“Arman Financial Services Limited
Q3 FY'24 Earnings Conference Call”
February 06, 2024

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MODERATOR: **MR. MAYANK MISTRY – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Arman Financial Services Limited Q3 FY'24 Earnings Conference Call hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

Mayank Mistry: Thank you, Dorwin. Good afternoon, everyone and welcome to the Q3 FY'24 Earnings Conference Call of Arman Financial Services. First of all, I would like to thank the management team of Arman Financial Services for giving us the opportunity to host this call. From the management team, we have Mr. Alok Patel, Joint Managing Director; Mr. Vivek Modi, Group CFO.

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

Alok Patel: Thank you so much. And on behalf of Arman Financial Services, I extend a warm welcome to our Q3 and 9 months FY'24 Earnings Conference Call. So joining me, of course, we have Vivek Modi, Group CFO. Mr. Jayendra Patel also will join shortly. And we also have SGA, which is part of the Investor Relations team. I hope you reviewed the Q3 and 9-month results and press release and presentations available on the stock exchanges and also our website.

Before I brief through the updates on the financial and operational numbers, I would like to share with great pride that during the quarter, the company has successfully closed the qualified institutional placement or QIP of INR230 crores. The completion of the QIP is another milestone in our company's journey, and we are thankful to the incoming investors for the trust that they have -- they reposed on us.

These funds will further solidify our presence in the market by expanding our footprint and strengthening positions in key verticals, including microfinance, MSME and other loan segments. Furthermore, the equity capital will be used in meeting our growth plans of achieving INR5,000 crores of assets under management with a healthy capital adequacy and debt equity ratio.

It is also with great pleasure that we announced the launch of our Micro LAP pilot during the last quarter. We'll be assessing the feasibility of providing secured business loans in rural areas of India with the ticket size ranging from INR3,00,000 to INR10,00,000 lakhs, with a tenure of 2 to 6 years.

For now, these products will be offered to both new and old customers through selected MSME branches during the pilot phase. So far, which is the last 1.5 months, we have originated 22 loans with a disbursement of approximately INR1.7 crores. While we have a long assessment process after the launch of any pilot, we are bullish that Micro LAP, is feasible, and is the next logical product for the company to introduce in the rural strongholds.

Now turning to Q3 and 9 months FY'24 results update. The company's consolidated assets under management stood at INR2,437 crores, registering a growth of 48% year-on-year and 6% sequentially. This growth was largely fuelled by the rural demand as well as supported by favorable regulatory measures implemented by RBI, which opened new avenues of growth for the MFI industry.

Arman stand-alone assets under management which include lending to 2-wheeler and MSME businesses, increased by 42% to INR391 crores in the 9-month FY'24 as compared to INR275 crores in 9 month FY'23. Assets under management of our microfinance subsidiary Namra has now crossed INR2,000 crores, registering a growth of 50% to reach INR2,046 crores in the 9-month FY'24.

At Arman, we have put stringent credit filters in place, resulting in a very high rejection rate and a high-quality book. Consolidated disbursements for 9 months stood at INR1,628 crores, registering a strong growth of 43% year-on-year, while disbursements for Q3 FY'24 stood at INR561 crores, registering a 17% year-on-year and 4% sequential growth. Of the total disbursements for 9 month FY'24, INR267 crores were lent to 2-wheelers as an MSME businesses, while for micro finance, we disbursed INR1,362 crores.

Our emphasis on sourcing, underwriting and geographical expansion led to strong growth in the business. Furthermore, our expansion into newer states of Bihar, Haryana, Jharkhand and Telangana is gaining traction. The company is currently operational in 10 states with a total branch network of 394, of which 73 branches have been added in the last 12 months, which too are yielding positive outcomes.

In addition to this, we have also inaugurated a zonal division with a new zonal office in Uttar Pradesh. The company is committed to its core strategy of prioritizing asset quality and collections over business volumes. The gross non-performing assets stood at 2.83%, while the net non-performing assets for the period stood at 0.33%. Overall collection efficiency for the first 9 months of FY'24 is north of 98%. Collection efficiency for the month of December '23 in our microfinance book stood at 97.9%.

