



**Arman Financial Services Ltd.**



**Arman Financial  
Services Ltd.**

Q2 FY21 - Investor Presentation  
November 2020

**from ACCESS to INCLUSION**

# DISCLAIMER

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





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**Arman Financial Services Ltd.**



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# Financial Performance Update - Q2 FY21



# Q2 & H1 FY21 - Financial Performance Highlights



Total AUM declined by 6% YoY to INR 7,043 Mn (Q2 FY20 AUM: INR 7,531 Mn)



Shareholders Equity Stood at INR 1,814 Mn in Q2 FY21 (BVPS is INR 215)  
*Consolidated Debt-Equity Ratio stood at 3.3x on 30 September'20 (exclude direct assignment)*



Pre-Provisioning Operating Profit Increased by 10% YoY to INR 206 Mn in Q2 FY21, and 3% YoY to INR 375 Mn in H1 FY21



Operating expenses declined by 4% YoY to INR 124 Mn in Q2 FY21, and 9% YoY to INR 226 Mn in H1 FY21  
*Cost-to-income ratio improved by ~320 bps YoY to 37.6% in Q2 FY21, and 284 bps YoY to 37.5% in H1 FY21*



Collection Efficiency Improved Significantly to ~91% in October 2020 vis-à-vis ~66% in June 2020



Cumulative Provisions stood at INR 438 Mn as on 30<sup>th</sup> Sep 2020 (covering 6.2% of the total AUM)  
*Strengthened Provision Coverage by Prudently Recognizing Provisions of INR 141 Mn in Q2 FY21, and INR 243 Mn in H1 FY21*

## Update on Collections

- ❑ Collections have improved significantly across all 3 segments since June 2020 to reach ~91% in October (details given in the table below)
  - ‘Microfinance’ collections picked-up strongly as the repayment rates reached 84% in September 2020, and then further improved to 89% in October 2020.
  - 2W and MSME collections continued to be well-north of 90% during the period ‘July – Oct 2020’. Repayment rates for Oct’20 closed at 94% for MSME and 97% for 2W.
- ❑ Cumulative Provisions stood at INR 438 Mn as of 30<sup>th</sup> September 2020 covering 6.2% of the total AUM.
  - Namra: Cumulative Provisions stood at INR 271 Mn as of 30<sup>th</sup> Sep 2020 covering 5.2% of the total AUM.
  - Standalone: Cumulative Provisions stood at INR 167 Mn as of 30<sup>th</sup> Sep 2020 covering 9.2% of the total AUM.
- ❑ 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' (24,904 customers 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'. (1,502 customers 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'. (783 customers have not made any payments during this period).

## Collection Efficiency % (August – October 2020)

| Business Segment | Collections Due (Jul'20) | Amount Collected (Jul'20) | Collection Efficiency % (Jul'20) | Collections Due (Aug'20) | Amount Collected (Aug'20) | Collection Efficiency % (Aug'20) | Collections Due (Sep'20) | Amount Collected (Sep'20) | Collection Efficiency % (Sep'20) | Collections Due (Oct'20) | Amount Collected (Oct'20) | Collection Efficiency % (Oct'20) |
|------------------|--------------------------|---------------------------|----------------------------------|--------------------------|---------------------------|----------------------------------|--------------------------|---------------------------|----------------------------------|--------------------------|---------------------------|----------------------------------|
| Total            | 863                      | 694                       | 81%                              | 844                      | 666                       | 80%                              | 851                      | 738                       | 87%                              | 811                      | 737                       | 91%                              |
| Microfinance     | 657                      | 497                       | 76%                              | 651                      | 485                       | 75%                              | 639                      | 540                       | 84%                              | 606                      | 542                       | 89%                              |
| MSME             | 139                      | 132                       | 95%                              | 129                      | 119                       | 92%                              | 142                      | 132                       | 93%                              | 139                      | 131                       | 94%                              |
| Two-wheeler      | 68                       | 66                        | 97%                              | 63                       | 61                        | 97%                              | 70                       | 67                        | 96%                              | 66                       | 64                        | 97%                              |

**Note:** All the amounts are in INR Mn.

## Update on Liquidity

- ❑ **Healthy Liquidity position with INR ~1,350 Mn in cash/bank balance, liquid investments, and undrawn CC limits.**
- ❑ Successfully raised INR 500 Mn since July 2020.
- ❑ Liquidity position has improved driven by the pick-up in collections and the incremental debt capital raised since the start of April. Consequently, the company has duly repaid all the debt obligations that were due in Q2 FY21 as well as the moratorium obligations of April & May 2020 (i.e. voluntarily cancelled moratorium) to reduce moratorium interest burden.

## Update on Disbursements

- ❑ **Gradually resumed disbursements across all segments from August 2020 onwards.**
  - Loan Disbursements during Q2 FY21 stood at INR 507 Mn. A gradual pick up in disbursements expected from Q3 FY21 onwards.
  - In microfinance, the company is primarily renewing loans of existing customers who have already made their repayments and completed their tenure.
  - In the MSME & 2-wheeler segments, the company has slowly started disbursing with a more stringent underwriting process.
- ❑ **Incremental measures taken by the company to further tighten its 2-Wheeler and MSME credit appraisal process. These measures are over & above the existing requirements.**
  - **2-Wheeler:** 1) Increased down payment and credit score requirements, 2) Currently, not making any fresh disbursements in areas witnessing higher default rates.
  - **MSME:** 1) Tightened the positive cash flow requirement, 2) Added an Additional 'Covid Impact Assessment Layer' – where the 'credit team' assess the 'forward-looking impact on cash flows' for the 'occupations that have been impacted by the on-going Covid crisis' as a part of the appraisal process for evaluating fresh disbursements.

# Q2 FY21 - Consolidated Profit & Loss Statement



| Particulars (INR Mn)                  | Q2 FY21      | Q2 FY20      | YoY (%)      | H1FY21         | H1FY20         | YoY (%)      |
|---------------------------------------|--------------|--------------|--------------|----------------|----------------|--------------|
| <b>Assets Under Management (AUM)</b>  | <b>7,043</b> | <b>7,531</b> | <b>(6%)</b>  | <b>7,043</b>   | <b>7,531</b>   | <b>(6%)</b>  |
| <b>Disbursements</b>                  | <b>507</b>   | <b>2,315</b> | <b>(78%)</b> | <b>507</b>     | <b>4,216</b>   | <b>(88%)</b> |
| <b>Shareholder's Equity *</b>         | <b>1,814</b> | <b>1,600</b> | <b>13%</b>   | <b>1,814</b>   | <b>1,600</b>   | <b>13%</b>   |
| Income from Operations                | 507.7        | 526.3        | (4%)         | 998.3          | 1,001.8        | 0%           |
| Other Income                          | 9.2          | 17.3         | (47%)        | 12.5           | 23.8           | (48%)        |
| <b>Gross Total Income</b>             | <b>516.9</b> | <b>543.7</b> | <b>(5%)</b>  | <b>1,010.8</b> | <b>1,025.6</b> | <b>(1%)</b>  |
| Finance Costs                         | 186.4        | 227.0        | (18%)        | 409.9          | 414.1          | (1%)         |
| <b>Net Total Income (NTI)</b>         | <b>330.5</b> | <b>316.7</b> | <b>4%</b>    | <b>600.9</b>   | <b>611.5</b>   | <b>(2%)</b>  |
| Employee Benefits Expenses            | 91.0         | 88.1         | 3%           | 174.0          | 168.1          | 3%           |
| Depreciation and Amortisation         | 2.0          | 2.2          | (10%)        | 4.1            | 3.8            | 7%           |
| Other Expenses                        | 31.4         | 38.9         | (19%)        | 48.0           | 75.4           | (36%)        |
| <b>Pre-Provision Operating Profit</b> | <b>206.2</b> | <b>187.5</b> | <b>10%</b>   | <b>374.9</b>   | <b>364.1</b>   | <b>3%</b>    |
| Total Provisions & Write-offs         | 186.6        | 22.3         | 736%         | 289.0          | 37.1           | 679%         |
| <b>Profit Before Tax</b>              | <b>19.6</b>  | <b>165.2</b> | <b>(88%)</b> | <b>85.9</b>    | <b>327.0</b>   | <b>(74%)</b> |
| <b>Profit After tax</b>               | <b>15.1</b>  | <b>120.0</b> | <b>(87%)</b> | <b>68.2</b>    | <b>241.5</b>   | <b>(72%)</b> |
| GNPA %                                | 1.1%         | 1.1%         | (2 bps)      | 1.1%           | 1.0%           | (2 bps)      |
| NNPA %                                | 0.2%         | 0.6%         | (45 bps)     | 0.2%           | 0.6%           | (45 bps)     |
| Return on Avg. AUM %                  | 0.8%         | 6.5%         | -            | 1.7%           | 6.7%           | -            |
| Return on Avg. Equity % *             | 3.4%         | 32.6%        | -            | 7.7%           | 33.8%          | -            |

**Note:**

- \* Fully-diluted equity base
- There may be minor variations between Namra + Standalone figures and the consolidated figures due to eliminations / knock-offs
- RoE = PAT / Avg. Fully Diluted Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book). RoE and Return on Avg. AUM figures are annualized



# Q2 & H1 FY21 - Consolidated Balance Sheet



| Particulars (in INR Mn)            | Consolidated |              | Standalone   |              |
|------------------------------------|--------------|--------------|--------------|--------------|
|                                    | Sep 2020     | March 2020   | Sep 2020     | March 2020   |
| <b>ASSETS</b>                      |              |              |              |              |
| <u><b>Financial Assets</b></u>     |              |              |              |              |
| Cash and cash equivalents          | 354          | 584          | 247          | 3            |
| Bank Balance                       | 729          | 384          | 177          | 56           |
| Loans & Advances                   | 6123         | 7,785        | 1563         | 2,231        |
| Investments                        | 623          | 33           | 826          | 624          |
| Other Financial assets             | 127          | 75           | 24           | 23           |
| <b>Total Financial Assets</b>      | <b>7,957</b> | <b>8,861</b> | <b>2,837</b> | <b>2,938</b> |
| <u><b>Non-Financial Assets</b></u> |              |              |              |              |
| Current tax assets (Net)           | 0            | 5            | 0            | 13           |
| Deferred tax Assets (Net)          | 99           | 48           | 42           | 11           |
| Property, Plant and Equipment      | 33           | 35           | 8            | 8            |
| Other Intangible assets            | 1            | 2            | 0            | 0            |
| Right To Use Asset                 | 7            | 7            | 0            | 0            |
| Other non-financial assets         | 2            | 4            | 1            | 2            |
| <b>Total Non-Financial Assets</b>  | <b>142</b>   | <b>101</b>   | <b>50</b>    | <b>34</b>    |
| <b>Total Assets</b>                | <b>8,099</b> | <b>8,962</b> | <b>2,887</b> | <b>2,972</b> |

|   | Consolidated |              | Standalone   |              |
|---|--------------|--------------|--------------|--------------|
|   | Sep 2020     | March 2020   | Sep 2020     | March 2020   |
| <b>LIABILITIES &amp; EQUITY</b>         |              |              |              |              |
| Equity Share capital                    | 85           | 85           | 85           | 85           |
| Reserves & Surplus                      | 1,729        | 1,638        | 1,156        | 1,123        |
| <b>Total Shareholders Funds</b>         | <b>1,814</b> | <b>1,722</b> | <b>1,240</b> | <b>1,207</b> |
| <u><b>Financial Liabilities</b></u>     |              |              |              |              |
| Debt Securities                         | 1            | 6,828        | 0            | 1,657        |
| Total Borrowings                        | 5,975        | 150          | 1,570        | 50           |
| Other Financial Liabilities             | 230          | 241          | 50           | 50           |
| <b>Total Financial Liabilities</b>      | <b>6,206</b> | <b>7,219</b> | <b>1,620</b> | <b>1,757</b> |
| <u><b>Non-Financial Liabilities</b></u> |              |              |              |              |
| Current tax liabilities (Net)           | 64           | 8            | 22           | 4            |
| Deferred tax liabilities (Net)          | 0            | 0            | 0            | 0            |
| Provisions                              | 10           | 0            | 4            | 0            |
| Other non-financial liabilities         | 4            | 13           | 1            | 4            |
| <b>Total Non-Financial Liabilities</b>  | <b>79</b>    | <b>21</b>    | <b>27</b>    | <b>8</b>     |
| <b>Total Liabilities &amp; Equity</b>   | <b>8,099</b> | <b>8,962</b> | <b>2,887</b> | <b>2,972</b> |

