“Arman Financial Services Limited
Q4 FY '24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to Arman Financial Services Limited Q4 and FY'24 Earnings Conference Call, hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a 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, Zico. Good afternoon, everyone, and welcome to the Q4 and FY '24 Earnings Conference Call of Arman Financial Services. First of all, I would like to thank the management of Arman Financial Services for giving us the opportunity to host this call. From the management team, we have Mr. Alok Patel, Joint MD; and Mr. Vivek Modi, Group CFO. I would like to hand over the call to Mr. Patel for his opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Alok Patel: Thank you so much, Mayank. And on behalf of Arman Financial Services, I extend a warm welcome to our Q4 and FY '24 earnings conference call. So with me today, we have also Vivek Modi, who is the group CFO, and also on the line, our SGA Investor Relations people.

I hope you had the opportunity to review the Q4 and FY '24 results, the press release and also the presentation, which is available on the Stock Exchanges and on our website. Before diving into the quarterly and yearly performance update, I would like to highlight some key aspects of the macroeconomic landscape. Following the initial 2 years of the COVID-induced stress, the economy has shown significant recovery over the past two financial years. This rebound has positively impacted sectors such as ours, particularly microfinance and the MSME lending sectors.

Consequently, the industry has experienced steady and sharp growth over the last 2 years with all parameters reflecting excellent results. Key indicators such as disbursements, AUM growth, operating expense, cost of borrowing and asset quality have all shown improvements or largely remained stable, demonstrating the resilience and adaptability of the industry.

The sector maintained its momentum in the last 2 years, largely without any major setbacks. This resulted in record profits and growth. Arman's growth was bolstered by effective risk management practices and effective last mile delivery of credit to the customers. Consistent performance and positive developments have laid a solid foundation for continued growth in the sector in the long run.

As a testament to this, the credit ratings for both Arman and Namra were upgraded to A- with a stable outlook by CARE ratings in March 2024. Now turning to Arman's FY '24 consolidated performance. The company has implemented stringent credit filters, resulting in a high rejection rate for ensuring that the maintenance of a high-quality loan book. Despite the rigorous screening process, we reported a 30% growth in disbursements amounting to approximately INR 2300 crores, driven by robust and consistent demand during the review period that is FY '24.

Our Microfinance and MSME AUM reported 35% and 44% year-on-year growth, respectively. As on 31st March 2024, Arman's consolidated assets under management stood at INR2,639 crores, registering a growth of 36% has compared to INR1,943 crores on 31st March 2023. Our stand-alone assets under management, which includes lending to micro enterprise Two-Wheeler loans, and of course, the new Micro LAP pilot vertical increased by 42% to INR446 crores as compared to INR315 crores on 31st March 2023.

Assets under management of our Microfinance subsidy number of finance registered a growth of 35% to reach INR2,193 crores as compared to INR1,628 crores on 31st March 2023. This growth was further supported by favourable economic environment post-COVID, as I mentioned, and also the revised regulatory framework issued by the Reserve Bank of India in 2022.

Our consolidated profit after tax for the full year ended 31st March 2024, stood at a record INR174 crores registering an 85% year-on-year growth as compared to INR94 crores in the last year. This PAT, I would hope you would agree, was much higher than expectations. Arman has always embraced a progressive approach, which has been instrumental in sustaining growth while maintaining asset quality and collection efficiency.

Our gross non performing assets, which is GNPA, stood at 2.88% and net non performing assets, which is NNPA, were at a low of 31 basis points for period ended 31st March 2024. Collection efficiency for the month of March in our Microfinance business stood at 96.5%. MSME business stood at 97.6%, and our Two-Wheeler business stood at 95.6%. Consolidated collection efficiency stood at 96.6%. Total borrowings amounted to INR2,261 crores, comprising of a diverse mix of financial instruments.

We maintained substantial liquidity of about INR180 crores in cash and bank balance, liquid investments and undrawn CC limits with a comfortable debt-to-equity ratio of 1.8 times, and a healthy capital adequacy ratio of 62.7% on a stand-alone basis. The subsidiary NAMRA has a capital adequacy of 32.8%. As such, thanks to the recent QIP, we are well capitalized to continue our growth trajectory.