MSME business stood at 98.6% and 2-wheeler business stood at 96%. Total borrowings amounted to INR2,240 crores, comprising a diverse mix of financial instruments. We maintained substantial liquidity of INR355 crores in cash, bank balances, liquid investments, undrawn CC limits.

And with a comfortable debt-to-equity ratio now of about 2.1x, post the QIP. Cumulative provision stood at INR81.5 crores, which is 3.35% of the consolidated assets under management, including an overlay. Of this, provisions for Arman stand-alone business stood at INR16.28 crores and for Namra stood at INR65.29 crores.

Now let's run through the key consolidated financial numbers for the quarter and 9 months ended December 31, 2023. For Q3 FY'24, the gross total income stood at INR169 crores registering a growth of 64% year-on-year. Net total income amounted to INR98 crores, representing a 65% year-on-year growth. Pre-provisioning operating profit or PPOP grew by 85% year-on-year to INR72 crores. Profit after tax stood at INR42 crores, reflecting a year-on-year growth of 91%. Yields stood at 25.1%. Net interest margin stood at 13.1%. Cost to income stood at 25.7%. Return on average AUM stood at 7.1%. Return on average equity stood at 26.4%.

Please note, this calculation includes QIP proceeds of INR230 crores raised in the last week of December, which is yet to be deployed, but increases the denominator of the ROE calculations. For 9 months ended of fiscal year '24. The gross total income stood at INR479 crores, registering a growth of 74% year-on-year. Net total income amounted to INR276 crores, representing a 66% year-on-year growth.

Pre-provisioning operating profit or PPOP grew by 92% year-on-year to INR205 crores, and profit after taxes stood at INR123 crores, reflecting a year-on-year growth of 13%.

Now lastly, to address the elephant in the room, we are aware of minor concerns that have emerged following our recent quarterly results, particularly regarding the slight uptick in the provisions and impairment costs compared to the second quarter. It is important to contextualize these figures within our broader financial performance. Other parameters such as return on asset, return on equity, overall profitability, operating costs, etcetera, have consistently exceeded expectations over the past several quarters.

While it is true that we've observed a marginal increase in loan slippages recently, our GNPA stands at 2.83%, and NNPA stands at about 30 bps and remains firmly under control and accurately mirrors the prevailing market conditions. It is worth noting that various macroeconomic indicators as well as observations from RBI have pointed to mounting pressures on asset quality across the unsecured retail space. While historically, Arman can, on average, boast of superior asset quality in the long run, we are, of course, not immune to the overall market scenarios.

We have taken aggressive provisioning this quarter, refraining from utilizing any available overlays which amounted to a balance of INR27 crores. Moreover, we are intensifying our efforts to monitor and enhance quality and collections, including recruitment of 300 additional staff members dedicated to our collection efforts and elevating our underwriting standards beginning from the fourth quarter.

With this, I thank you, and I would request the operator to open the floor for any questions and answer sessions. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Congratulations on the capital raise. The market has shown really immense trust on the franchise and the competency and the way you run the show. Just wanted to understand, let's say for the next year for FY'25, given the capital raise of INR230 crores and INR100 crores in the previous year, a lot of incremental lending is going to happen with your own money, right?

And I do believe that in FY'25, you're going to see a lot of NIM expansion, probably a big jump in an absolute PAT number for FY'25, and you will be probably a tad bit lower than INR4,000 crores of AUM, but would be clocking about INR250 crores of PAT given the high equity that you have placed this year. You think this is possible?

Alok Patel: Well, I mean, you've done a lot of analysis. Of course, anything is possible. I don't think that we have issued any guidance, but the math seems sound to me, overall. Let us see how the other parameters emerge as far as operating cost and the NIMs and the asset quality and everything.

But yes, you are correct. As far as absolute values are concerned, definitely, in the coming few quarters, the equity raise will help increase ROAs and absolute profits. And of course, maybe decrease because of the denominator effect the ROEs until we sweat the equity a little more.

Moderator: The next question is from the line of Suraj Das from Sundaram Asset Management. Please go ahead.