# Q2 FY21 - Microfinance “Namra” Performance Update



| Particulars (INR Mn)                  | Q2 FY21      | Q2 FY20      | YoY (%)      | H1FY21       | H1FY20       | YoY (%)      |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Asset Under Management</b>         | <b>5,230</b> | <b>5,553</b> | <b>(6%)</b>  | <b>5,230</b> | <b>5,553</b> | <b>(6%)</b>  |
| <b>Disbursements</b>                  | <b>386</b>   | <b>1,729</b> | <b>(78%)</b> | <b>386</b>   | <b>3,124</b> | <b>(88%)</b> |
| Income from Operations                | 348.6        | 361.5        | (4%)         | 679.3        | 681.6        | 0%           |
| Other Income                          | 7.5          | 13.5         | (44%)        | 10.3         | 17.6         | (41%)        |
| <b>Gross Total Income</b>             | <b>356.1</b> | <b>374.9</b> | <b>(5%)</b>  | <b>689.6</b> | <b>699.2</b> | <b>(1%)</b>  |
| Finance Costs                         | 141.9        | 174.7        | (19%)        | 314.1        | 314.0        | 0%           |
| <b>Net Total Income (NTI)</b>         | <b>214.2</b> | <b>200.2</b> | <b>7%</b>    | <b>375.4</b> | <b>385.2</b> | <b>(3%)</b>  |
| Employee Benefits Expenses            | 61.7         | 56.0         | 10%          | 119.0        | 106.0        | 12%          |
| Depreciation and Amortisation         | 1.8          | 2.0          | (10%)        | 3.6          | 3.3          | 8%           |
| Other Expenses                        | 24.1         | 28.7         | (16%)        | 35.9         | 52.6         | (32%)        |
| <b>Pre-Provision Operating Profit</b> | <b>126.6</b> | <b>113.6</b> | <b>11%</b>   | <b>217.0</b> | <b>223.3</b> | <b>(3%)</b>  |
| Total Provision & Write-offs *        | 118.1        | 18.7         | 532%         | 175.8        | 27.2         | 545%         |
| <b>Profit After Tax</b>               | <b>6.4</b>   | <b>71.9</b>  | <b>(91%)</b> | <b>33.0</b>  | <b>143.8</b> | <b>(77%)</b> |
| 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       |
| Return on Avg. AUM %                  | 0.5%         | 5.4%         | -            | 1.2%         | 5.5%         | -            |
| Return on Avg. Equity %               | 2.2%         | 30.5%        | -            | 5.7%         | 31.7%        | -            |

## Note:

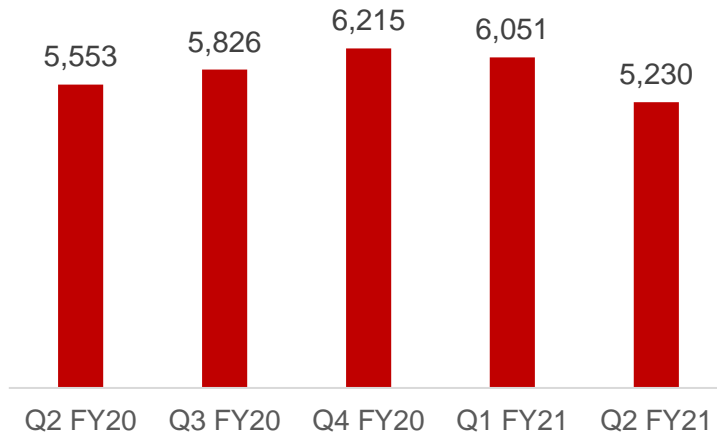
- Income from Operations includes: Interest Income on loans and managed assets; processing fees, and other charges in respect of loans. Other Income includes capital gains on liquid funds
- NIM = NTI / Avg. AUM (On + Off-Book); Yields = Gross Interest Income / Avg. AUM (On + Off-Book); Cost-to-Income Ratio = Opex (excl. provisions) / Net Total Income; RoE = PAT / Avg. Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book); NIM %, RoE and Return on Avg. AUM figures are annualized

- ❖ **Microfinance AUM dipped by 6% YoY to INR 5,230 Mn.**
  - Active MFI Customer base stood at 3.3 Lakhs in Q2 FY21 (+0.4% YoY).
  - Lower disbursements in H1 FY21 due to the Covid induced disruption combined with higher repayments led to a run-down in loan book.
- ❖ **Gradually begun disbursements from August onwards** – primarily renewing loans of customers that have made their repayments and completed their tenure.
  - Completed disbursements of INR 386 Mn in Q2 FY21. Pace of disbursements to pick up gradually from Q3 FY21 onwards.
- ❖ **Gross Total Income** declined by 5% YoY to INR 356.1 Mn due to softer yields and lower booking of processing fees on account of lower disbursements.
- ❖ **However, Net Total Income grew by 7% YoY to INR 214.2 Mn** led by a combination of decline in borrowings, and efficient cost management.
- ❖ **Provisions** for the quarter rose to INR 118 Mn, as the company prudently created provisions of INR 79 Mn and took a write-off of INR 39 Mn to reduce the NPA burden of Pre-Covid doubtful assets.
  - Strengthening the provision coverage should hold the company in good stead in future to deal with potential asset quality risks on account of Covid.
  - Cumulative Total Provisions as on 30<sup>th</sup> Sep'20 stood at INR 271 Mn covering 5.2% of the total AUM. (Cumulative Covid provisions stood at INR 136 Mn) .**
- ❖ GNPA & NNPA (post ECL adjustment) remained low & stable at 0.9%.and 0.1%.
- ❖ **Repayment rates picked-up significantly reaching 89% in Oct'20.**

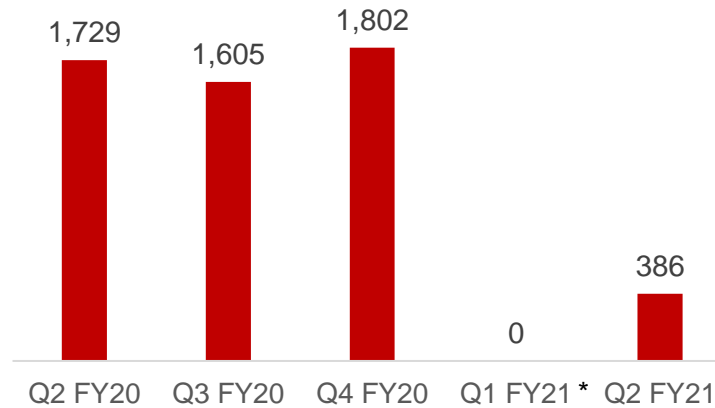
# Q2 FY21 - Microfinance Performance Update



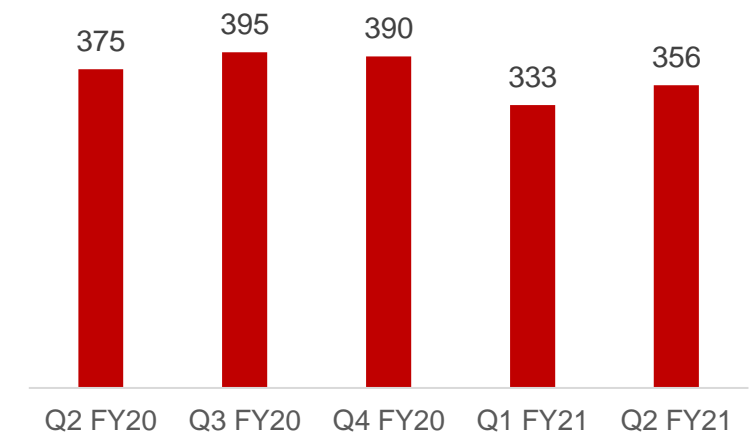
## AUM (INR Mn)



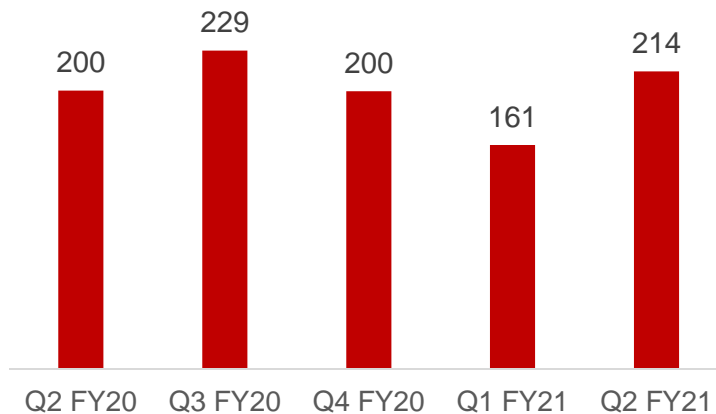
## Disbursement (INR Mn)



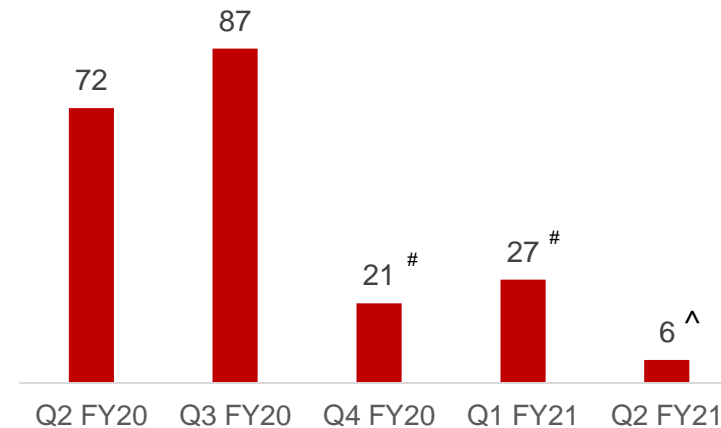
## Gross Total Income (INR Mn)



## Net Total Income (INR Mn)



## PAT (INR Mn)



### Note:

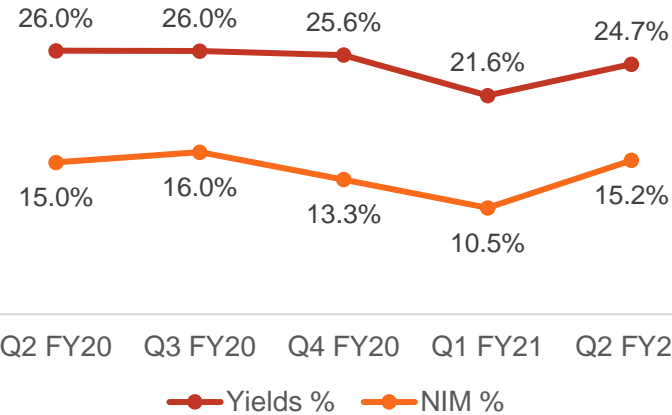
- \* Nationwide Lockdown and the Covid-19 induced disruption led to the disbursements being halted. Company's priority was on improving the collection efficiency
- # Includes Covid specific provision of INR 45.3 Mn in Q4 FY20, and INR 57.2 Mn in Q1 FY21. ^ Includes aggressive provisioning and write-offs of INR 79 Mn and INR 39 Mn in Q2FY21 respectively
- Net Total Income = Gross Total Income – Finance Cost



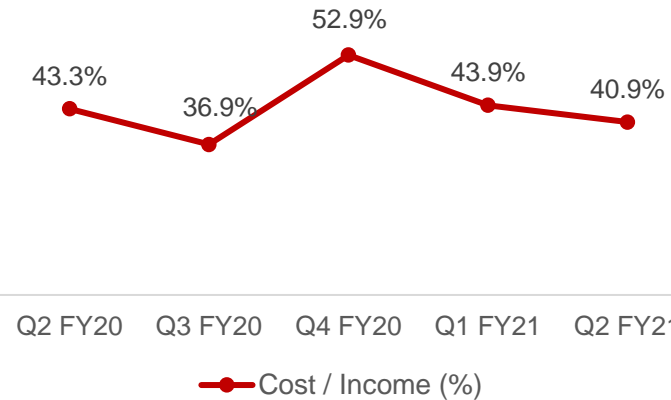
# Q2 FY21 - Microfinance Performance Update