Cumulative provisions stood at INR90 crores, which is 3.4% of the consolidated assets under management. of these provisions for the Arman stand-alone business stood at INR17 crores, and for the subsidiary Namra stood at INR73 crores. In terms of branch expansion, we have opened 67 new branches over the last 12 months, bringing our total branch count to 402 branches. This expansion has been complemented by successful penetration into newer states and geographies where performance has been promising.

Additionally, we have initiated a pilot for the rural micro LAP product in Q4. While it is too early to comment on its success, we are optimistic about its long-term potential. Over the last year, the company initiated several technological and digital advancements, including Aadhar-based biometric e-sign; the launch of new HR software; live staff tracking; streamlined paperless loan origination; AI-based bot calling; monitoring apps for audit and supervisors; the establishment of a business intelligence unit using advanced analytics; and many other initiatives as well.

During the year, we successfully completed a fundraise through a qualified institutional placement or a QIP of INR230crores, which ensures we are adequately capitalized for future growth. The completion of this QIP is a significant milestone in our journey towards enhancing financial inclusion in rural India. The fundraise of participation from various marquee investors underscoring their confidence in Arman Finance business and its business model.

You may also recall that the company had raised INR115 crores through CCBs and OCRPS in September 2022. These instruments all converted in March 2024 and simplifies our shareholding structure. The consolidated net worth now stands at almost INR813 crores. We are confident that we are on the right path to achieve our strategic goal of building INR5,000 crores of AUM while maintaining a balanced debt-to-equity ratio. This solid finance foundation, combined with our strategic initiatives positions us well for continued growth and success.

Now let me run through the key consolidated financial figures for the quarter and the full year ended 31st March 2024. For the fourth quarter of FY'24, the gross total income stood at INR183 crores, registering a growth of 23% year-on-year as compared to INR149 crores in Q4 FY'23. Net total income amounted to INR120 crores, registering a growth of 40% year-on-year as compared to INR86 crores in Q4 FY'23.

Pre-provisioning operating profit, or PPOP, stood at INR88 crores registering a growth of 40% year-on-year as compared to INR63 crores in Q4 FY'23. Profit after tax stood at INR51 crores for the quarter, registering a growth of 40% year-on-year as compared to INR36 crores in Q4 FY'23. Yield stood at 25.1%. Net interest margin stood at 15.2%. Cost to income stood at 26.6%. Now for the full fiscal year ended 2024, the gross total income stood at INR662 crores, registering a growth of 56% year-on-year as compared to INR424 crores in FY'23.

Net total income amounted to INR396 crores, registering a growth of 57% year-on-year as compared to INR252 crores in FY '23. Pre-provisioning operating profit stood at INR293 crores, registering a growth of 73% year-on-year as compared to INR170 crores in FY '23. Profit after taxes stood at INR174 crores, registering a growth of 85% year-on-year as compared to INR94 crores in FY '23.

Return on average AUM stood at 7.6%. Return on equity stood at 27.8%. And just as an FYI, this 27.8% ROE calculation includes the QIP proceeds of INR230 crores raised in the last week of December. So all in all, a great year. And thanks to all the stakeholders for their invaluable support. With this, I would request the operator to open the floor for the question-and-answer session. Thank you very much.

Moderator: The first question is from the line of Amit Mantri from 2Point2 Capital.

Amit Mantri: Congratulations on a strong quarter and a year. My first question, so what's the average borrowing rate for the company now? And has that number declined because of this funding and decline in leverage for you?

Alok Patel: Yes. Vivek, do you want to take that?

Vivek Modi: So Amit, all costed out, it turns out to be about 13%-odd for the year. But post the QIP, we've already seen the rates coming down by about 50 bps to 75 bps in the last quarter, which is both on account of the benefits of QIP itself and the recent upgrade that we've also got with CARE.

Alok Patel: So that 13% by the way, is all-inclusive..

Amit Mantri: Okay. And so now going forward, you would expect a 12.5% to 13% interest rate that will be there for the company?

Vivek Modi: Lower than that now.

Alok Patel: Lower. At least we are expecting 100 bps dip as is the market interest rates. So if the market interest rates were to decline further, then obviously, it would be even more decline in the rates.

Amit Mantri: And also I think the -- sorry, continue.

Vivek Modi: So in addition to that, Amit, since we are also kind of issuing pretty -- a lot of listed NCDs wherein the -- generally, these rates are approximately 11%, 11.5% approximate.