Suraj Das: Yes. Couple of questions. If I look at your segmental yield, so that has declined as well as the overall yield on a Q-o-Q basis. And if I look at the segmental yield micro finance, I can understand maybe some part of the yield compression has come from the incremental slippages. However, MSME and 2-wheeler loans also, the yields has declined. So just wanted to know, I mean, what is the rationale behind that?

Alok Patel: As you know, there has been some commentary by the RBI about overall rates, which are being charged by MFI. And therefore, I think as an industry, we have taken some steps to reduce our overall margins by a small amount. So that is one part. And of course -- I mean the slippages is not going to add too much to it. But yes, that will add some basis points to the overall margin decrease as well.

Suraj Das: Okay. And also on the MSME and 2-wheeler, sir, I mean, they are also -- yield has declined. So just wanted to know, is this also because of, let us say, as you grow probably in terms of – interest rate you are coming down, or I mean, where we are heading?

Alok Patel: We were running some schemes in those segments. So that has resulted in a slight decrease in yields. So that has kind of consistently happened during seasons where the yields kind of go up and down a little bit. So that is not permanent. That should come up in the next quarter or so.

Suraj Das: Okay. Understood. The second question would be on the MFI, I mean, as you highlighted, there are probably some incremental, some slippages has happened. Just wanted to know if this pertains to any specific geography like in the Western region or Northern region? Or I mean this is probably Pan India. I mean, wherever you are 6, 7 states, that is where you are witnessing? Or is this pertains to only 1 geography or 2 geography or probably a few district?

Alok Patel: No, that's a great question. The answer is, while there are some slippages across the board in every state. Largely speaking, a lot of this the increased slippages are happening in the states of Maharashtra and Madhya Pradesh. So those 2 states are much higher than any other state. But minor decline has happened across the board.

Suraj Das: Understood. And you are not facing any such issues in Rajasthan, right?

Alok Patel: No, not really. I mean Rajasthan is performing fine for us.

Suraj Das: Okay. Okay. Understood, sir. And the third question would be, sir, on the DA income, this DA income and probably in terms of let us say securitization, do you have anything in mind probably this percentage of the book could be securitized on a steady-state basis and hence, probably DA income could be a bit fluctuating quarterly.

Because if I see your reported yield, which you have published, that is probably excluding the DA income and hence, probably there is a sharp decline. However, including that probably the overall yield would be kind of steady on a Q-o-Q basis. So just wanted to understand your philosophy on the securitization side?

Alok Patel: So Vivek, I think earlier, we were reporting yields including DAs and now we have removed it.

Vivek Modi: Probably your math is right on that one. But the first question in terms of what is the kind of sweet spot on amount of DAs, we will probably try to maintain about 15% to 20% of the book on DA. Thankfully, right now, the interest for the pool purchases by the larger lending community seems to be higher for microfinance. So that seems to be fine enough.

We've been doing regular DAs for the last 4 quarters. So hopefully, the interest keeps alive for the next coming quarters. And yes, we are right now reporting in terms of yield, deducting the DA upfront income. If you include that yields will probably normalize.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: So you talked about some stress on the overall microfinance. If you can please address what are the reasons for the stress that you are saying, we have been hearing about some stress on rural income. So is it because of that? And how and what according to you like -- is it expected to continue for the next few quarters as well?

Alok Patel: Well, Ankit, that is really the million-dollar question. I don't think it can attribute to one factor. I don't think it's as a result of rural incomes, personally speaking. I think largely speaking, if you talk about it, culturally, India is probably moving more towards borrowing kind of a culture than a saving.

And I think that as people borrow more and more money, that is reflecting slightly higher slippages. And that is true in the small ticket size loans in the rural segment, in all segments. So I think if you look at the total household debt that a person is carrying today versus what they were carrying 3 years, 5 years ago or pre-COVID, you'll find a sort of a larger increase there. And that is what is probably one of the reasons what is causing it.

And second is, again, to do with the culture, again, people are probably more use to availability of credit now. I mean, the penetration has in micro finance and everything has been very good. And so post-COVID, we saw one of the best credit cycle that we can possibly imagine everything that we dispersed post-COVID for the longest time for at least 2 years that was behaving fantastically beyond my own expectations. But the honeymoon cannot last forever, and there is obviously some very negligible, but minor uptick in the slippages. We'll just have to make sure we monitor it and take it in stride.