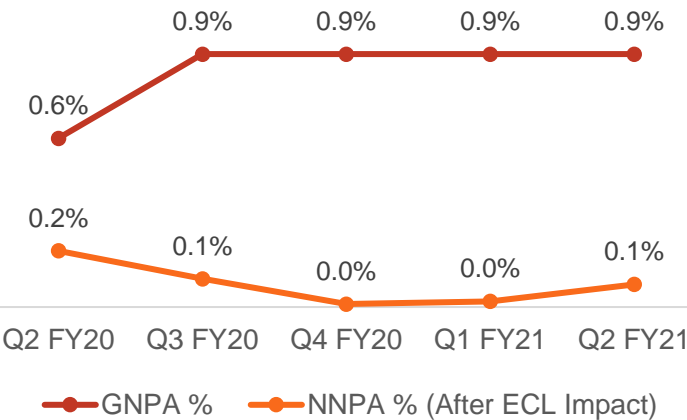
## Yields % and NIM %



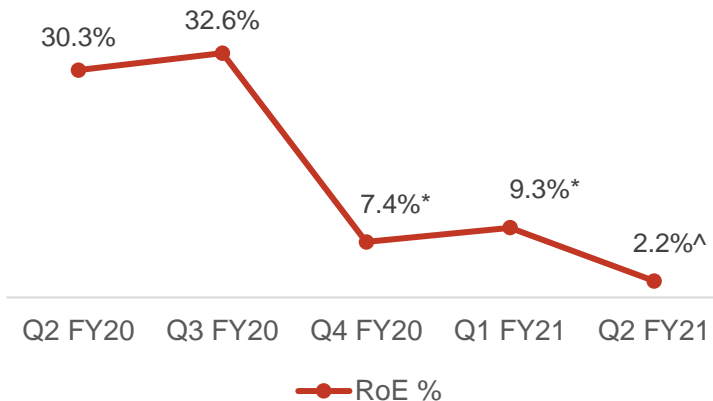
## Cost-to-Income Ratio %



## Asset Quality



## ROE %



### Note:

- \* Includes Covid specific provision of INR 45.3 Mn in Q4 FY20 INR 57.2 Mn in Q1 FY21. ^ Includes aggressive provisioning and write-offs of INR 79 Mn and INR 39 Mn in Q2FY21 respectively
- NIM =  $NTI / \text{Avg. AUM (On + Off-Book)}$ ; Yields =  $\text{Gross Interest Income} / \text{Avg. AUM (On + Off-Book)}$ ; Cost-to-Income Ratio =  $\text{Opex (excl. provisions)} / \text{Net Total Income}$ ; NNPA % =  $\text{NNPA} / \text{AUM}$ ; RoE =  $\text{PAT} / \text{Avg. Equity}$ . RoE, Yields and NIM % figures are annualized

# Q2 FY21 - Standalone Performance Update (2W & MSME)



| Particulars (INR Mn)                  | Q2 FY21      | Q2 FY20      | YoY (%)      | H1FY21       | H1FY20       | YoY (%)      |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Asset Under Management</b>         | <b>1,813</b> | <b>2,218</b> | <b>(18%)</b> | <b>1,813</b> | <b>2,218</b> | <b>(18%)</b> |
| <b>Disbursements</b>                  | <b>121</b>   | <b>585</b>   | <b>(79%)</b> | <b>121</b>   | <b>1,092</b> | <b>(89%)</b> |
| Income from Operations                | 164.3        | 167.5        | (2%)         | 326.1        | 323.7        | 1%           |
| Other Income                          | 9.9          | 10.3         | (4%)         | 16.5         | 15.8         | 5%           |
| <b>Gross Total Income</b>             | <b>174.3</b> | <b>177.8</b> | <b>(2%)</b>  | <b>342.7</b> | <b>339.5</b> | <b>1%</b>    |
| Finance Costs                         | 49.7         | 54.9         | (9%)         | 102.8        | 103.5        | (1%)         |
| <b>Net Total Income (NTI)</b>         | <b>124.6</b> | <b>122.9</b> | <b>1%</b>    | <b>239.8</b> | <b>235.9</b> | <b>2%</b>    |
| Employee Benefits Expenses            | 29.2         | 32.0         | (9%)         | 55.0         | 62.1         | (11%)        |
| Depreciation and Amortisation         | 0.3          | 0.3          | (9%)         | 0.5          | 0.5          | (1%)         |
| Other Expenses                        | 7.2          | 10.2         | (29%)        | 12.1         | 22.8         | (47%)        |
| <b>Pre-Provision Operating Profit</b> | <b>87.9</b>  | <b>80.4</b>  | <b>9%</b>    | <b>172.2</b> | <b>150.5</b> | <b>14%</b>   |
| Total Provision & Write-offs          | 68.5         | 4.8          | 1,317%       | 113.2        | 11.1         | 921%         |
| <b>Profit After Tax</b>               | <b>17.0</b>  | <b>54.2</b>  | <b>(69%)</b> | <b>49.6</b>  | <b>106.5</b> | <b>(53%)</b> |
| GNPA %                                | 1.6%         | 2.2%         | (67 bps)     | 1.6%         | 2.2%         | (66 bps)     |
| NNPA %                                | 0.5%         | 1.6%         | (116 bps)    | 0.5%         | 1.6%         | (116 bps)    |
| Return on Avg. AUM %                  | 3.4%         | 10.0%        | -            | 4.7%         | 10.1%        | -            |
| Return on Avg. Equity %               | 5.5%         | 21.0%        | -            | 8.1%         | 21.2%        | -            |

## Note:

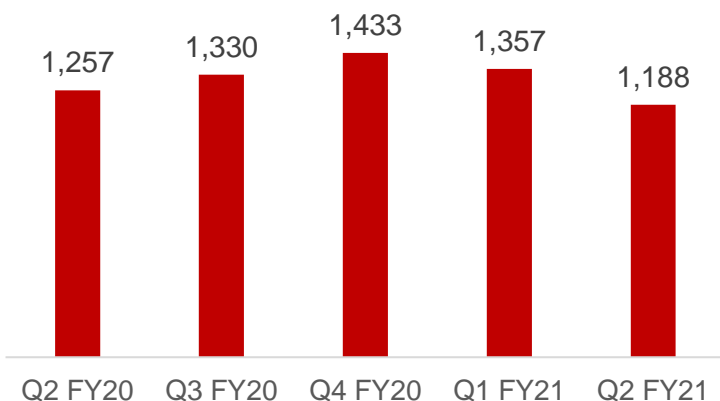
- Income from operations includes interest income on loans and managed assets, other Income includes processing fees, other charges in respect of loans, late payment charges, etc.
- Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NIM = NTI / Avg. AUM (On + Off-Book); RoE = PAT / Avg. Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book).
- ROAE and ROAA figures are annualized

- ❖ **Standalone AUM stood at INR 1,813 Mn on Sep'20.**
  - MSME AUM de-grew by 5% YoY to INR 1,188 Mn.
  - 2W AUM declined by 35% YoY to INR 625 Mn, 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.
  - Rural 2W Book stands at INR 79 Mn (higher by 10% YoY).
- ❖ Implemented cost rationalization measures which resulted in operating expenses coming down by 14% YoY to INR 36.7 Mn.
- ❖ **Consequently, cost-to-income ratio improved by ~510 bps YoY to 29.5% in Q2 FY21 resulting in higher Pre-provisioning Operating Profit growth (+9% YoY).**
- ❖ Provisions & write-offs rose to INR 68.5 Mn in Q2 FY21, as the company prudently undertook aggressive provisioning to deal with possible future Covid related impairments.(Provisions: INR 61.5 Mn, Write-offs: INR 7 Mn).
- ❖ **Cumulative Provisions on 30<sup>th</sup> Sep'20 stood at INR 167 Mn covering 9.2% of total AUM. (Cumulative Covid provisions stood at INR 123 Mn).**
- ❖ GNPA improved to 1.6%, and Net NPA improved to 0.5%.
- ❖ **Repayment rates improved in the last couple of months -**
  - MSME:** Repayment rates improved to 93% in Sep'20, and 94% in Oct'20.
  - 2W:** Repayment rates were healthy and steady at 97% in Oct'20.

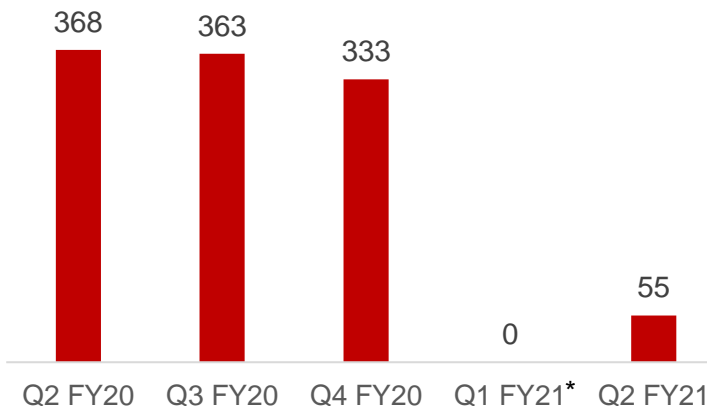
# Q2 FY21 - MSME Performance Update



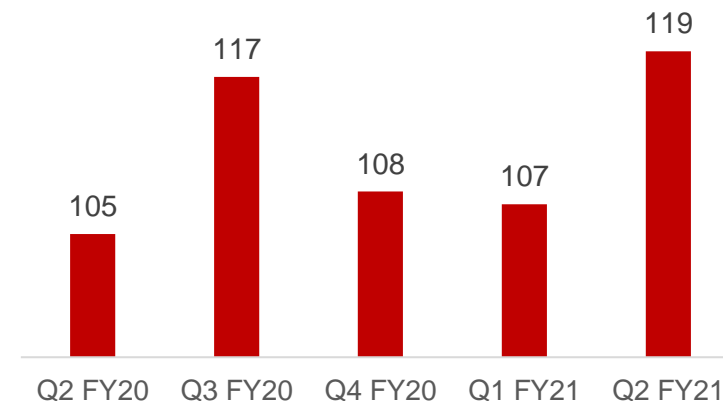
## AUM (INR Mn)



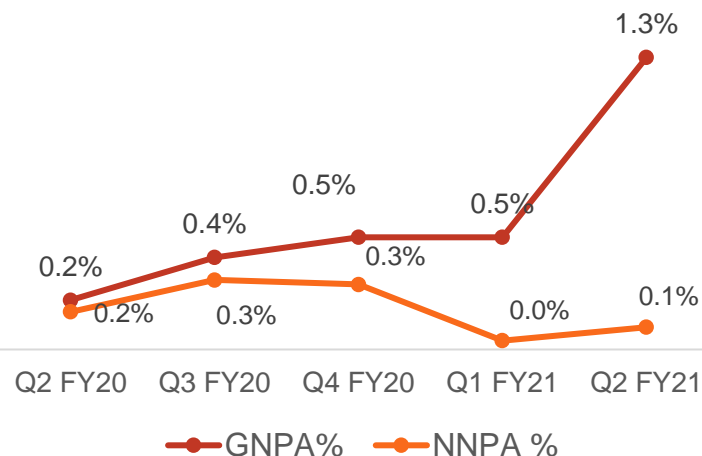
## Disbursements (INR Mn)



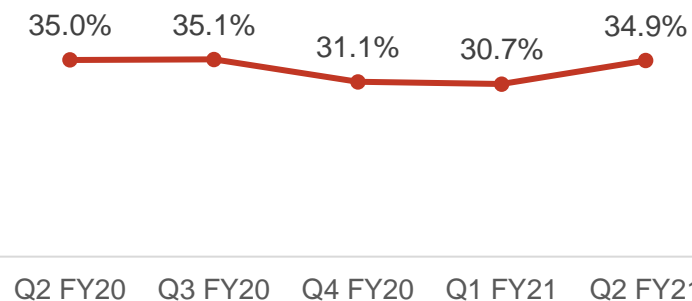
## Gross Interest Income (INR Mn)



## Asset Quality



## Yields %



### Note:

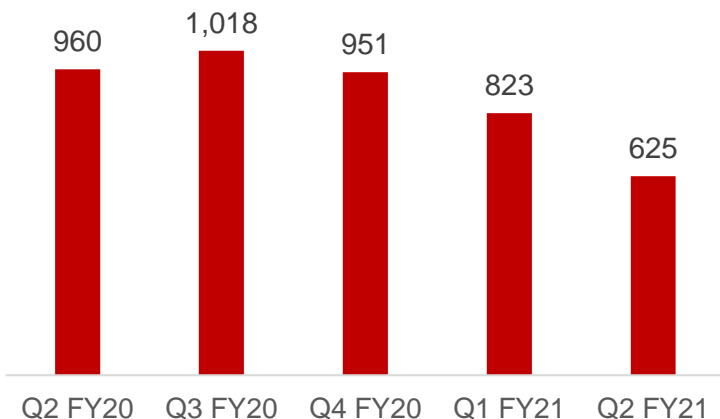
- \* Nationwide Lockdown and the Covid-19 induced disruption led to the disbursements being halted. Company's priority was on improving the collection efficiency
- Gross Interest Income = Interest Income + processing fees / other charges, Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NNPA % = NNPA / AUM. Yields % figures are annualized.