Amit Mantri: Sure. And are you also cutting your lending rates by the same amount? Or are those pretty much staying the same?

Alok Patel: We are cutting our lending rates, of course, for competition and of course, through different pressure that is announced by regulators and other things. So definitely the REITs have gone down, but not necessarily due to the cost of -- the weighted average cost of funds going down because -- but yes overall the rates have been declined. The yields have been coming down.

Amit Mantri: Sure. And can you talk a bit about the collections. The collection efficiencies seem to have seen some dip in this quarter.

Alok Patel: Yes. So overall there is some pressure on the collections. Numerous factors at play. Of course, there is heat and there is elections, but largely speaking there's a lot of -- I mean in certain areas there has been a lot of over lending going on and that has been generating pressure for us on the repayment side. So hopefully it's nothing permanent and we can get it fixed in the next couple of quarters.

Amit Mantri: Got it. What kind of loan book growth are you targeting for this financial year?

Alok Patel: So about 25% to 30% is what we are approximately targeting.

Amit Manti: Okay got it. Thank you very much Aalok and good luck for this year.

Alok Patel: Thank you.

Moderator: Thank you. The next question is from the line of Narendra from Robo Capital. Please go ahead.

Narendra: So can I have an idea of what kind of credit costs are we expecting in the next year and also if we have an idea about FY '26 as well?

Alok Patel: See as far as credit cost these things are a little difficult to predict, but on an ongoing basis, on a steady state on average we expect about 2.5% to 3% of credit costs going forward. There will be some years it might be lower than that. Some years might be higher than that, but about 2.5% is what we expect on average.

Narendra: Okay. Great. And in your previous question you said that you have been reducing lending rates as well and also our borrowing rate is expected to reduce. So, are our NIMs going to be protected or would there be pressure if you can throw some light on that?

Alok Patel: NIMs would be largely protected.

Narendra: Okay. Thank you so much and all the best.

Alok Patel: Okay. Thank you.

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

Balkrushna Vaghasia: So what is your branch expansion goal in the financial year '25?

Alok Patel: Yes. So we are targeting anywhere from about 60 to 75 new branches plus certain split branches as well and that will be a combination of expansions in Bihar, Jharkhand areas. And also at this point we are fairly certain of going to Telangana as we had predicted in the previous year that we were testing it in -- for our MSME side. So Microfinance will also go towards Telangana and possibly all Karnataka. So full work is going on right now as far as evaluations.

Balkrushna Vaghasia: And with regard to rural LAP that you have conducted the pilot project. So what do you think -- what will be the bottleneck in this product for expansion?

Alok Patel: This quarter we are predicting about a INR6 crores or INR7 crores disbursement. Again, it's a pilot. It's really early to say. All in all we are quite bullish on it. There are certain -- as far as the customer and the product goes there is no real challenge. It's a product that we sell and of course it's a product that there would be a demand for especially in the rural area where there are -- there is not a lot of suppliers or rather financial institutions in place.

But on the flip side the reason why they are not is because doing the documentation for the mortgage is challenging there and so working out those issues remains the larger challenge more than anything else. So let's see overall, but quite bullish on the product overall and I don't think that it's going to be a very significant portion of our book this year. These are more about planting seeds for the future.

Balkrushna Vaghasia: Another question is on the like a macro level. When I look at the microfinance player, particularly if I consider those guys who are listed. So everybody is talking about growth from 20% to 40%. So do you think there is a euphoria in microfinance lending or what are the indicators at which we can look and say that okay the sector has peaked right now?

Alok Patel: Largely speaking I think everybody is talking about 20% to 25% growth specifically the larger players that include the SFBs. There is still a demand. Let's not -- there are definitely certain areas which have -- are more saturated than others if I can put it that way. But definitely there are areas in India I would say at least 40% of India is underpenetrated, but these are more sort of difficult to access places or the density might be the issue, the operating cost might be slightly higher.

And so slowly, slowly MFIs including ourselves are making our way into those areas. Now that said overall from a regulatory environment things have become -- I don't think RBI is very -- has been a little worried about unsecured lending in India. And so overall the sort of lower growth reflects that the regulators warning on the unsecured lending business in India, but for us we don't see much of an issue.