Ankit Gupta: So how is your expectation on credit cost for the next 2 years because of some or little bit of stress, some early points of stress. So how is that expected to impact our credit cost for us as well as for the industry if you can...

Alok Patel: I mean, I don't know about the industry, to be honest. For us, I think from a regularized basis, I have said this for a while publicly and privately as well, that microfinance is now about a 2.5% credit cost business in the long run, right? So that is really my expectation in the long run. It's a 2.5% credit cost business. And that's absorbable. I mean the balance sheet allows you to absorb that cost. So I don't foresee that to be any problem.

Ankit Gupta: My third question was on the yields in the MSME loans. You did talk about some pressure from RBI for unsecured lenders to reduce their yields. And we in the MSME segment, we have a yield of around 35.9%. So over the long term, where do you see this yield settling for us?

Alok Patel: No. I mean MSME is a different business. The operating cost structure is different. And mostly the comments that were made were more related to the microfinance side than MSME, which is not to say that they cannot come. But right now, we are not looking at MSME separately.

Ankit Gupta: Okay. Because microfinance is almost 10%, or more than 10% lower yield than MSME....

Alok Patel: Microfinance is not 10%. Microfinance is about 80% of our business.

Ankit Gupta: No, that I know. What I was saying is like differential between the yields of the product is almost more than 10%, like let's say, microfinance is...

Alok Patel: These are different products. They are serviced in a different way by different branches, different people. Clearly apples-to-apples comparable. I mean they are fruits, but different fruits.

Ankit Gupta: So just one last question on the growth side given some bit of caution that you're seeing across the sector. Do you think we can maintain the growth rate from the past 2 years in FY'25 as well?

Alok Patel: No. I mean see, again, the guidance that we have always provided is that we have been growing at about a 40% CAGR for the last decade or more. And the plan is to continue that growth trajectory. In the short term, I think people who have followed us know that we will never really be pressured by growth trajectory and sacrifice asset quality. So I'm not saying that I don't think I myself know to be honest. It's not that I'm resistant to provide guidance, I'm not sure at this point.

Again, it's only one quarter. But we have increased our underwriting that will have some marginal impact also in the disbursements in the fourth quarter probably. And by minor, I mean very minor. But I'm not at a position to sort of revise our growth projections, at least at this point. We will see in a couple of months or a quarter or so.

Moderator: The next question is from the line of Balkrushna Vaghasia from Axanoun Investment Management. Please go ahead.

Balkrushna Vaghasia: So my first question is like how is the competitive intensity shaping up, particularly in microfinance in the regions that you are operating?

Alok Patel: Well, to be honest, competition has been there for couple of years and I don't think that we are facing -- I mean, in the short term, if you look at the last 1 or 2 quarters, it has been stable. So there has not been very aggressive targets by other peer groups or anything like that. But yes, it's a competitive landscape. Of course, I would say that in about 20% to 30%, 20% of the areas that we operate, it's probably very low competition, 20%, 30% will be medium and 50% will be high competition.

So it just depends on geography to geography. So if you look at like, let's say, Kutch area or Gujarat, there is very little competition. Maybe, 3, 4 players operate in that area. But just a few hundred kilometers away in Ahmedabad you have 20, 25 different players who are -- that includes SMBs and MFIs and NBFCs and BCs and all kinds of people. So it does depends largely on -- from geography to geography.

Balkrushna Vaghasia: And another question related to this, like you have been able to grow at the rate, I think, double that of the industry. What things or what are the aspects that you attribute to this achievement?

Alok Patel: Well, I don't know. But probably if I had to venture a guess, I would say that we typically grow quickly and do well post a down cycle such as Demon or COVID. And because we tend to recover faster than a lot of our peers, we are there to take over sort of a disbursement vacuum, which has been created temporarily.

So during good credit cycles, we are probably -- we grow average. Right after a down cycle, we usually historically have grown quickly, plus our asset base was historically lower also. So geographically, we could spread and get some extra mileage out of that as well.

Balkrushna Vaghasia: Okay. And your ROA is 7% to 7.5% range. So what do you think -- what is the cross cycle ROA, sustainable ROA?