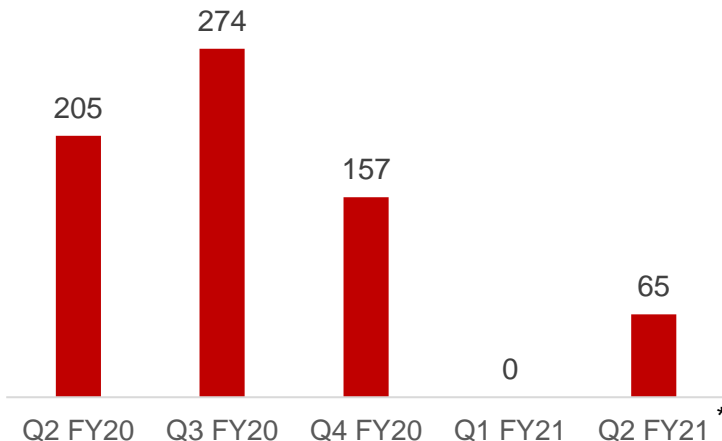
# Q2 FY21 - 2W Performance Update



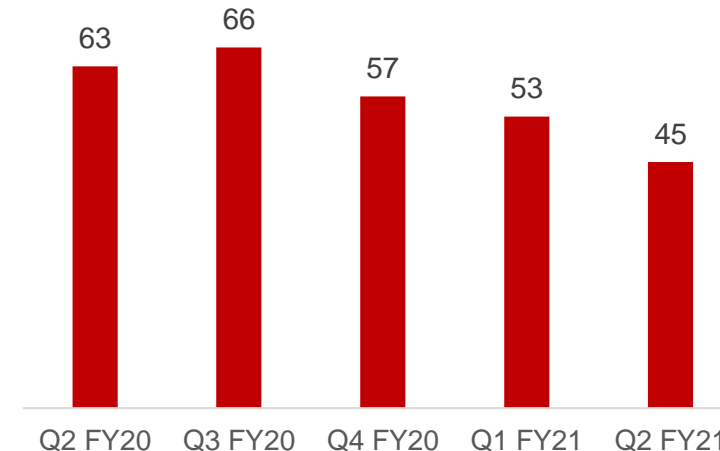
## AUM (INR Mn)



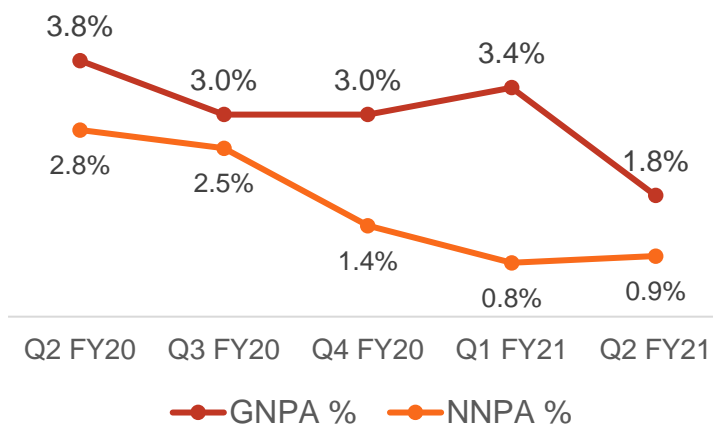
## Disbursement (INR Mn)



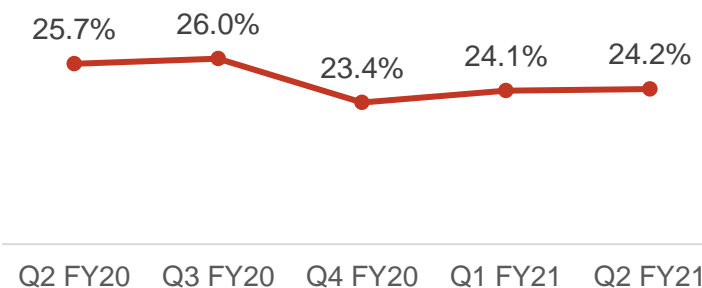
## Gross Interest Income (INR Mn)



## Asset Quality



## Yields %



### Note:

- \* Nationwide Lockdown and the Covid-19 induced disruption led to the disbursements being halted. Company's priority was on improving the collection efficiency
- Gross Interest Income = Interest Income + processing fees / other charges, Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NNPA % = NNPA / AUM. Yields % figures are annualized



**Arman Financial Services Ltd.**



## Liability Overview

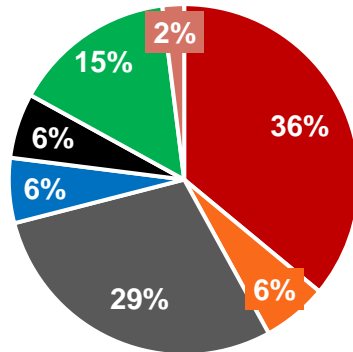
# Efficient Liability Management



Funding profile is well diversified with increase in share of funds from NCDs & DFIs

Q4 FY20 - Borrowing Mix %

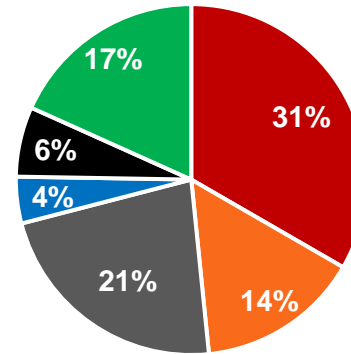
INR 7,665 Mn \*



Note: \* INR 7,665 Mn includes direct assignment of INR 581 Mn

Q2 FY21 - Borrowing Mix %

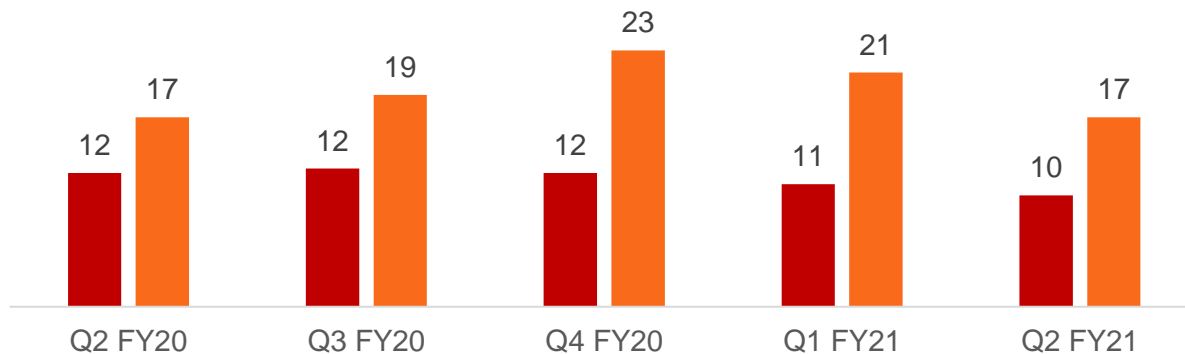
INR 6,444 Mn #



Note: # INR 6,444 Mn includes direct assignment of INR 410 Mn

- Banks & SFBs
- DFIs (NABARD, MUDRA & SIDBI)
- NBFC / FI
- Securitization
- ECB
- NCD

## Positive ALM (in Months)



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

- Well-diversified borrowing mix with increasing share of NCD's, ECB's, DFIs (NABARD Refinance, MUDRA, SIDBI) and Securitization
  - Share of NCD's, ECB's, DFIs, and Securitization represented **~41% of borrowings in Q2 FY21**
- **Constant rating upgrades** have helped lower cost of funds in recent years
  - Credit rating has moved up **1 notch** in last year: Upgraded to **BBB+** in **FY19 (CARE Ratings)**
  - Ratings Reaffirmed recently to **BBB+** for FY20 by CARE Ratings
  - Group has A2 rating by CARE Ratings for **short-term bank facilities**
- **Comfortable liquidity position backed by Positive ALM**



# Lending partners



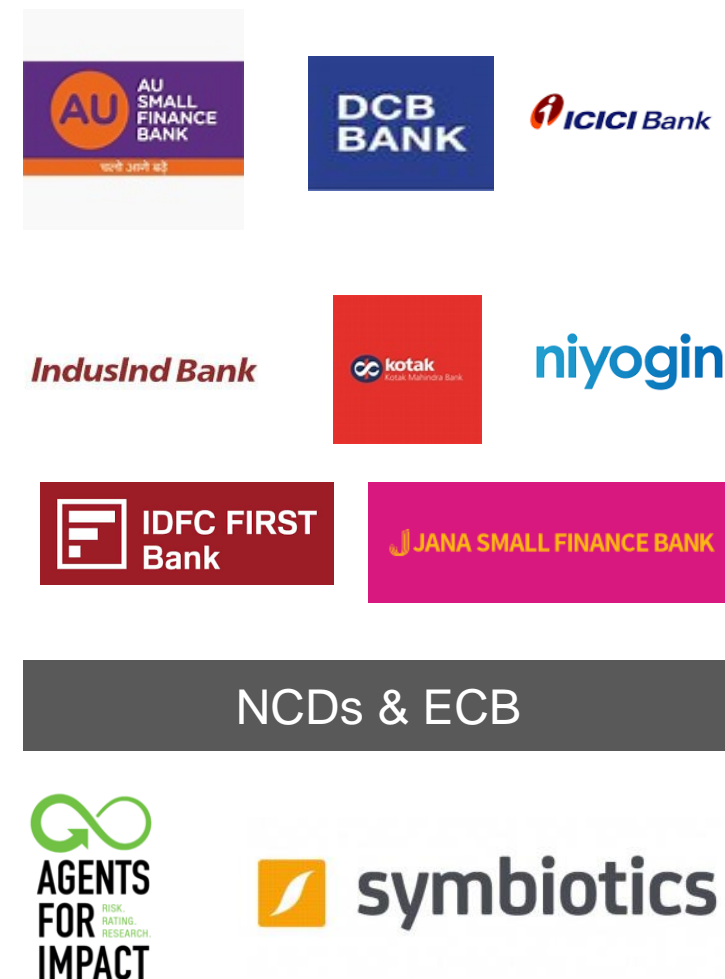
## Bank Borrowings



## Non-Bank Borrowings



## Securitization Partners



## NCDs & ECB



**Arman Financial Services Ltd.**



## Company Overview





## Genesis

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

## Robust Risk Management Framework

- **Superior Asset Quality – GNPA: 1.1%; NNPA: 0.2% (Q2 FY21)**
- **Consistent rating upgrades** backed by strong financial & operating performance – Currently rated **BBB+** by CARE Ratings
- **Track record of consistent profitability** - Never reported an annual loss
- **Completely in-house operations** with **bottoms up** driven credit appraisal models and rigorous collections practices – tailored for the areas of operations

## Presence in Attractive Retail Lending

### Segments

- **Total Loan Assets of INR 7,043 Mn in Q2 FY21**
- **Microfinance – 74% of AUM** (via 100% owned subsidiary “**Namra Finance**”)
- **MSME Loans – 17% of AUM**
- **2-Wheeler Loans – 9% of AUM**
- **Healthy Spreads:** Yields 26.6%, NIM 17.3% (Q2 FY21)



**Arman Financial Services Ltd.**

## Strong Financial Performance

- **High-Growth Trajectory (FY2015-20 CAGR) :**
  - **AUM: 50%**
  - **PAT: 46%**
- **Consolidated debt to equity ratio of 3.3:1** – Sufficient Capital to drive growth going forward
- **High Return Ratios:**
  - **Q2 FY21 - ROE (%): 3.4%\* , ROAA (%): 0.8% \***

## Strong Retail Presence & Wide Distribution Network

- 211 branches; 70+ 2-Wheeler dealerships
- 78 Districts, 6 states
- ~4.0 lakh live customers
- Undertaken contiguous expansion from Gujarat since 2014 to achieve geographic diversification

## Efficient Liability Management

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

### **Note:**

- ROAA - Return on Avg. AUM. \* Includes aggressive provisioning of INR 141 Mn and write-offs of INR 46 Mn in Q2 FY21.
- Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NIM = NTI / Avg. AUM (On + Off-Book); RoE = PAT / Avg. Equity; GNPA % = GNPA / AUM (On + Off-Book) ; NNPA % = NNPA / AUM (On + Off-Book). Yields, NIM, ROAA and ROE figures are annualized.

