mostly by reducing our cost of borrowings so today the blended rate is about 12.25% all in as far as microfinance. So while we are probably not getting the full 10% margin will be closer to about 9.5% or 9.25% or something so not as bad as lot of our competition because we have managed reducing the rates. Of course, once the rules harmonize, I think that will be some much needed breath of comfort to the entire segment because all it opens up the industry to price it according to reach and price the product according to competition and really that is the way it should have functioned from the very start so you started with the Malegam Committee Report almost 10 years ago in 2011 and everything kind of took a full circle back 10 years later.

Savi Jain: When do you think this will come to effect? What is the timeline you think this will happen?

Aalok Patel: No idea in hand we will continue to see, three to six months at the minimum. No idea because I think there is no specific deadlines in terms of how fast would they want to turnaround but yes for sure.

Savi Jain: Sir you can purely start again lending it 26%, 27% and make some really higher NIMs and the ROEs there because to compensate for so many bad years that you have had in the last five, six years, is that where the industry will move at least on the NBFC MFI side?

Aalok Patel: The overall expectation is that we will increase their rates to try and offset some of the losses during the COVID era so to speak. I would hope that we do not go back to the 380 kind of situation where people are charging 30% or 32% plus I mean that would not happen. There is too much competition right now for that to happen. Earlier on it was a different story where the industry was like 1/10th of its size right now, but anyway let us see, I think there are a lot of things to consider. It is really now a microfinance 3.0.

Savi Jain: Lastly, I just wanted to know I think you would have just emerged from the first wave I am sure discussing already with funds for an equity raise and then the second wave hit so where are we on the fund raise, are you again starting to setting dialogues or what is the thought there?

Aalok Patel: I would probably wait till stable enough before going up for equity and right now we are quite comfortable with capital. The equity raise for most growth funding for FY2022 thanks to the second wave in the region of setting up not at least for a one or two quarters.

Savi Jain: Thank you.

Moderator: Thank you. The next question is from the line of V Srinath from Bellwether Capital. Please go ahead.

V Srinath: The MSME business had a very good story in the wave two also on collection. So just wanted to kind of understand where we stand on this business, in your base there is significant amount of rejection rate to kind of labor heavy model but given the thought and it continues to show a significant better performance are we kind of looking to scale this to that kind of Rs.50 to Rs.60 Crores disbursement per quarter over this year or next year? Just wanted to know your views on this and see last time around Gujarat had that better performance but this time that the wave two seem to hit most of the western states quite similarly so would it be fair to say that aggressive income is showing a better asset quality performance?

Aalok Patel: Yes, I thinkMSMEs record significant better recovery rate compared to MFI at least in the starting then it somewhat stabilize faster while the MFI repayments were continuing to increase. I think I believe with March MFI repayment rates crossed MSME repayment rates but that being said I think if you compare it from a geographical sense the difference likely becomes lower in that case because MSME was primarily in Gujarat and if you compare Gujarat MFI versus Gujarat MSME, it was slightly better but you would not see that significant difference. Now as far as the growth side in MSME is concerned, I think I have said this that it takes a special kind of customers, it takes to find a special kind of customer for the MSME and therefore growth is not as easy I guess or I do not want to call it easy, but not as difficult as it is in the microfinance segment but we are still committed to it I think we have seen, I always said I was waiting for one downturn to come before I really expand on this segment and there were plans to expand into Rajasthan and further expand in to MP during FY2022. The second wave put a hold on those branch openings, but we have a target to maybe open about 22 odd branches in the current fiscal year in MSME so yes I think we should continue the growth in the MSME segment and in the long run I think even if you look at the new RBI whitepaper that I was discussing nowhere in the entire document is the term group loan mentioned. So overall I think the microfinance segment in the long run is moving towards the more individual side loans rather than the group loans and that is exactly what we are doing in the MSME so we are little bit ahead of the most people there and we should be able to turn that into our advantage.

V Srinath: So, the MFI individual products is very similar to the MSME product mostly again when you kind of maybe good over a period of time, would we do this kind of cash flow analysis?