Alok Patel: Again, I mean, our projections are -- typically, we target at least a 4.5% with a 25% plus ROEs. So that is what we try and do or anything more. Of course, for the past several quarters, we have been fortunate that we have been able to report numbers significantly north of that. But something has to -- something usually gives and -- so that's what we typically project out, I guess, 4.5% to 2.5% in the long run.

Balkrushna Vaghasia: And with the capital raise that you had in December, how far you can grow with this capital, like how far you can grow your...

Alok Patel: Depends on the internal accruals, but we are estimating about INR5,000 crores.

Moderator: The next question is from the line of Parth, an individual investor. Please go ahead.

Parth: Congratulations on the great set of numbers, you've also addressed provisioning and NPA uptick in your opening remarks. I have a couple of questions. We have opened as many branches in the last 2 quarters as we have in previous, let's say, 5, 6 quarters. So can you throw some light on this, any opportunities that you see on geography or line of business?

Alok Patel: I don't think -- what numbers are you seeing, I don't know? Because last 2 quarters, we have not opened that many...

Parth: March '22 to June '23 in your presentation, it's 292 to 343, it would take to 51 branches. And in the last 6 months, June to December actually we see 343 to – 394 which is larger

Alok Patel: Yes this is to do our expansion in Bihar and Jharkhand and Telangana and a lot of state branches as well. I'm sorry, you're right. I guess you said last 2 quarters but a lot of these branches would have been opened in Q1 and then obviously a lot of it started operations.

So that's very normal. I mean we open a lot of branches in the first quarter of the year, last of first quarter, sometimes. This past year year was slightly delayed in terms of opening branches. So the first half of the year, we typically open the branches and then we sweat them them out in the last 2 quarters and rinse and repeat. So that's how we typically do it.

Parth: Right. Okay. So another question was what's our impact after the RBI guidelines on the capital loans? And what's our overall view on this for the industry?

Alok Patel: What did you say, sorry?

Parth: So what's our impact on the business after the RBI guidelines that have come from the capital loans as an NBFC, then in case your credit costs might have increased cost of capital might have increased. So I just wanted to...

Alok Patel: Vivek did you get that?

Vivek Modi: Are you trying to refer to the risk weightages that have been increased

Parth: Yes, yes. Capital risk weighted this year. Yes.

Alok Patel: So on that one, I think we're not seeing much impact as far as Arman Group is concerned, it was 80% or 84% of our book is in the microfinance asset, with the PSL qualifying asset, and which has been ruled out of that circular of RBI. So there is no direct impact from the lender community to Arman's borrowing profile to that extent.

Parth: Yes, I wanted to understand the borrowing quality. The capital as we get from banks, let's say loans.

Vivek Modi: So borrowing profile, Parth, if I got your question right, has kept on improving with new lenders getting added or overall with the capital infusion that has come in, there are enough reasons for us to kind of look forward to a better pricing if that is the question that you're trying to kind of ask. It improved capital adequacy on the balance sheet for the group and the overall leverage having come down, we should -- we are definitely aiming at having our cost of funds coming down a bit as we moved a couple of quarters ahead of from here.

Moderator: Please rejoin the queue for follow-up questions, sir. The next question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V: Just taking on to the last question. I wanted to understand on the liabilities piece. Does the DA kind of give a better profile of some PSL advantage for the bank? Or -- so what is the current PSL standing for Namra? Any loan that the bank gives in any form, gets PSL? So I wanted to also understand the liabilities for Arman and Namra, are you facing any difficulties for Arman? Because I don't think that will come under PSL. Just wanted to get that clarification.

Alok Patel: So –Vivek, step in and correct me here if I have mistaken, --. But as far as banks goes, any loans given to the subsidiary Namra is considered as a PSL on the books of the banks. However, there are different categories of PSL, there is , I guess, wholesale, there will be retail. So if they are missing retail PSL assets, then they can do a DA in that sense. So basically, if they are missing on the agri allied or agriculture portfolio, that's what is the highest interest for any banks when they come to organization like us. did you have another question, also?

Srinath V: So in Arman, are we because the risk weights have actually gone up for the NBFC side. So -- or is the fact that you've got capital kind of solved that problem for the next 2, 3 quarters?