# Business Progression



Company incorporated. Started bill discounting & machine leasing

1992

1995

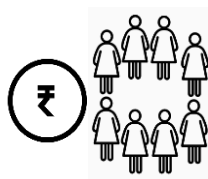
Launched 2W Loans

1998

2010

Listing on BSE – Issue subscribed 22x

Launched Microfinance business



Raised PE funding from Incofin; Disbursement crosses 50 Cr

2011

2013

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

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

2014-16

2017

Launched MSME Loans business



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

2017-18

2018

Raised PE funding from SAIF Partners

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

2019

2020

AUM & Disbursements cross 800 Cr; Branch Network crosses 200



# Product Snapshot



**ARMA FINANCIAL SERVICES LTD.**

- 28 years of existence
- Active customer base of 4.0 lakh
- Employee strength of 1,660 employees
- Completely in-house operations – Sourcing, Credit & Collections

## Microfinance



## MSME Loans



## 2-Wheeler Loans



## Rural 2W Loans



|                     |   |  |  |  |
|---------------------|---|--|--|--|
| % of Total AUM      | 74%   | 17%  | 8%                                       | 1% (in Pilot Stage)  |
| LTV                 | Unsecured   | Cash flow & FOIR based   | 65-85%                                   | 60-80%   |
| Ticket size         | Cycle 1 & 2 - INR 20-30k<br>Cycle 3+ - INR 20-45k                               | INR 50-70k   | INR 30-55k                               | INR 40-50k   |
| Average Ticket size | INR 28,000  | INR 70,000   | INR 42,000                               | INR 40,000   |
| Tenure              | 14-24 months  | 24 months  | 12-36 months                             | 12-24 months   |
| Yield (%)           | 24-25%<br>(Spread capped by RBI guidelines)                                     | 30-32%   | 21-23%                                   | 26-28%   |
| Disbursement        | 100% Cashless   | 100% Cashless  | 100% Cashless to dealer                  | 100% Cashless to sub-dealer  |
| Credit Check        | CRIF / Equifax Score; JLG Model with Training, Home Visit, Life Style Appraisal | CIBIL & CRIF Score; Detailed Cash Flow Assessment; Home & Business Field Investigation | CIBIL / CRIF Score & Field Investigation | CIBIL / CRIF Score; Detailed Cash Flow Assessment; Field Investigation |
| Collections         | Cash collection at centre meeting   | Door step cash collection  | NACH / Direct Debit                      | Door step cash collection  |



# Differentiated Operations



## KEY STRATEGIC DIFFERENTIATORS

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

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

**Conservative operations framework with focus on risk & asset quality**

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

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

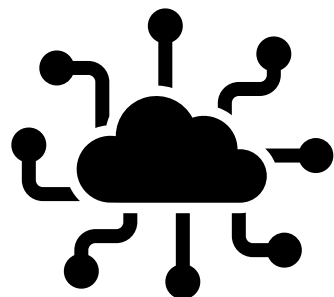


# Technological Initiatives to Strengthen Operations

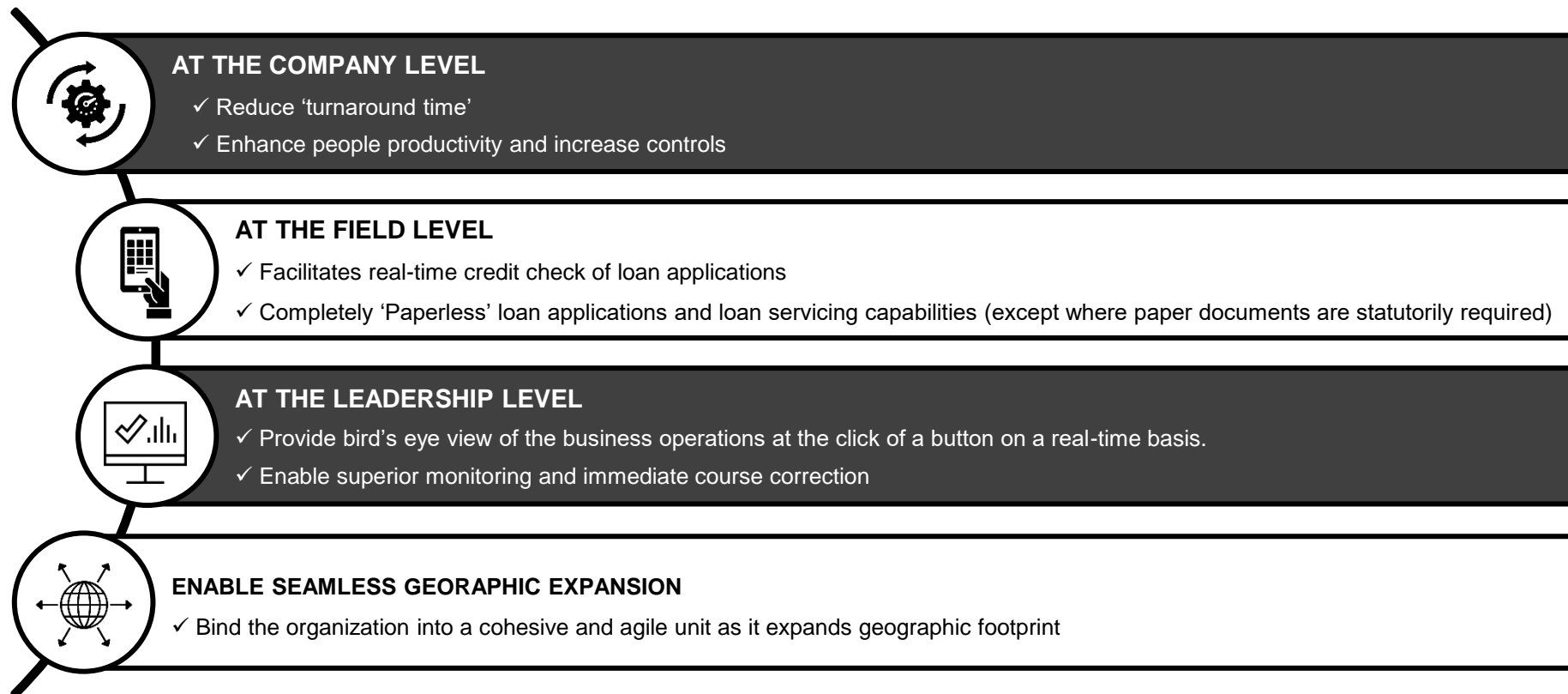


- ❖ In FY19, the company launched an integrated mobile interface for its MFI field staff to enable seamless on-boarding of MFI customers by digitizing & standardizing the loan origination and appraisal process. **‘This technology has been successfully implemented across all the MFI branches now.’**
-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

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



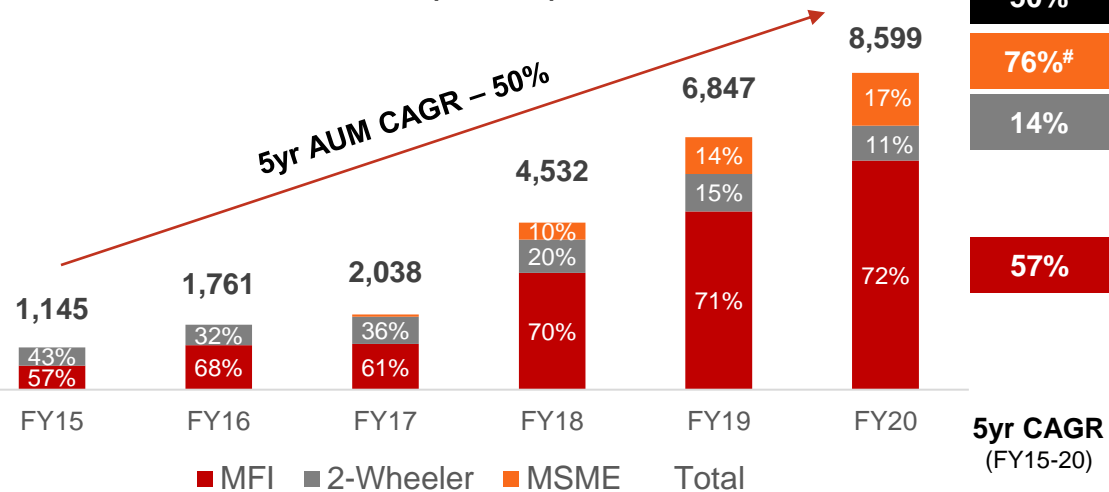
### DRIVING DIGITAL TRANSFORMATION



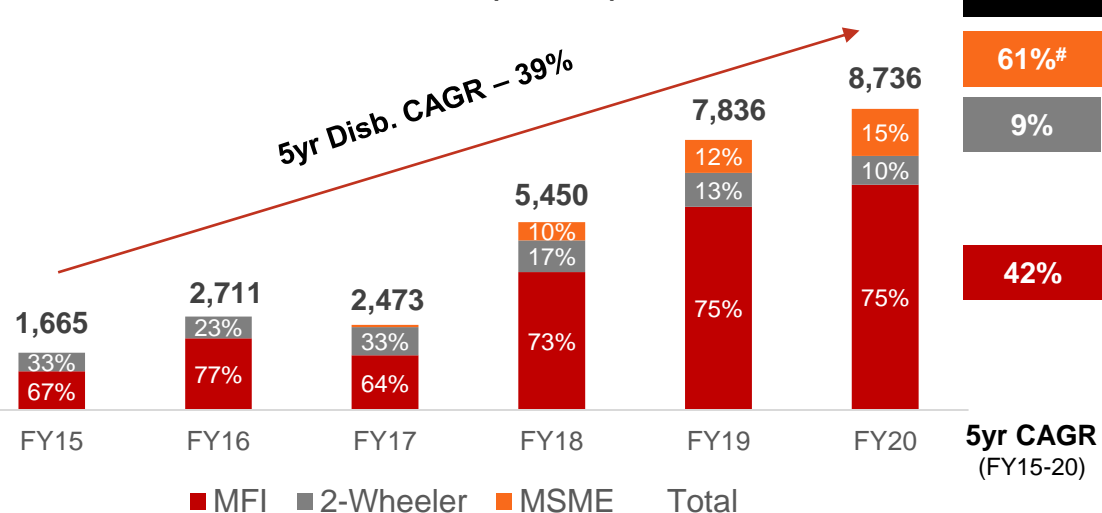
# Strong Growth in AUM & Disbursements....



Total AUM (INR Mn)



Total Disbursements (INR Mn)



- Diversified portfolio of 7,043 Mn in Q2 FY21 split between –
  - Microfinance: INR 5,230 Mn (74%),
  - MSME Loans: INR 1,188 Mn (17%)
  - 2-Wheeler Loans: INR 625 Mn (9%)
- Strategically forayed into MSME Loans in 2017. Successfully scaled up the business to INR 1,188 Mn (17% of Total AUM) in the last 2 years
- Further, we recently launched a new product “*Rural 2-wheeler loans*”(currently in pilot stage) to effectively meet the under-served market.
  - Higher ROA business offering immense growth potential
- Plan to reduce share of MFI book in overall AUM to ~60% over time

## Asset Strategy at Arman

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

Self-employed / cash-income informal segment customers

High-yield rural focused products – 20%+ yields

Stringent underwriting

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

Aim to deliver 3-5% post-tax ROA

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



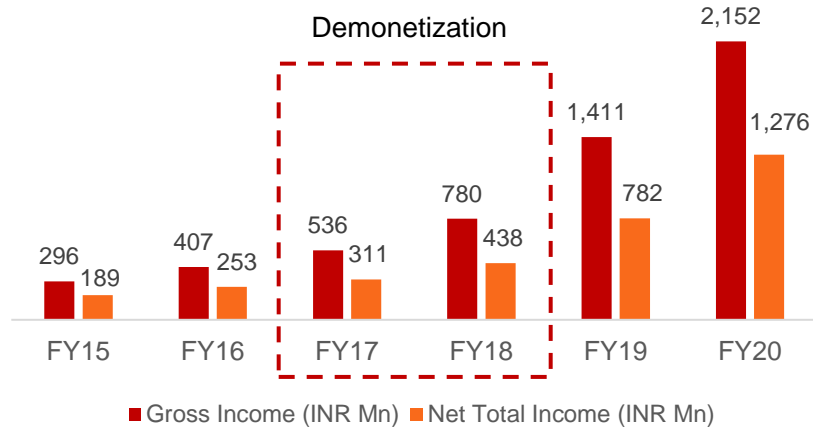
# .....While Maintaining Superior Cost Efficiency & Asset Quality



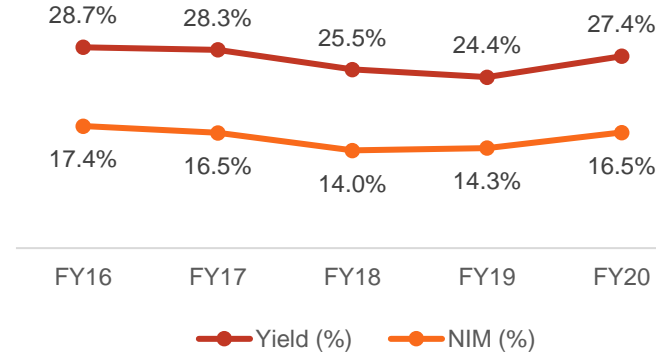
## Gross Income and Net Total Income (INR Mn)