Aalok Patel: Yes, Srinath that is the plan overall that as time goes on you will have to rely more on technology and more on while microfinance the JLG model you could have relied on the group loan, and you could have relied on the smaller ticket size to sort of offset your risk. Now you will have to go on the ground level and develop some mechanism to evaluate the customers and with these new guidelines the FOIR rule has come up so you can only give them 50% of their overall monthly income, the household income, their EMI should not be more than 50% of that. So now they have also put the onus on the board's f the companies to develop strategies for assessing their income level, the household income level. So I think over the next couple of years is going to be a lot of changes, lot of innovation and lot of exciting new things coming, if it was not for COVID…

V Srinath: I think it is in the sort of piloting can you give some insights on that?

Aalok Patel: We have already started the pilot in the microfinance side. I think we already have some 44 odd customers and probably going to increase that by another 100 customers this month and the IEIs in that case as we are trying a cashless model of collections. We are still using the income assessments but for the customers who deal with us for three or four cycles at least for the last five to six years, if there are matured enough to a point where we can assess their incomes a little bit better or at least estimate their income similar to what we are doing for MSME and if we are in a industry that we understand well then we are disbursing money on an individual basis on a pilot basis through a MFI segment alone and we are attempting that we recover the money at least majority of it through cashless model so right now we are doing e-NACSH, we are trying couple of other things as well like auto UPIs and things which are coming up, there are numerous different methods to get it on a cashless way. I think pulling it out of their bank account will be better than waiting for them to transfer it like using the UPI apps and things like that but that being said I think the important thing is that they should have money in their bank account I mean all these cashless models of payment will rely on them having some cash in their bank account which the rural segment does not seen very, very enthusiastic to give up easily but we have to give it time.

V Srinath: As per putting the new regulation into perspective so over the next three to five years you see a large part of the book migrating to an individual model given that anyway ask you income assess every loan post the harmonization?

Aalok Patel: Yes, that is correct, so that is going to be expensive to do and that is not going to be 100% scientific because you can only do an estimate of it. So, there are lot of things honestly that we still not figured out to be completely honest with you, but we will and there is enough time to do it.

V Srinath: Couple of hygiene questions just want to understand that the Rs.400 Crores incremental loan book that we built in MFI is that showing significant better collections from the soft loans that about Rs.200 Crores to Rs.250 Crores, that would be one, and two is if you could give any regional understanding of collections in wave one Maharashtra collections is significantly lower and we had kind of say kind of given us a understanding that you pay 50%, incremental loan book? On the incremental loan book how has collections been. Thank you.

Aalok Patel: On the incremental loan book they were at about 99.85%, 99.87% on March so they were performing extremely well I mean to that extent probably much better than the pre COVID scenario also. I think in the month of May they dropped down to 90% and that was only because most of them we could not collected. This month has increased again the last I check was about a week ago and I think that was at about 94% level hopefully by the end of the month we should be back to at least a 98% plus kind of a method in those loans but I would have to really check the status of those loans what happened in the last one week.

V Srinath: So largely the stress is in the stock book and not in the incremental loan book is that a fair assessment?

Aalok Patel: It is a fair assessment as I told a previous participant also the people who are already facing problems during post COVID 1.0 and we had finally got them from like got the repayment levels high enough where the repayment rate was 95% those guys have slipped back so how long it will take them back up that remains to be same.

V Srinath: Thanks for handholding in such difficult times and patiently answering all the questions. Thanks a lot.

Moderator: Thank you. The next question is from the line of Balkrushna Vaghasia from Axon Investments. Please go ahead.

Balkrushna Vaghasia: Good evening Sir. I have a couple of questions. Sir do you think that your current high interest rate in MSME segment can damage or dampen your long-term growth approach or long-term bank they are significantly higher than your peers right?

Aalok Patel: Well, I do not think in the MSME segment we have a lot of peers but whichever once we do our pricing is somewhat similar. Overall, our customs are not very, very price sensitive but if you look at the last quarter yields also I think we have reduced the rates in the MSME side as we have reduced our cost of borrowing we have passed that along to some of our customers, reducing rates further is not so much of an issue. As I mentioned on a pre-COVID level that was our higher ROA product and we were very conservative as far as pricing this product for the risk involved or so-called additional risk that what we would have to bear and now on a post COVID scenario it is offsetting previous losses faster than let us say MFI book but if it is competition that is reducing our growth I really do not have much of a problem of reducing the MSME rates if it ever needs to be reduce.