In fact, overall our growth target originally I think every year has been somewhere in the neighbourhood of 35% to 40%. This year given the slight decrease in the repayment that we saw in this last quarter. The question that we ask ourselves is that is this a temporary blip in which we'll have to sort of increase our underwriting. and that might increase rejections and all in all reduced the overall growth rate? Or can we continue? So 25% is somewhat in the minimum range, possibly it might be larger.

Now your original question was that, is this euphoria? I don't think so. I mean overall, microfinance still has a good two to four years to go before it reaches that euphoric moment of growing faster than it needs to. Right now, I don't think that growing 25%, 30% is dangerous at all.

Balkrushna Vaghasia: Another question is on the capital adequacy, like for the -- in the long term, what will be your comfortable capital adequacy ratio?

Alok Patel: Typically, we target about 4.5x of debt to equity. That comes out to 22%-25%or so.

Vivek Modi: Yes, 25% is a good capital adequacy to have. And at times 25% is when one would really want to trigger off equity raise.

Balkrushna Vaghasia: And last question regarding the provision. So during the year, what was the moment in the provision in terms of how much you created and how much you use for write-off? And another question is, how much loan did you directly write off without using the provisions?

Alok Patel: So from an accounting standpoint, I think all write-offs are done through provisions only. Total write-offs -- we start with the beginning provision balance and the impairment to it and reduce it by...

Vivek Modi: Overall, the write-offs in microfinance was about INR40-odd crores and the stand-alone Arman would have been another INR5 crores taken together. And the balance is -- the additional provision that would have come in, which is basically the balance provision is on account of the growth in the AUM portfolio.

Balkrushna Vaghasia: Basically whatever I am seeing in the profit and loss statement, there is the provision amount you created for the year?

Alok Patel: Yes. So how much of the impairment I think he's asking...

Vivek Modi: So about INR20-odd crores would be the additional provision that has been created and the write-offs were about INR40-odd crores out of the INR65 crores that you might see in the write-offs and provisions. Does that answer your question?

Balkrushna Vaghasia: Yes. So basically, what I see impairment losses on financial assets for the financial year 2024 in the profit and loss statement, there is INR65 crores, right? So that is what you created the amount you created for provision, right? That's what I'm asking.

Alok Patel: Yes, yes. So that impairment cost of INR65 crores, if you had to attribute it to increase in provisions versus write-offs, what Vivek is saying around INR40 crores to INR45 crores would be write-offs and INR20 crores to INR25 crores would be provision -- increase in provisions.

Moderator: The next question is from the line of Rohan Mehta from Sicom Family Office.

Rohan Mehta: My first question is, so what is the progress you have made on when it comes to the entry into Telangana and Jharkhand, and also on the expansion of the MSME segment and micro LAP. Just wanted to get your thoughts on what you read from the on-ground experience so far?

Alok Patel: So Jharkhand, we have already gone into with about -- branches are already there with a plan to open another 10 to 15 branches in the next two to three months. Telangana, we are already there through our MSME segment. For Microfinance, we have not opened any branches yet, but the plan is to expand through Hubli area. Sorry, that's Karnataka. Excuse me, I'm confusing the two. So for Karnataka, the plan is to expand through Northern Karnataka around Hubli area.

For Telangana, it would have to be near about Warangal area -- that area, we are planning, but we have not opened any branches there yet. We have started recruiting and we have the state heads and the RMs and the EMs and the DMs, the initial team, the ones that we are transferring versus the ones which we are recruiting. So all of that is in place. They're all in notice periods and should be joining in due course.

So Telangana and Karnataka, you can expect early next quarter to start operations. The experience in Bihar and Jharkhand so far have been very good for us. In fact, the repayment rate is, in both these states are quite high. I think Bihar would be 98% plus and -- 98.5% plus and Jharkhand is around 99% plus

Alok Patel: But this is typically our experience that when we go to a new place for at least the first 12 months to 18 months, you don't really run into any credit issues. So the first time you go in is usually honeymoon period, I guess?

Rohan Mehta: Okay. Got it. And so my second question is, how do you see the change in the borrowing mix wherein if you see your share of bank mix and DA that has gone up. So any broad strategy, any change over there that you see?

Alok Patel: In the borrowing?

Rohan Mehta: Yes, in the borrowing mix.