CAGR: 49%

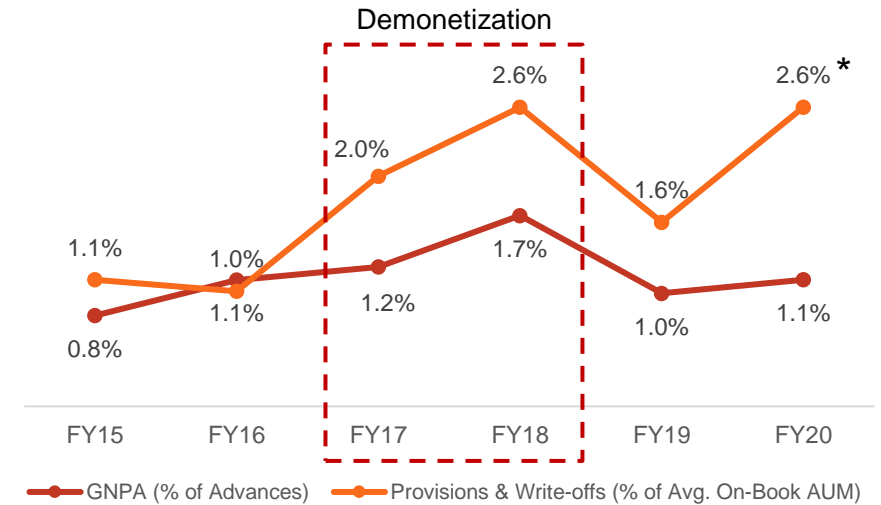
CAGR: 47%



## Yield % and NIM %

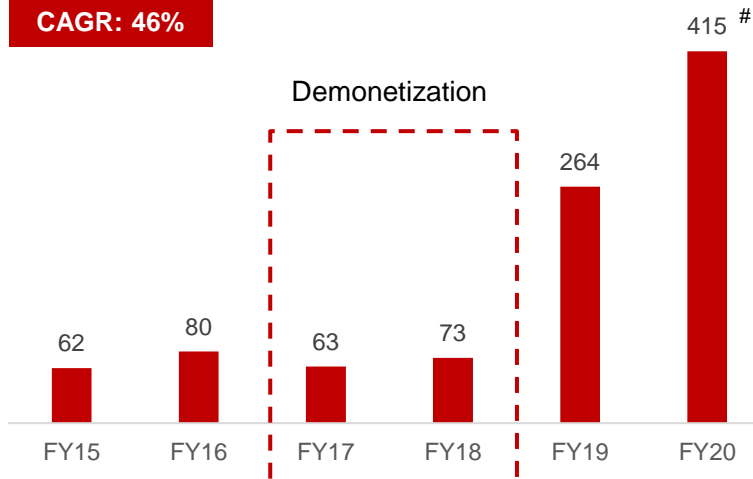


## Focus on risk have led to immaculate through-cycle asset quality

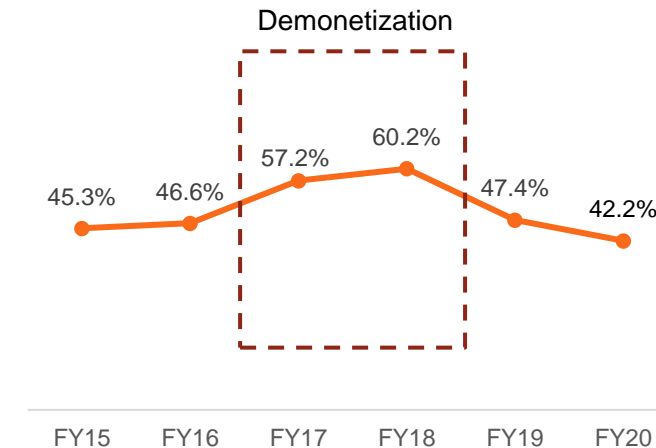


## PAT (INR Mn)

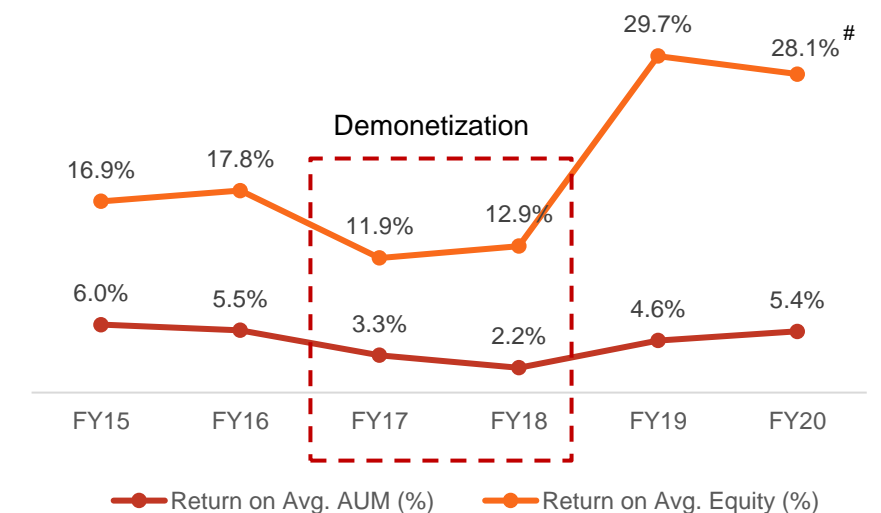
CAGR: 46%



## Cost to Income Ratio %



## Consistently high through cycle ROA / ROE



### Note:

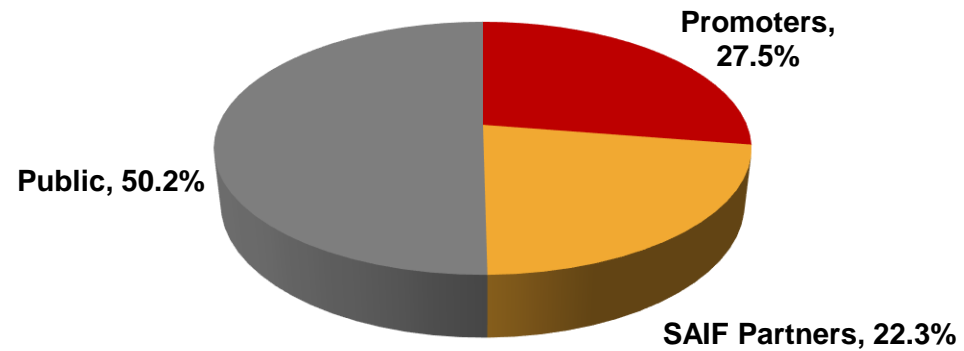
- \* Includes Covid specific provisioning of INR 66.8 Mn. <sup>#</sup> Adjusted for the Covid Provisioning of INR 66.8 Mn, PAT would have stood at INR 482 Mn in FY20; and ROE would have been 32.6%
- FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. NIM = NII / Average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



# Shareholding Pattern



SHAREHOLDING – 30<sup>th</sup> September 2020



Source – Company

- **\*SAIF Partners** invested INR 500 Mn in CCDs in April 2018. Post conversion of CCD's, SAIF Partners stake in the company stands at 22.3%
- **Mr. Mridul Arora, MD at SAIF Partners is a Nominee Director on the Arman Board**



**Arman Financial Services Ltd.**



**MSME LOANS**



**MICROFINANCE**



**TWO WHEELER LOANS**

## Product Overview



## Product Overview

- **JLG model with small ticket loans** (Avg. Ticket Size – INR 26,000) given to women borrowers for income generating activities such as Livestock, Dairy, Agri allied, Kirana Stores
- Operations in **6 states; 170 MFI branches; 3.3 lakh live customers**
- Arman MFI operating model –
  - **High touch monthly collection model**
  - **Rural concentration:** ~85% rural & semi-urban portfolio (vs 43% for MFI industry)
  - **Conservative risk framework**
    - 100% Cashless disbursement
    - JLG groups formed by customers themselves
    - Loan utilization checks to ensure loan for income generating purpose
  - **Controlled growth targets** driven by bottom-up projections

## FY20 – Key Metrics (Mn)

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

## FY20 – Key Metrics (%)

|              |              |              |
|--------------|--------------|--------------|
| <b>25.8%</b> | <b>14.7%</b> | <b>4.6%</b>  |
| Yield        | NIM          | ROAA         |
| <b>0.9%</b>  | <b>0.01%</b> | <b>26.2%</b> |
| GNPA         | NNPA         | ROE          |



# Product Overview: 2W & Rural 2W Loans



## Product Overview

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

## FY20 – Key Metrics (Mn)

**951**

AUM (INR Mn)

**843**

Disbursement (INR Mn)

**251**

Total Income (INR Mn)

**42,000**

Avg. Ticket Size (INR)

## FY20 – Key Metrics (%)

**25.5%**

Yield

**16.5%**

NIM

**3.0%**

GNPA

**1.4%**

NNPA

# Product Overview: MSME Loans



## Product Overview

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

### FY20 – Key Metrics (%)

1,433

AUM (INR Mn)

421

Total Income (INR Mn)

1,362

Disbursement (INR Mn)

70,000

Avg. Ticket Size (INR)

### FY20 – Key Metrics (%)

34.7%

Yield

0.5%

GNPA

23.8%

NIM

0.3%

NNPA

## MSME Process Overview

### Sourcing

- In-house sourcing team (No DSAs)
  - Feet-on-Street sales team model
  - Door-to-door knocking & cold calling
  - BTL activities such as pamphlet distribution, stalls at village level gatherings
  - Referrals from existing customers
- “Sales team logs-in the case & collects KYC docs”**

### Underwriting

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

### Collections

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



# Thank You



**Arman Financial Services Ltd.**

**Vivek Modi**

Group – CFO

Arman Financial Services Ltd

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**DICKENSON**

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Email : armanfinancial@dickensonworld.com





from ACCESS to INCLUSION

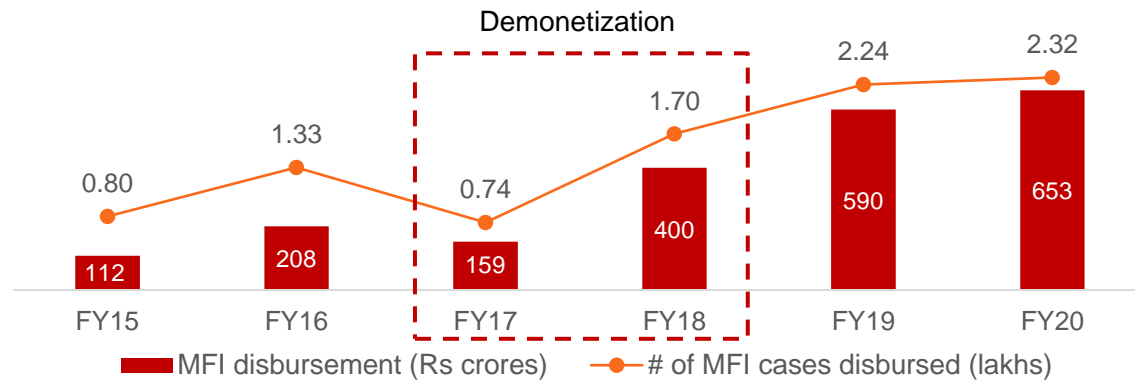
## Annexures



# Microfinance: 5-Year Performance



## Disbursement growth is driven by customer & branch addition

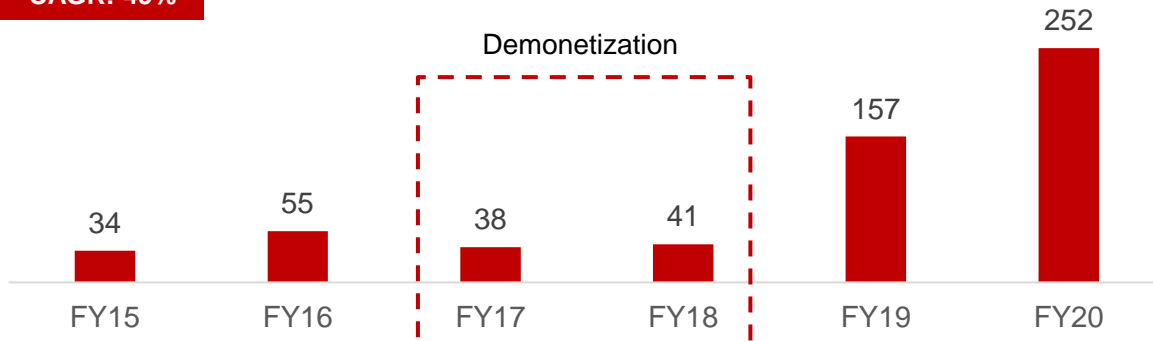


|                        | FY15   | FY16   | FY17   | FY18   | FY19   | FY20   |
|------------------------|--------|--------|--------|--------|--------|--------|
| MFI Branches           | 39     | 55     | 80     | 107    | 138    | 170    |
| Avg. Ticket size (INR) | 13,937 | 15,583 | 21,477 | 23,517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