Balkrushna Vaghasia: On a clarification note so are you saying that since this particular segment or ground where you are lending MSME loans you do not have much competition so you are trying to reap the benefit considering a credit risk as well as limited competition?

Jayendra Patel: Since it a free enterprise system we have to accept it. If the market demands that we reduce the rate we will is definitely be the first one to reduce the rate but the thing has not reached at that level or that point so we have to look at that level whatever that we decide whatever the quantum that we have decided we are in a position to disburse as far as the MSME is concerned and my collections effort is also good in MSME so it is not something that we are collecting the second class citizens so odd so I do not see any issue as far as the reducing the rate is concerned and in the future if it demands yes we will definitely look into it Sir.

Balkrushna Vaghasia: My second question is related to your medium-term plan where do you see yourself in terms of AUM and all the business segment in next three to five years Sir?

Aalok Patel: No comments on that Sir. We will have to rework the projects and then plans based on the COVID 2.0.

Balkrushna Vaghasia: Sir last question in the long-term do you see or would you like unlock the value of Namra finance by listing it?

Aalok Patel: No, We have no plans to dilute at a Namra Level so for the foreseeable future Namra Finance will remain a wholly owned subsidiary of Arman and that way it will provides the most amount of value and transparency for all of our products or for both the companies rather so right now it is only complete pass through entity and I think it will just confuse the valuations of both companies if you dilute at the subsidiary level. The entire purpose of creating Namra as a subsidiary was not for any business reason. It was purely for a regulatory perspective because RBI came up with the rule that said that if you want to do microfinance then 85% of the assets had to be in the nature of qualifying microfinance assets so we were essentially forced to demerge it into a wholly one sub otherwise there was no other good reason to do it.

Balkrushna Vaghasia: Thank you Sir and best of luck.

Moderator: Thank you. The next question is from the line of Shrishti Jagati from Emkay Global Financial Services. Please go ahead.

Shrishti Jagati: Good evening Sir. Congratulations on good set of numbers. I am sorry it was as data keeping question. Can I get the disbursement numbers for April, May and June last three months?

Aalok Patel: April month we did microfinance Rs.38 Crores, I think we did MSME about Rs.42 Crores on a consolidated basis was in April. During the month of May we did less than Rs.20 Crores and during the month of June as I said we are expecting to do some were maybe about Rs.60 Crores to Rs.62 Crores.

Shrishti Jagati: Sir just one more question you have mentioned that you are renewing loans for the existing customers so have these customers fully repaid their previous loans or have they seen any foreclosure of loans that is right?

Aalok Patel: No, so our condition itself is that they should have a clean credit history. Now they could have been late during that from I think you are talking about the renewal so renewal would be our own customers that gives us a lot of comfort and they would have to be completely clean on our books to be eligible. So I guess there are no top of loans or anything like that or no ever greenings or so they would have to be completely clean. As far as the other customers are concerned see there are a lot of customers that had overdues starting in August or in September or even in October if the customers had a past overdue but they have settled that overdue in that customer keen is so to speak today on a case-to-case basis we will approve that loan depending on our credit evaluation of the customer but it is important on any overdue amounts as of today.

Shrishti Jagati: Thank you Sir that answers my question. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Avadhoot Joshi from Newberry Capital. Please go ahead.

Avadhoot Joshi: Good evening. Thank you for the opportunity. I would like to know which states were affected much more in wave two because as I remember in wave one Maharashtra was much affected and it has been reflected if I refer to the slide #35 of the presentation our MFI even mix has declined in Maharashtra from 21% to 18% so I would like to know whatever it was a conserve decision and what we are going to do in further this will be depending upon the repayment rates we have in different states? Thank you.

Aalok Patel: No. It was definitely a conscious decision. During COVID 2.0, I think your first question was which states were more impacted. During COVID 1.0, I think Maharashtra was probably one of the worst impacted and by impact I think I do not know the COVID figures but at least from a repayment standpoint based on lockdowns and other factors the repayments were mostly impacted. I do not want to comment on whether they were tilting more COVID cases or less or more that is all is this to be honest I do not even know remember that data. During COVID 2.0 I think one of the most stringent lockdowns was probably in Rajasthan followed by certain districts of Madhya Pradesh and certain districts of Maharashtra now I think Maharashtra has been in and out of lockdowns for so long that both my staff and the customers are fairly used to it by now wherein kind of life goes on but yes I think that answers I think Rajasthan was going okay for a while and then they had a very stringent lockdowns starting from the 8th of April, .