Vivek Modi: If you look at it, let's say from '23 to '24, I think the borrowing dependence on the banking increased and in fact, the borrowings from larger NBFCs have considerably gone down during the financial year '24. And last few quarters and for the future, I think we are scaling up our NCD -- retail NCD as a promising way to borrow money. And that should kind of go up from something like 12%, 13% to sizable 20%, 25% maybe.

Alok Patel: And so I think almost 41% of our overall borrowings are coming from banks. But the second largest borrowing is from -- believe it or not, is off-balance sheet, which is direct assignments.

Vivek Modi: Which is also banks.

Alok Patel: Which is also banks only, of course. And in that case, we are getting quite a bit of -- quite a good rate, you can call it. Effective rate is all said and done is very attractive to do these DA transactions. I don't know what this year will look like. I'm guessing that DA demand will be as much as it was last year, I'm guessing. But I think the third largest will probably be the listed NCDs or retail NCDs, whatever we call it. So wherever we are -- wherever we get a rate advantage and somewhat reliability of funds, that is where we try to borrow from. Of course, that goes without say, but...

Moderator: Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Hi, team and good afternoon and thank you for the opportunity. A couple of questions from my side, sir. I see that you now have a fairly wide presence in the Microfinance business in more than half a dozen states. Just to get your philosophical perspective, in your view, does the Microfinance business operate in different ways across differentstates? Or in other words, how much customization do you need to make to your operations when you enter a new state based on the behavioural patterns of customers in that state?

Alok Patel: That is actually an excellent question. And like all complicated questions, the answer is that it depends. The good part about Microfinance is why it's somewhat easier to grow than other form of businesses that it is easily replicable. So my systems that work in Gujarat will largely work in Jharkhand, even though culturally, those two economically, culturally, socially in every way, these are very different states.

But I would have to adapt to my credit underwriting policy depending on which areas I'm operating. And that not only depends on state-to-state, but it depends on district-to-district also. And in fact, if you go to the branch level, that depends even on a village-to-village level, right, depending on the different occupations and communities and other areas that people operate.

So why the processes are extremely generic across India, the overall underwriting policies and risk factors to consider are tailored on a state-to-state level, if that makes sense.

Ashlesh Sonje: Sir, and secondly, on the commentary which you made around collections, seeing some pressure across different areas.

Can you just give some more insight on -- what are the challenges which you are facing and which states in particular are seeing those challenges?

Alok Patel: See, I mean, without sugar coating things, Microfinance had an amazing run post-COVID. I don't think anybody would disagree with that. The regulatory environment was fantastic. The margin caps were removed, funds were available. Overall operating costs were under control. borrowing costs were under control. And asset quality was fantastic. It was better than anybody expected.

Now as a result of growing extremely well in the last 2 years, there have been certain pockets that they have been over levered. There have been certain customers that have been over levered. I'm not going to say I'm holier than thou and say, I have nothing to do with it and others are being more aggressive. I mean, we are all swimming in the same pool. And so what effects one player will affect the industry.

So it's nothing to be overly concerned about. But certainly, as MFI players, we have to take stock of the situation, maybe accepted that no honeymoon can last forever. And we are getting back on track. Things are getting back regular. The gains that we saw in the last 2 years post-COVID, the demand has kind of caught up overall.

And so I don't know if that kind of answers your question in a very roundabout way. But largely speaking, my guess is that most of the problems are caused due to certain customers borrowing more than they can afford.

Moderator: The next question is from the line of Ayush Agarwal from MAPL Value Investing Fund. Please go ahead.

Ayush Agarwal: Sir my first question is that when I look at 3 years before, this discussion is for MFI specifically. The average ticket size was around INR28,000, and today it stands at about INR47,000 -- INR46,000, INR47,000...

Moderator: Mr. Agarwal, may I request that you use your handset, please. Your audio is slightly muffled as well, sir.

Ayush Agarwal: All right. So I was saying that I was talking about the MFI specifically. When I look at data 3 years ago, our average ticket size was about INR28,000. And currently, it stands at about

INR46,000, INR47,000. So I would like to understand is there a change in strategy when it comes to MFI and we are more okay with higher ticket size to the MFI lending because earlier, we wanted to keep it down and maybe most of customers do MSME they grow in size? So your thoughts on this will be helpful.