Alok Patel: No, so see by God's grace due to our vintage and sort of, I don't know, strong kind of conservative risk practices. Usually, we have historically not faced much problem for raising funds. If I were to say that the goal is always to raise cheaper funds.

And so that's what we continuously try to do. But historically, we have not faced issues. And even in Arman and Namra both, typically, we have more offers than what we can take. Now of course, the goal is to get better offers, but yes, availability is not an issue.

Srinath V: Perfect. Moving on to MSME, I wanted to understand how is the South India portfolio doing? I think we entered somewhere last year to Andhra. Wanted to understand how that's progressing? And any update on larger ticket MSME loans either in the form of secured or unsecured, any pilots, any feedback you've got from your team? That would be great.

Alok Patel: Yes. So Telangana, we have -- so it's not an AP. We went into Telangana this year for our MSME branches and for which we have opened 8 new branches there. I mean, it's a little too early to tell. Right now, we have no overdues at often, Telangana, which is, of course, good news. But again, that is very common when you move into a new place that for the first 6 months or 12 months, you don't have any quality issues whatsoever.

It's going quite well. I think, look, of course, with the Southern states, there's a lot of competition. So growth might be slower than, let's say, what it was in Bihar or some of the other places. But so far, so good. Let's put it that way. In fact, let's see. And maybe in a couple of quarters, we can consider moving microfinance there as well.

Vivek Modi: Srinath, also that we just started the loan against property kind of -- so maybe I'll look...

Alok Patel: So as I announced. So finally, after a lot of contemplation and deliberation, we have started the Micro LAP pilot. And of course, it's just very preliminary pilot at this stage. We have only done about 22 loans in the last 1.5 months or so, about INR1.7 crores. Let's see how it goes. So it is -- ticket sizes range from 3 lakhs to 10 lakhs and tenure is about from 2 to 6 years is what we are contemplating right now. And of course, we have all the underwriting and the paperwork necessary to create a mortgage and do the search and create the mortgage and everything.

So rural areas actually becomes the largest challenge is the paper work required. Otherwise, I mean barring that, I can already tell you that it's a fantastic product. A lot of other people in the Micro LAP segment don't typically do rural because of that reason. And so our hope is that we can surmount that.

Srinath V: So we will still use our traditional cash collection approach because since it's rural. And second, any behavioral changes you're seeing on repayments versus our smaller MSME unsecured book? Or anything you can share on some early behavioral patterns very broadly?

Alok Patel: So in the -- so speaking specifically of Micro LAP, so this will be used in NACH mandate -- so it will not be the traditional cash recovery. That being said, we are expecting, of course, like all rural products that there will be significant bounces, which we will have to go and collect it in cash. And of course, we have created mechanisms to do that.

So whatever we can sweep in through cashless, we will do it. Otherwise, of course, our people are available to go and collect it cash as well. Now behaviors, I mean, are you referring to in Micro LAP or in genders?

Srinath V: Yes, in Micro LAP, meaning customer cohort. Anything you can share on how different this customer is, maybe in occupation, profile or anything you can broadly give us just to get the understanding of the business a little better.

Alok Patel: No, profile will be similar to our MSME customers, perhaps a step or two higher, but these will be still the enterprises in the rural areas. But people who require a higher ticket loan for whatever reason that they're using it for their business. And we are following a similar mechanism of evaluating how much they can afford and what they can take.

But largely, the hope is to keep EMI similar by increasing the tenure and securing it upwards through a mortgage. Now I think it's fair to say that while the mortgage is there, repossessing somebody's primary household in rural is, of course, difficult. But of course, the fear of that and taking legal action yields excellent results, as I'm sure you are well aware in the entire Micro LAP and affordable housing segments.

Moderator: The next question is from the line of Parth, an individual investor. Please go ahead.

Parth: I just wanted to slip in one question on the individual business loan side. How is it doing any comments and guidance on it?

Alok Patel: No, I mean it's doing quite well. The underwriting is quite a bit more stringent. And the turnover time is slightly higher. So I don't know. I think we haven't been doing a good job of pushing that product to be honest with you, and we have to start doing a better job. But the hope here is that as JLG probably falls out of fashion in the next few years, which is the expectation. These individual products which are available will gain more traction. So really, it's a product for the future.