Vivek Modi: So, from 8th of April literally for 60 day Rajasthan was probably on one of the most stringent lockdowns, in last 15 sdays it has seen unlocking. fortunately our exposure in Rajasthan is a single digit.

Aalok Patel: **Gujarat &** UP thankfully we are not very strict this time.

Vivek Modi: Again in Rajasthan just to clarify we are still fairly young there in terms of our initial stages. we can gottthen 18, 19 odd days to operate this month. I think we bouncing back in Rajasthan much faster.

Avadhoot Joshi: Because I heard that MSME sector you want to expand in Rajasthan and MP so there is no much impact about collection efficiency in these two states?

Aalok Patel: No it has both on those states have bounced back. I would not call it that they are back to normal but there was a very V-shape recovery as far as repayments in both those states but we will see again if there are any individual areas which have not recovered, we might be cautious to open a branch there but our confidence on the entire state has not waivered and either were on those two states.

Avadhoot Joshi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhruvish from Mirabilis Investment. Please go ahead.

Dhruvish: Thank you for the opportunity. Just one quick question I wanted to know the lock-in for elevated capital, lock-in period?

Aalok Patel: Lock-in period of elevation capital?

Dhruvish: Yes.

Aalok Patel: There is no lock-in. What do you mean by lock-in period? We are free to exit. The lock-in was 18 months and I will have to call my Company Secretary so do not quote me on this but I am 90% confident it was 18 months which are the long parts so there is no lock-in period.

Dhruvish: Thanks.

Moderator: Thank you. The next question is from the line of Siddhant Bhandari from Highwest Global Management. Please go ahead.

Siddhant Bhandari: I just had a quick question assuming that sort of business operations normalize and there is no wave III by when do you think you are going to comment roughly on what is the credit cost impact as far as the wave II is that you think you will have visibility on this or you can get it normal so you will be able to provide an accurate picture?

Aalok Patel: Well, if you recall in the last COVID I never really provided an accurate picture even after two, three quarters. I do not think that I would be, I am not talented enough to comment on guidance. I do not know what to say I mean if the repayment rates recover and bounce back within couple of months I can tell you that okay this is going to have any impact. If they do not bounce back then it will be difficult for me to say it has never been ever bounce back, not bounce back whether all manage convincing the customers these are really very unprecedented times. Nobody in my entire management team has any experience dealing with situations like COVID. I do not think any management does in the entire world so fairly speaking I do not know maybe we can have a better understanding in the next quarter.

Siddhant Bhandari: No, I was not looking for some guidance or a specific numbers I am just asking sort of when do you expect to have more clarity maybe a few months after then it might be the right time to one asks this question?

Aalok Patel: I think if you wait until next quarter let us see how the repayment rates behave and then we will get to the industries and incentives get the industry. I think one thing we have learned what Jayendra bhai is also saying is that the industry and our customers are very resilient. So, everybody tends to bounce back so you have the worst kind of predictions and then you wind up getting surprise yourself right the positivity of the entire segment so money is always green

Siddhant Bhandari: Thanks. That is all from my end.

Moderator: Thank you. The next question is from the line of Debashish an Individual Investor. Please go ahead.

Debashish: I just defer what you said in to the previous question that you are not talented enough to comment I personally feel you and Jayendra Bhai are feet on ground people and your projections are far better than the industry. For example when first wave happened I think the entire industry was saying the credit cost will be less than demonetisation but you and Jayendra bhai always said that it is not going to be so. So this is difficult time for MFI industry and for you and I am sure this is very frustrating with all these lockdowns start stop, start stop, in spite of that March collection was very good so from that perspective 94% is good one of the best in the industry and now again second wave have hit so when you feel we will be back to that 94% to 95% is July a fair assumption or it will take more time than that?

Aalok Patel: I think it was there probably maybe August roughly speaking see it is from my assessment anyway thank you for your complement and to be fair to others I do not think anybody expected loan losses to be less than demon but sometimes what you say is different than what you think so anyway but I do not know normally speaking what tends to happen is that when the recovery starts the first few months were very quick and then the last 1% or 2% you have to struggle month-by-month like even if you look at let us say January, February, March to get it from like I think 92% or 93% in January to 95% in March that was only 2% increase.