Alok Patel: No, see, overall, the ticket sizes in the industry have been increasing. Specifically for us, we started -- when I started Microfinance in 2010, it was INR10,000, 1-year loan. And then the ticket sizes started going up, overall, the demand started going up more. Customers were not satisfied with just INR10,000. And so as the ticket size went up, the tenure went up. And so we switched to a 14-month product post which we switched to an 18-month product. And now we are at a 24-month product. So the overall goal has been always to keep the EMIs at an affordable rate or at an affordable level.

That being said, yes, the overall ticket sizes on average have increased faster than they normally do post-COVID. That is just the new market reality and also the fact that post the new RBI regulations, wherein the restrictions were not put on total indebtedness, they were put on FOIR

The ticket sizes are a natural kind of cause of those new regulations. Also, let me -- I've always said this, but let me mention again that as MFIs we largely compete on three things. And the first one is not rates. So while we do compete on rates, our customers are not very, very rate sensitive. What -- number one thing that we compete on is service. And by service, the customer wants as hassle free of loan experience as possible.

They don't have time nor the knowledge, nor the inclination to jump through 20 hoops to get your loan. They want it as simply as possible. And once you disperse the loan, they want to repay it back as simply as possible as conveniently as possible. Number two, we compete on a quick turnaround. So our customers need the money yesterday. They don't need it today or tomorrow. They needed it yesterday. So I have to process my loan as quick as possible.

And number three, what I compete on is ticket sizes. So as an MFI, I cannot be a complete outlier I mean I cannot be in a situation where I am lending INR20,000 the industry is lending at INR50,000 or INR60,000. I have to find some reasonable balance between risk and being competitive or staying competitive. So that's where the ticket sizes have wound up. But it's fine. We don't see a lot of stress due to ticket sizes. I mean, we do a lot of data check. We do a lot of analysis. There is not a lot of correlation that we have found between customers that we have lent higher ticket sizes to versus lower ticket sizes.

Ayush Agarwal: Got it. That was helpful. Sir, second question is on the collection efficiency. Pre-COVID it was around above 99%. And right now, I understand it's a post-COVID scenario. But do you see your collection efficiency moving beyond 98%, 98.5% in MFI maybe in a couple of years?

Alok Patel: No. I mean that pre-COVID Microfinance of 99% is behind us. And let me also give you the disclaimer that people put a lot of emphasis on repayment rate but apparently, every company has its own way of calculating repayments and there is no standard accepted formula for repayment rate. But that being said, if you -- let's put repayment rate aside and talk about the bottom line, which is credit cost. If I'm lending INR100, how much money am I going to not to get back?

And so earlier pre-COVID during minus demon and AP crisis and other times, Largely, we were at about a 1% credit cost 1%,1.5% on average. Those days are unfortunately behind us. And you have to understand that when we started Microfinance the total portfolio of the entire industry was INR20,000 crores.

Now it is something like INR4.5 lakh crores. So earlier, we used to manage cherry picking the customers. Now that cherry picking, you'll have to kind of move slightly higher in to the tree to overall to use that analogy, I guess. So on a steady state over the next, let's say, 3 to 4 years, I would say that on average the credit cost should be about 2.5% not to exceed 3%. But again, these -- take whatever I say with the grain of salt some people say I'm too pessimistic but that is the reality.

Moderator: Thank you. The next question is from the line of Sanidhya from Unicorn Assets. Please go ahead.

Sanidhya: So, my question is basically two parts to my question. One is just basic numbers and other is -- more on a philosophical side. So let's go on the numbers first. So our NIMs have like reached around 15% like quarter-wise or yearly as well and the yields have been significantly good for us. Whereas the collection efficiency is slightly deteriorated and versus the provisions that we have made not very much increased. So how do you look at the whole scenario? So the NIMs are positive, whereas collection efficiency is a little bit negative. Provisions on the other hand have been in line with the previous year. So I want your view on these three things together.

Alok Patel: Okay. So that's -- what is the philosophical question?

Sanidhya: That's more on the...

Alok Patel: This is the number question.

Sanidhya: Yes, this is the philosophical only. So I want to understand how you see this? Like this is not the typical pattern that we see in the industry, either we see that the NIMs have been decreasing because of the credit costs and overall profitability is also hit when the collection efficiency and provisions are rising. But right now, there is some different situation. And even hearing you makes me think that what's actually is going on in the industry. So your view in this.

Alok Patel: Why should NIMs be affected due to credit cost? NIM is a function of interest expense interest income, right?