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

## PAT (INR Mn)

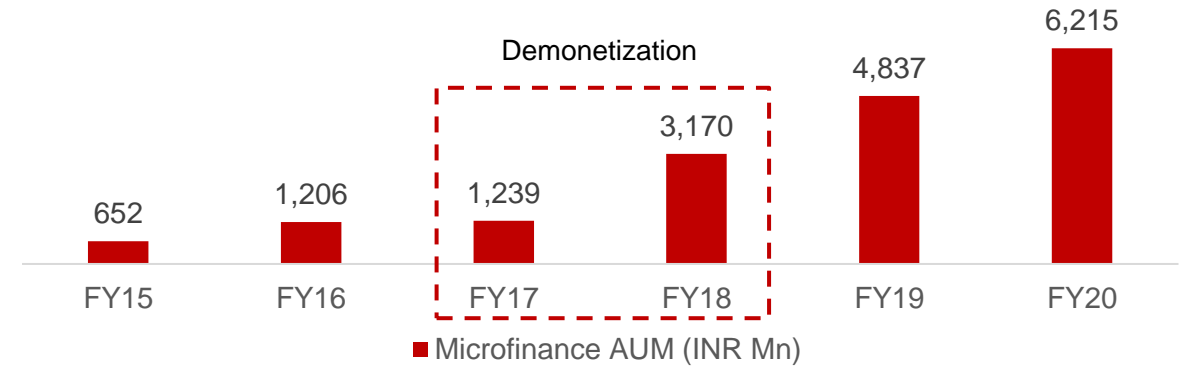
CAGR: 49%



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

## AUM growth exceeds MFI industry growth rates

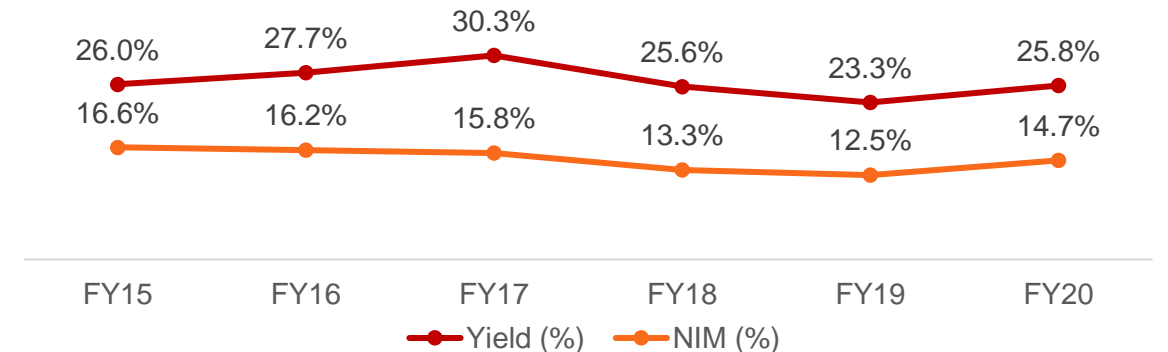
CAGR: 57%



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

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

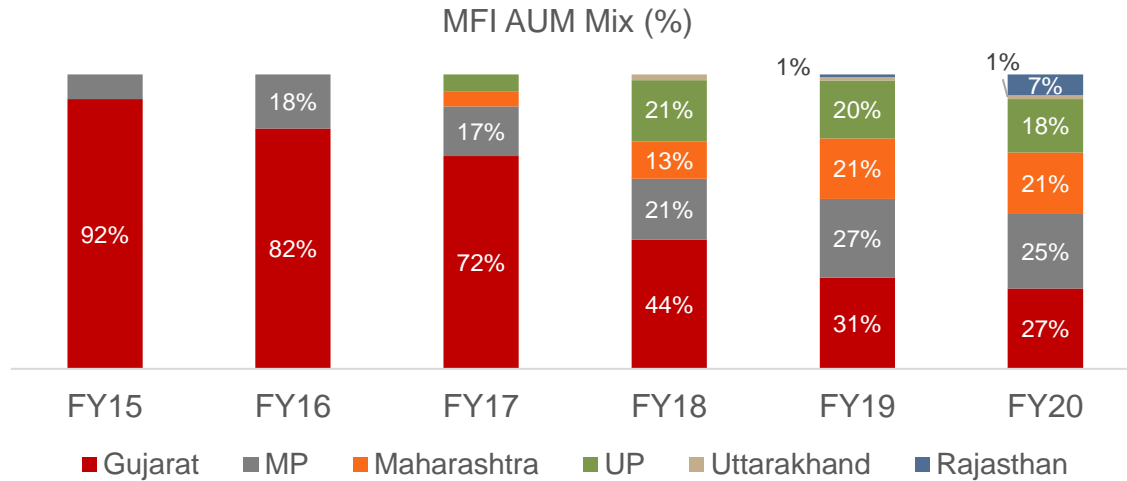
## Yields (%) & NIM (%) Trend



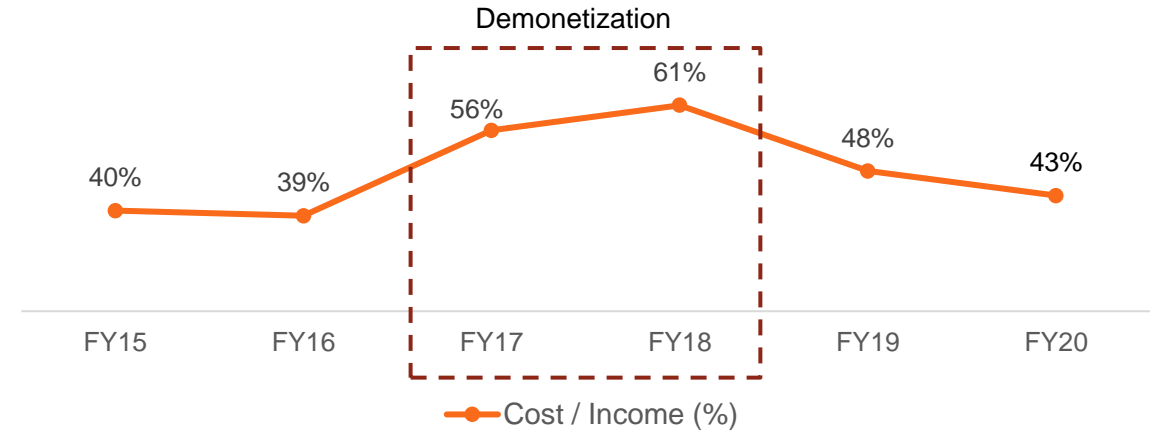
# Microfinance: 5-Year Performance



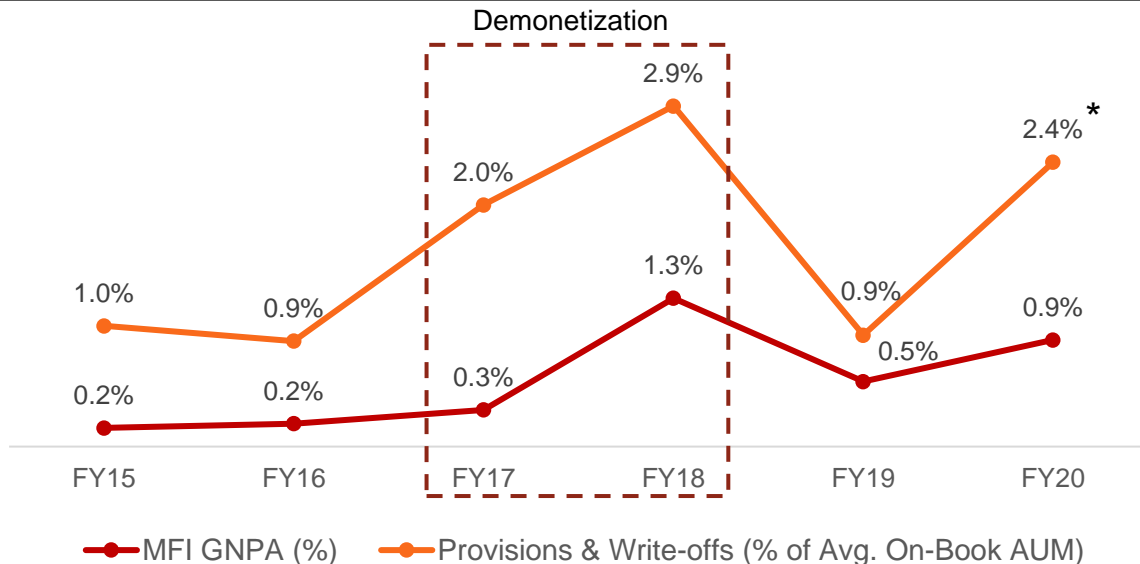
## Well diversified across geographies



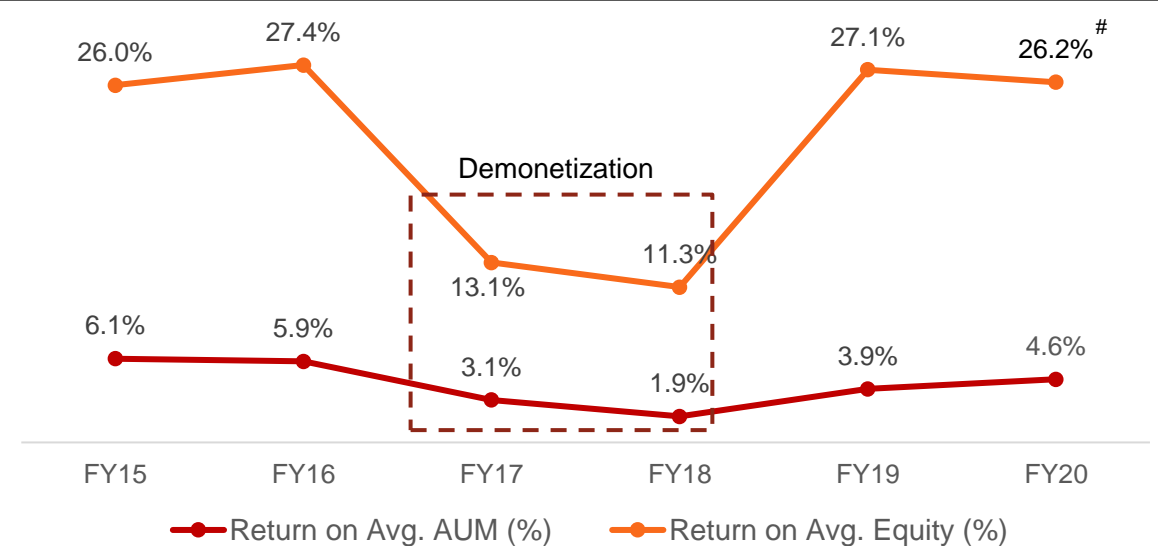
## Maintaining high operational efficiency



## Through cycle asset quality under control



## Sustaining strong ROA (%) & ROE (%)

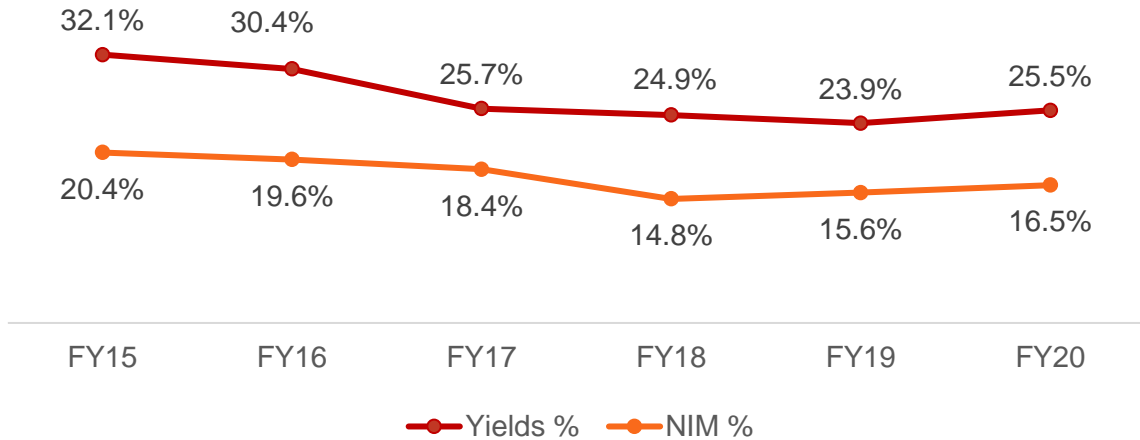


**Note:** FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. \* Includes Covid specific provisioning of INR 45.3 Mn. # Adjusted for Covid Provisioning, ROE stood at 30.9% in FY20