Vivek Modi: So the change the amount of change that you can create in terms of percentage basis we will keep becoming difficult as you move forward.

Aalok Patel: So right now you target the lowest hanging fruits right the people who has no intension not to pay but you could not reach their house. So those are the easiest ones then the ones are slightly less impacted by the overall and the last stage will be people whose incomes had been completely disrupted during 1.0, 2.0 everything and you keep in touch with them you follow-up with them, you sympathize with them you do whatever it takes and get them to start paying this is just the nature of the beast that you constantly have to follow-up with the customers and that is all we can do in these cases right I mean this is microfinance whereas no collateral or there is no vehicles to reposes or anything like that.

Debashish: Aalok from 2015 something or the other kicks happening it was demonetisation then ILFS crisis then COVID 1.0, 2.0 then there are natural calamities which keeps on happening in different geographies with respect to flood or otherwise then there is government intervention which keeps happening which started the credit discipline of a particular state so given all these, do you think that you need to tweak something in your strategy in terms of say new product is on the secured side because three years back we had talked about housing loan which you are trying to prototype that or in terms of penetration strategy with respect to geography basis does that we need to think through some tweak in strategy?

Aalok Patel: No, we do agree with you Debashish that we have had our fair share of unexpected calamities in the form of demon and COVID both and that to in a back-to-back succession. That it is exclusive to the microfinance industry I think barring maybe 10% of the industry is probably 90% of the industries faced some problem on other during demonetization and COVID. As far as natural disaster if you are large enough and spread over a large geography, national disasters kind of happen all the time. There is always a too much rain or too little rain somewhere or another that we operate even during the best years then we were more than capable of dealing with it because it was isolated in certain branches or in certain districts. It was never a nationwide thing. So having those kinds of things are really priced into our products only that occasionally, there will be some natural disaster or another in some isolated areas. Now as far as government intervention goes it is a 2x sword right I mean there are good interventions and bad interventions. We have had our fair share of good interventions in the past few months. Assam was going to go into kind of grow out and there was a positive news there. Of course, we are not at Assam so it does not impact us but at least for the Assam players it was good news. This new RBI whitepaper that has come out is very good news I think. I think it would be a game changer for the industry as a whole. I was mentioning in my comments that the finance minister just made a Credit Guarantee Scheme announcements exclusively for their NBFC MFIs. So, all in all I think it is a 2x sword. Overall, as far as the central government is concerned and most of the state governments, I do not foresee much of an issue because while there was during 80 crisis I think most of the people understand that we had an integral part of the overall lending business overall financial infusion business and now you find local level corporaters and those kinds of guys creating issues all the time but again these are isolated incidences on a normal year but yes I guess that is what always remains hanging that there is something very serious parts in terms of rectification from the central government that would have a very material negative impact on us but that is just I do not know exactly how to offset that risk that can happen in any industry even in a gold loan they can be like well you can charge more than a certain amount of interest but that could happen to any industries.

Debashish: My last question Aalok, is it is very difficult to get a sector and company consistently delivering a 25%, to 30% ROE and there is a huge headroom for growth, you have been delivering 25% to 30% ROE for a very long period consistently and this headroom of growth where you are not penetrated in most of the states so when you expect and now given some support is also coming the RBI new regulation all today what the finance minister has said on Rs.7,500 Crores guarantee color so when you feel that you will be able to hit that 25% to 30% ROE is it couple of years away or is it much before?

Aalok Patel: I think we should be back on track by FY2023 I would hope. I mean I would have assumed that we would be back on track like the second half or the last quarter of FY2022 itself that was the original plan. Now with COVID 2.0, I am not exactly sure but by FY2023 I do not expect this to be like huge, huge disaster and now that we have gone through COVID 1.0 we kind of know what to expect. Earlier the expectation was very, it was right now tracking because again we did not know what to expect but today, we have a better idea of what to do exactly and a certain customers in certain areas are behaving in such a way what exactly was last time didn't work last time so we have a lot of knowledge at our disposal. Now as far as our ROEs and things are concerned, I mean now we have had our fair share of good years and we have had a fair share of bad years as well. Luckily none of them where I would like to think but our fault but then again it is anybody's opinion, I guess. So, I am not exactly sure how to answer it Debashish. It is very easy to get impatience in this business. I think we estimate some level of impatience last year and we had a pretty good pretty solid targets set for FY2022 in relation to that we have opened up some 20 odd branches in microfinance in March month alone and I think we were planning to disburse somewhere between about Rs.1,200 Crores of disbursements is what we were planning in microfinance alone so but that plans are always sometimes do not work out and nobody expected COVID 1.0 nobody expected COVID 2.0 and now everybody is expecting 3.0 and hope it never happens.