Sanidhya: Yes. No, on an overall basis, I was just saying that on a like compared to the -- on an ROA basis, you can say that ROA is also increasing...

Alok Patel: **Our ROAs are fantastic.** Our ROEs are fantastic. I mean our NNPA is about 30 bps, which might as well be 0. Over and above that, we have a management overlay of what, Vivek, about INR20 crores, INR30 crores?

Vivek Modi: So that's part of the INR90 crores.

Alok Patel: That's part of the INR90 crores, okay. So, we are covered more and more so than anything else. See, you can run into a 20 bps issue here and there as far as repayment that is that is life. People love to have things smooth, especially the investor community love to see smoothness. But life is not smooth. You are going to run into to peaks and valleys all the time.

And it is what it is, but everything else is going in our favour. The regulation is in our favour. If credit costs rise even further, we are at liberty to increase our rate to offset that. We are expecting our lending cost to -- our borrowing costs to decline. Operating cost is under control, largely speaking.

So NIMs are great, 15% NIMs. So we have very little to complain about, besides the fact that repayment rates have been going down for the last few months. It is what it is. You cannot have every variable in your favour. There is -- it's a business after all. Things are not always absolutely in your control.

Sanidhya: So I was just thinking that why don't we take extra provisions precautionary provisions in the efficiency is going down like it doesn't happen that we have to suddenly provision for a large chunk?

Alok Patel: So as a person who's gone through three different types of crisis and in my previous career one more, let me tell you that when the crisis does come, no accrual magic, accrual number in your balance sheet is really going to help you. What's going to help you is stuff like uh how much cash you have in your bank account.

What is the quality of your team that you have? What was the underwriting standards that you use to disperse the money and many, other factors. All that an accrual account does is smoothen the income. Otherwise, reserve and surplus, is that only, it's just that. It's a different reserve. So we do have a management overlay by the way.

So that is already there. I don't want you to get too caught up on this, putting aside a slush fund. These are just accounting entries. There is no real money lying in the bank accounting except the cash in your bank. And these things are not going to help you in a crisis as far as operations are concerned, is just going to smoothen the income, which is going to, as I said in my previous answer, that everybody loves this smooth everything. And -- but anyway, I'm not opposed to it. I could do it. I just don't see the -- Vivek, I don't know.

Vivek Modi: Again, if you look at the overall provisions, there are two factors that I would like to numerically look at. One is the GNPA and the net NPA. Net NPA at a group level is sub-0.5% or 0.3%. So largely, you kind of covered up your non-performing assets completely. And overall, the provisions at the AUM level is about 4%, which is, generally speaking, a fairly good provision as we look at the overall asset quality of the company.

And we normally over the last -- it's not that we have had aggressive write-offs or early write-offs when we hit challenges. That's been a consistent way that we've dealt with the portfolio through various challenges, be it demonetization, and be it COVID, first wave, second wave.

Alok Patel: My strategy has always been that never get yourself into anything that you cannot exit from. And so all of these policies about provisioning and ECL and everything, are like Board approved and gone through 3 different auditors and concurrent auditors and bankers and so on and so forth. Everybody has accepted it.

Now for me to change that policy and put in some slush fund in there, if I ever need to reverse it, I'm not going to manage doing it. So I never really do anything that you don't can't get yourself out of. That has always been my strategy. Again, I'm not opposed to it. What I can do is be extremely aggressive with provisioning write-off, which is what I'm doing right now.

So there is -- just because I write off something in the accounts that does not mean gets an operational write-off. My people continue to follow up on it for a year or 2 years or as long as there is an expectation of getting some money out of it, whether it's legally or through collection or through follow up or agencies or whatever it has to be but I have never been in favour of this ad hoc.

And I don't even think it's possible just for me to wake up and ask Vivek, what is the profit? It's 175. Can you put aside INR30 crores as an overlay over and above whatever is the ECL? That's not even possible to do. We are a listed company. We have policies, we have Board approved policies that we need to follow.

Sanidhya: Secondly, I wanted to ask you that like on an aggregate level, the customers to whom we are offering a credit, like what do you think how many other players in the market are also offering the credit to the same customer? Because this came because you're saying that it looks like the customers are over leveraged. And secondly, just on the add-on that we are now expanding in different states. So should we expect the operational expenses to be a little higher going forward?