And the the hope is that over the long run, this product will become much more significant in terms of the overall portfolio. Right now, it's -- I would say it's a couple of percent to -- 3% or so of the total portfolio. So I mean -- total portfolio. Yes. So yes, I think we probably need to concentrate on that more, frankly.

Parth: So can you put a number on that?

Vivek Modi: So we started with IBL about almost 30 months back. The average ticket size in the JLG itself and the entire ecosystem has increased a fair bit. So yes, it's almost like the JLG ticket sizes in the market have caught up to what we envisaged IBL to be so there is not a lot of incentives for -- because see, IBL, we are targeting to be completely cashless, right? So the customers have to be incentivized somehow to accept that product versus like a traditional JLG product.

And so the customers -- that well here, somebody will come and collect the money from my house. And the other way I have to go through the hassle of actually paying the company by myself. So perhaps that is the, I guess, the expectation gap in terms of where we expect it to be versus where we are today.

Parth: Right. So can you put a number on the plan of, let's say, expanding this business? Let's say as a share of total AUM in next 5 years, let's say?

Alok Patel: It would be difficult. I would like to say that the individual versus group loans, I would like that to be 2/3, 1/3, that includes a mix of IBL, MSME, Micro Lab and other products that we have, 2-wheeler, of course. So hopefully, in the next 3-odd years, we can get it to that level 3 to 4 years.

IBL, specifically, it will be difficult for me to kind of point there, except to say that at least in the long run, group loans will -- my expectation is that group loans will probably fall out of fashion and will be replaced by some kind of individual products, whether we call it IBL or we call it any other product, it doesn't matter.

Parth: Any reason why you say group loan will fall out of fashion.

Alok Patel: Why do I say it?

Parth: Yes.

Alok Patel: Well, I mean, that's sort of a longer answer. But as I said, there is a cultural -- there's a lot of reasons. Number one, customers themselves want to get out of it. They're like, well, we can group customers for the last 10 years, and I have a great credit history. So I don't want to fall into this group setting anymore.

Second, because of competition, the group sizes are shrinking. Thirdly, I would say that overall ticket sizes are increasing enough where and the EMI sizes are enough and couple that with group size is declining. JLG, the concept of JLG is getting diluted as time goes on. So there are numerous reasons for saying that. Of course, I could be wrong. This is just simply my expectation. But we have prepared both ways.

Of course, if JLG continues to do as well as they are doing and that is no problem. But otherwise, we are future-proofing ourselves by making sure that we have other legal products that we can service our customers with, should the trends change.

Moderator: The next question is from the line of Bharat Sharma, an individual investor. Please go ahead.

Bharat Sharma: Hi Alok, first compliments on a great set of numbers, and thanks for giving me to talk to you. I just wanted to understand your views on competition coming from small finance banks. How do you see -- and because, obviously, their liability structure is slightly different than -- do you see them getting more competition over time? And how do you plan to address that?

Alok Patel: Honestly speaking, I am not -- I mean, if I was concerned with a group of people in terms of competition, I would say I would be much more concerned about the other NBFC MFI than SFBs. So of course, they are part of the market. And of course, they are part of the competition group. So I don't want to just discount them completely.

But in terms of as structure goes, I'm not completely convinced whether the ability to raise deposits is advantageous enough to offset the other factors that they have to deal with like regulations and operating costs and other factors. So of course, this is my personal opinion, but SFBs do add to the overall competition, but we are more threatened by the other NBFC, MFI than SMBs at this point.

Moderator: The next question is from the line of Rohan Mehta from Ficom Advisory. Please go ahead.

Rohan Mehta: So Alok I wanted to ask, so you've always kept the MSME and the microfinance segments separate in terms of branches, employees and -- I think we have to view that it's easier to sell one simple product rather than have the field agents cross-sell production. Yes, I just want to understand that these new businesses you will be seeding, right, like the Micro LAP, would that sort of require fresh infra or initially, we'll be doing it off...