# 2W Loans: 5-Year Performance

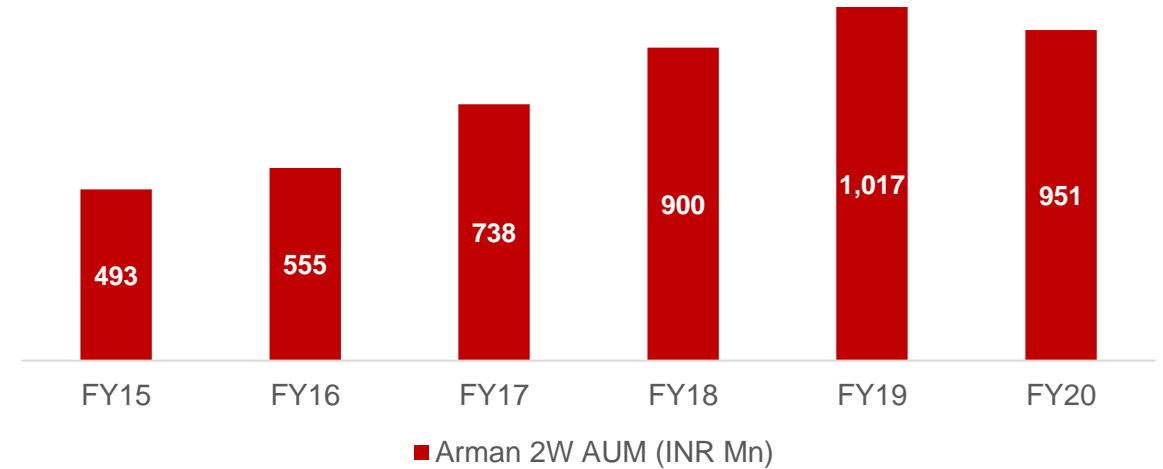


## Yields (%) & NIM (%) Trend

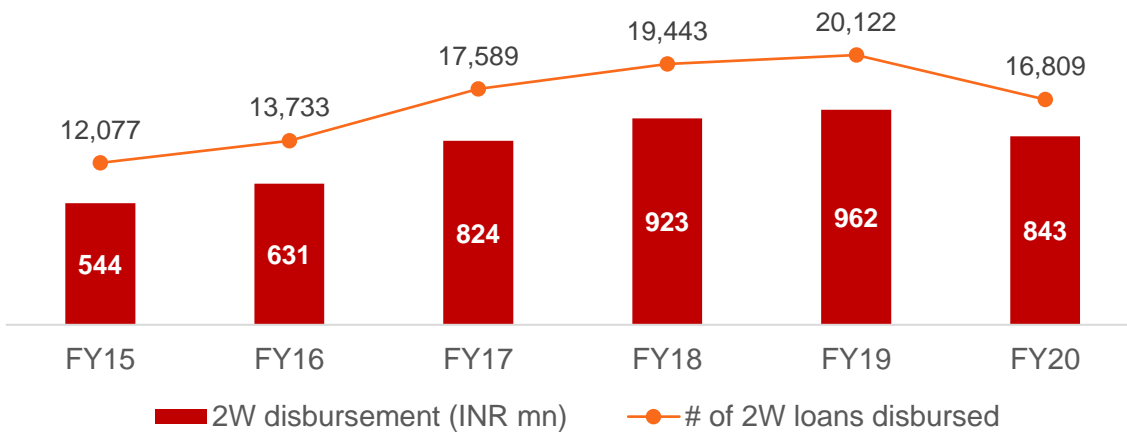


## Arman 2W AUM/ has seen steady growth over FY15-20

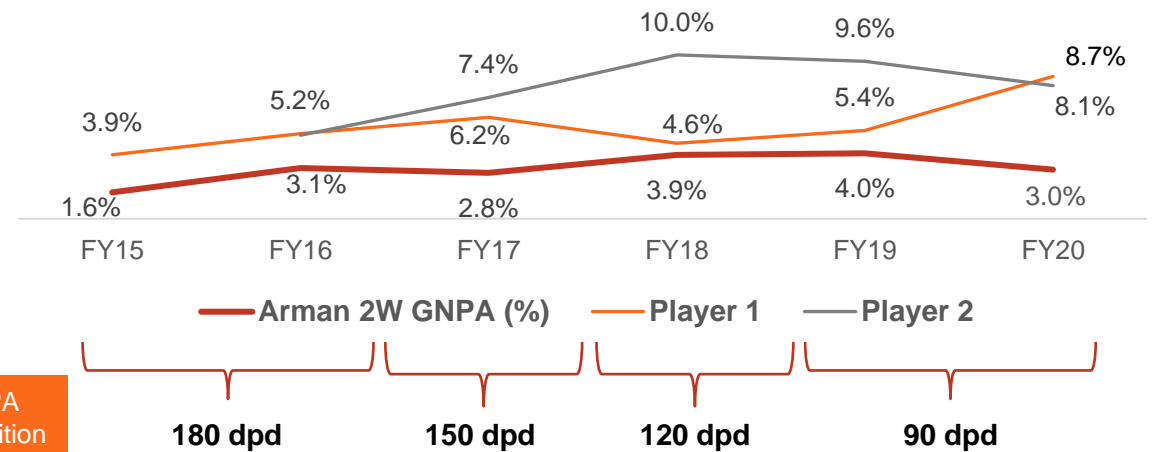
CAGR: 14%



## Disbursement growth is driven by increase in 2W volumes



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



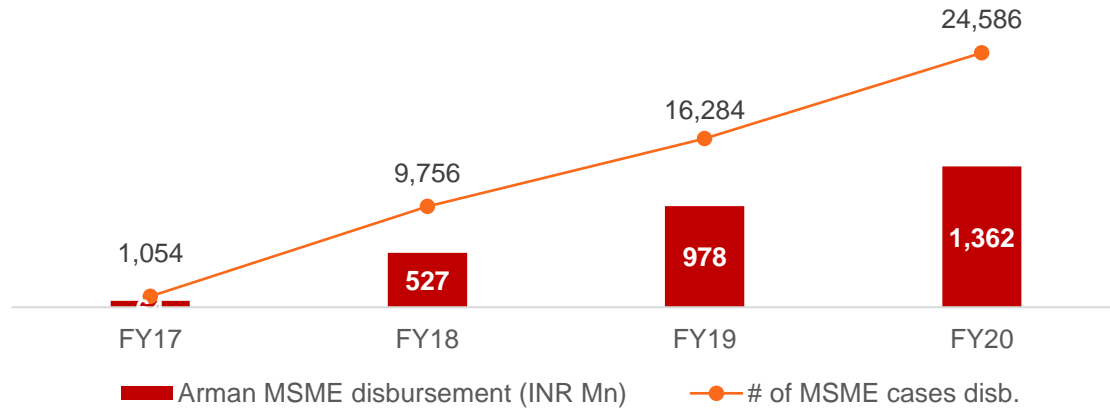
Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP.

# MSME Loans: 3-Year Performance



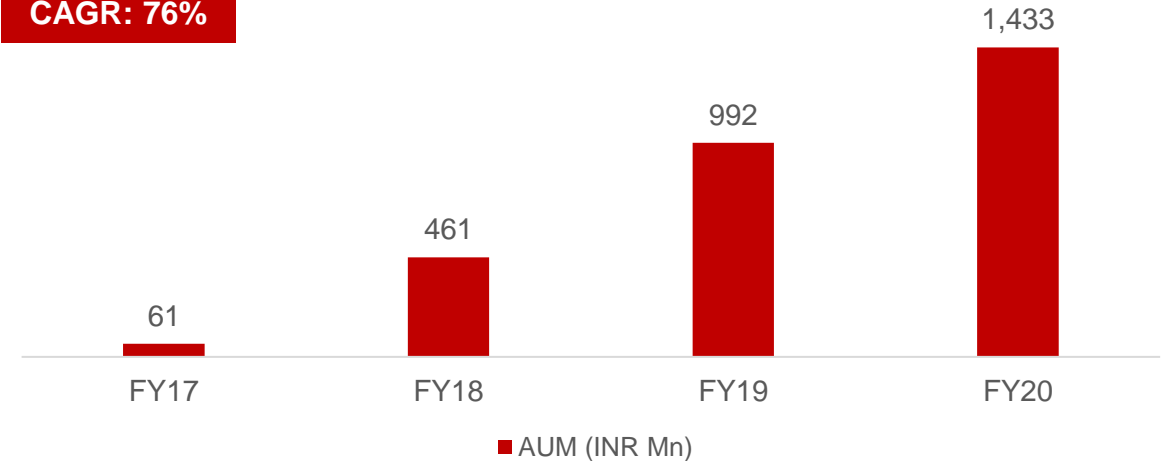
## Disbursement Growth

**CAGR: 61%**

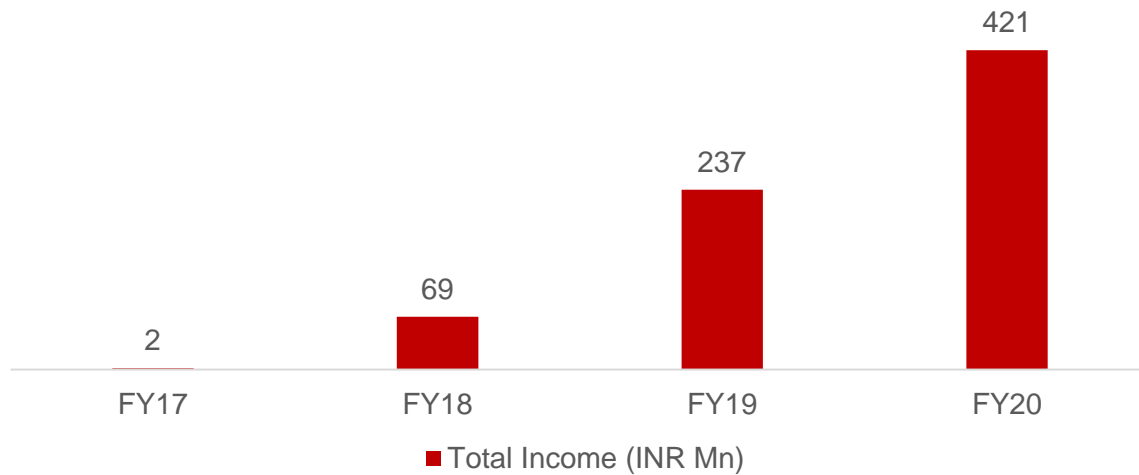


## AUM Growth

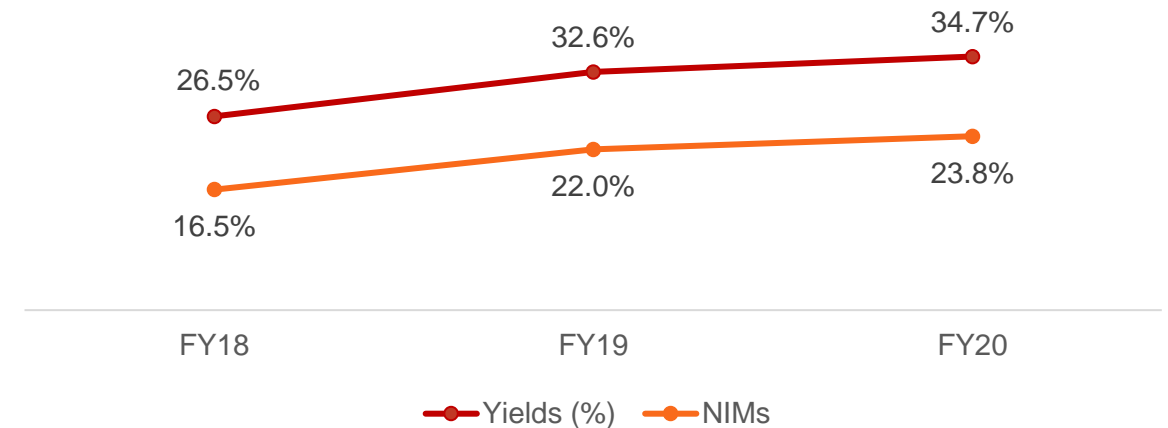
**CAGR: 76%**



## Total Income Growth



## Yields (%) & NIM (%) Trend



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