Vivek Modi:: Just to add to what Aalok has said the uncertainty around this may get even difficult to immediately kind of commit to the original plan because that is why if you have a setback because of your own faults or something going wrong then maybe you can course correct here nothing that has gone wrong in terms of how we could foresee the future without our COVID 2.0 credit so I think your patience will be key word here.

Jayendra Patel: If I can add a few lines because of my age, good wishes that one thing that you remain committed is not because of these natural disasters and the government poking their noses into it but because of that trust that you can reposed in this kind of people that I have dealt with this millionaires and I have dealth with so many HNIs but these are the people that I deal with more these are the people who have taken money from you and they believe in paying you back now COVID 1.0 or 2.0 yes they might put you few months behind but their intensions are not wrong and that is what keeps you going is get these people are believe they believe that if I have taken the money, then I have to return it back that is the belief on it.

Aalok Patel: That well said I think most of these people are not willful defaulters. They have genuine issues and it is such that they are not repaying you back but at least you can sympathize with them and as a business owner and people who deal with the bottom of the pyramid, I think it is very important to maintain that trust and that sympathy towards them rather than making it all about dollars and cents and along with what he said if you are driving a car inpatient to reach your destination but you are driving in a fog right now and it is always dangerous to accelerate I mean there might not be a truck in front of you but there might be and so you want to take that risk. I for one who want to so let us go a little slow, I think in the grand scheme of thing the few quarters here and there do not matter too much.

Debashish: Thank you and all the best Aalok.

Moderator: Thank you. The last question is from the line of Parth from Prudent Broking Services. Please go ahead.

Parth: Sir I wanted to understand the MSME vertical a bit better. So I have three questions on this part what is the difference between microfinance and in MSME client? Second being what is the difference in credit appraisal process between a microfinance and MSME client and third what are the rejection rates in this vertical? Thank you.

Aalok Patel: Typically speaking microfinance loans are lower in ticket. They are backed by joint liabilities and usually speaking in microfinance you are lending to a women borrower to supplement the household income. So, in the MSME segment usually it can be male or female there is no joint liability, and the ticket sizes are slightly higher than microfinance but not by huge margin; however, they are still not large enough to have it be secured and primarily speaking these guys are involved in whatever activity we are lending the money for that usually their full-time job or their primary source of revenue. So, in our case our MSME loans ranges from like 50,000 to about 2 lakhs, averages only about 70,000. In the microfinance the average will be about 30,000 so we are trying to cover different slices of the pyramid. So, while the microfinance might be the bottom of the pyramid, our MSME can lease more actually called microenterprise loans which is tailored to the rural segment and as I supposedly one step above the very bottom of the pyramid. As far as the credit appraisal the rejection rates have varied very significantly pre and post COVID. I think overall on a pre COVID level the microfinance rejection rates were above 40% to 50% right now they are about 65%. I am saying the rejection rate varies widely. Currently speaking the rejection rates are very high. Microfinance they are close to about 65% and in the MSME side this is about 70% to 75% because lot of rejections are happening due to the credit bureaus, customers showing us overdue etc.

Moderator: Thank you. Ladies and gentlemen this was the last question for today I would now like to hand the conference over to the management for closing comments.

Aalok Patel: I think I will keep forgetting to write closing comments but thanks everyone for joining. Take care of yourselves and we will see you again this time a lot sooner because this time never delayed by a month. This call got delayed by a month but thanks everyone for your participation and our apologies that this time we went a little bit longer, everybody had a serious question, they can call directly. I think we have investor relation people, their contact information in our press releases and stuff, you can always shoot them a question and one of our team members will be happy to answer it. Thank you, guys.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.