Alok Patel: I understand where you are going with this, and that's an excellent question. So initially, we are starting it out to the MSME side, with specially trained people at the branches, but if and when it does gain traction, the plan is to split it out because, yes, you are right. I have always said that I'm still a strong believer that if you're dealing with field officers and people of that -- it's much easier to train one field officer to do his job in the best way possible to sell one product rather than doing it in multiple different products. And so yes, it's a great question. And the plan would be that eventually it would split out and go its own way, as -- have a separate operations.

Rohan Mehta: Okay. Got it. Great. And just another question. On the MSME side, so I just wanted to understand. So how are we planning to just grow our book in terms of strategy and any characteristics of people they're lending to, right? Is there something like that maybe changed over the last 1, 2 years where we've been able to sort of gather a new group of people or new cohort of people that we can probably start targeting to, lend to?

Alok Patel: No. I mean the overall study has not really changed. I mean the MSME is growing quite well if you ask me. I mean if you are comparing it portfolio to portfolio with microfinance, obviously, it looks a lot smaller. But I think MSME has also been growing at 40%, 50%. And at least in the last few months, the disbursements have also increased quite a bit. I would say, to answer your second question about what I feel has changed.

I would say a lot of the -- due to the ticket sizes that some of the peers are giving out. Earlier on, let's say, when I started doing it, we were targeting, let's say, 75,000, 80,000 customers. Many MFIs are -- have increased their ticket sizes to 75,000, 80,000 at this point. So there is slightly more competition that is -- while it was supposed to be a segment that targeted people, 1 or 2 steps above microfinance.

Now you have -- the line has kind of blended to an extent now. And so we have to kind of target people even higher than what we were originally targeting, which is fine. So my guess is that in MSME, the ticket sizes would increase in the long run.

Moderator: The next question is from the line of Nitin Gupta, an individual investor. Please go ahead.

Nitin Gupta: Yes. So from the investor presentation that I was able to calculate the current leverage, how much we are having. Actually it's around 3-point something. So my question is, are we comfortable with this? Or going forward in, let's say, next 2, 3 years, we think that we can further leverage it. I mean increase it?

Alok Patel: How did you calculate it at -- I'm sorry, you're saying leverage. I guess you're talking about debt to equity ratio 3-point something you said. No, I think that is a mistake. So our overall fully diluted capital base on a consol level will be about INR760 crores. And overall debt will be about INR2,000 crores plus, INR2,100 crores. So it's shared less than 3% on a consol basis.

Nitin Gupta: Okay. Yes. So basically, the basic point which I wanted to know, like going ahead we would like to keep it at this level or there is a scope of further increasing the leverage?

Alok Patel: So you'll have to at least take it up to 4.5x or hopefully not 5x, but I mean, at least the 4.5x or 4.75x, I would say, a fully-sweated equity. So you will have to, of course, increase it. And that's why we have taken on more equity as well. So we can leverage more. And so the hope is that with CAR ratio stays in the neighborhood of between 22% to 24%.

Nitin Gupta: Sorry, I missed your last statement.

Alok Patel: The hope is that we can keep the CAR ratio stable at between 22% to 24%.

Nitin Gupta: The second question which I had was like how much AUM growth can we expect going forward? I'm not talking about the next year, but generally. Basically, I have attended the previous con-call. What I learned in those calls was like around 40% or we can expect. So are we sticking to it.

Alok Patel: So I think one other gentleman also had a similar question. So I'm not sure. So in the long run in the next 2, 3 years or so, yes, the hope -- the target is to grow 35%, 40%. But there is always going to be short-term peaks and valleys, right? So there's always going to be certain quarters that we grow slower than -- so rarely the growth was -- consistent and smooth.

Nitin Gupta: Yes, I understand that we have to calibrate it so that overall, we are able to achieve it. So some quarters, it would be low, some quarters it could higher. That I understand. So that's pretty much it for myself.

Alok Patel: So to answer your question specifically, I am not ready at this point to say whether we are going to revise that or not. So for now, you can assume it is -- nothing has changed.

Moderator: Ladies and gentlemen, we will take that as our last question. I would now like to hand the conference over to Mayank Mistry for closing comments. Over to you, sir.

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

Alok Patel: Thank you, everyone. Thanks.

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