Alok Patel: Yes. So to answer your second question first, yes, marginally operational expense, especially salaries initially might be higher. But by the end of the year, that catches up. So this is what typically happens during Q1, it's slightly higher. And by Q4, it settled down. So that's as far as operational costs. We don't expect that to be very, different in the coming year as well. Your first question was about borrowing from other MFIs, or other lending institutions.

Sanidhya: Yes, same customer from the...

Alok Patel: So that is very, common. I think only about 20% to 25% of the customers are new to credit or...

Vivek Modi: Unique to us.

Alok Patel: Or unique to us overall. 75% of our customers would have another loan from some other institutions, whether it is a Kisan credit loan or a tractor loan or an MFI loan or gold loan or what have you, right? It will obviously be there. Overall, what we try to do is assess their income, figure out what their EMI burden is for all the other loans and figure out whether they manage affording our loan.

So that is a goal here. Where the overleveraging part comes up is that the last thing which I said about figuring out the FOIR that is easier said than done because our customers don't come with paperwork. It has to be a judgment call. So if my judgment says that this guy is good for -- this guy's income might be INR2 lakh a year and he's good for total EMI burden of, let's say, INR8,500.

Some other MFI might say that he has an income of INR3 lakhs, and he is good for a, EMI of INR12,500. So it just depends. Now all of these incomes are being reported to the credit bureaus. So I cannot right now, but hopefully, in a couple of months, start seeing what the other people have been reporting this person income to be but it's very complicated.

Because maybe through the SRO, the MFIs can bundle together and figure everything out. But with the PSU banks and private banks and SFBs, and there are so many flavours of lenders nowadays. It would be extremely difficult to get everybody on the same page and going together.

So that's basically the reality on the overleveraging. But the good part is, and not to, is that there is no CEO or Managing Director or founder or anybody that I have ever met says, close your eyes or pay the money. I've never met anybody like that. Everybody has an interest in self, preservation.

And so as a result of that, the hope is that you might be slightly more conservative. Others might be more aggressive. But on average, everybody will think with a good head on their shoulder and good judgment will prevail in the long run, right? And that is true in the lending business, in the stock market business or whatever you call it. That is true all around.

Sanidhya: I was just going through some other competitors. So they are -- many are shifting to now to weekly recollection model due to the same problem of collection efficiency. But do you think it would help us -- like we are thinking somewhere down the line toShift to weekly for some customers?

Alok Patel: No, not as of now. Kudos to them that they are making an effort. But largely speaking, I am a bit skeptical. Not because I think weekly is a bad model, I don't think that at all. If you are able to have larger center sizes, it's possible to do it. Now to do larger center sizes, what you have to do is to create a variable center model.

That means that you create a smaller center add more and more members into that center as time goes on. So in my case, with the static center model, the center sizes are too small for it to be operationally feasible from a purely an operating cost perspective. So for me, I would have to change my model in both ways.

I would have to basically start this perpetual model, number one. Number two, I would have to be okay with doing a lot of secondary or top up kind of loans where you keep giving some newer loan to the customer to keep them interested. But I think in the long run, if you look at my typical rural customer, they are going to get sick and tired of coming weekly.

This is 2024. Customers have plenty of choices to borrow money. If you're going to ask them that, every Monday, you have to come here for half an hour, step away from your business, step away from your other activities and come and sit in a center and repay the money. I think the attendance is in the long run going to be abysmal.

What we should be thinking about is how we can convert these customers into cashless. How we can avoid the centers in the first place. These are actually quite interesting debates that we ourselves get into amongst peers, where somebody wants to remain traditional and say that we need to go back to basics and others are talking about saying that, well, there is no basic anymore. It's 2024.

You have to think forward and nobody is really right or wrong in these situations. So for me, if I could do it, I would be happy to do a weekly model. I just don't think it will be feasible in the long run and maybe I am wrong about that.

Sanidhya: And lastly, if you can just tell me that you were saying the INR5,000 crores AUM you are aiming. So which FY you are thinking? FY'26? FY'27?

Alok Patel: Largely, I think you shied away from giving those kind of specific guidelines. Give us a quarter or 2 to rework. Originally, it was somewhere around about '26, '27 or something is what the guidance we were giving. But let us see where things settle down as far as credit cost goes, and we'll get back to you on those.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Mayank Mistry from JM Financial for closing comments.

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

Alok Patel: Thank you.

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