

Q3 2023

1. Net Interest Margin

- **Narrative:** Management discussed the expected changes in the net interest margin (NIM) driven by the transition from older, lower-interest portfolios to newer, higher-margin portfolios. This transition is anticipated to slightly enhance the company's NIM as the remaining lower-margin assets phase out.

- **Management's Guidance:**

- Management projects the net interest margin to experience a marginal increase as the older lower interest portfolios are replaced by higher margin portfolios. Additionally, they foresee a potential 25 basis points increase in the NIM in the near future.

- **Actual Results:**

['Q4', '2023']:

- In Q4 FY23, the net interest margin was reported at 14.7%, not achieving the projected 25 basis points increase as anticipated by management.

['Q2', '2024']:

- In Q2 FY24, the net interest margin stood at about 14%.

['Q3', '2023']:

- Our NIMs for the quarter stood at 14.8%.

['Q1', '2024']:

- The NIMs for Q1 FY2024 stood at 13.4%.

- **Evaluation:**

- **Expectations Not Met: Despite management's guidance projecting a marginal increase in the NIM with a potential 25 basis points rise, actual results showed a decline to 13.4% in Q1 FY2024, and the NIM did not reach the anticipated increase in most quarters.**

2. Loan Portfolio Quality

- **Narrative:** Management acknowledged the anticipated loan loss in the microfinance segment, projecting it to stabilize within a range of 2% to 2.5% moving forward. This indicates a focus on maintaining the quality of the loan portfolio while navigating potential challenges in the sector.

- **Management's Guidance:**

- Management anticipates a loan loss rate of 2% to 2.5% in the microfinance portfolio in future periods.

- **Actual Results:**

['Q4', '2023']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- The asset quality has deteriorated from 3% to 3.3% sequentially.

['Q1', '2024']:

- The actual loan loss rate for the microfinance portfolio was reported as about 2% of the microfinance book during Q1 FY24.

- **Evaluation:**

- **Expectations Not Met: The management anticipated a loan loss rate of 2% to 2.5%, but the actual asset quality deteriorated to 3% to 3.3% in Q3 2023, indicating the expectations were not met.**

3. Cost-to-Income Ratio

- **Narrative:** Management emphasized their intent to maintain the cost-to-income ratio at current levels, highlighting a stable approach towards managing operational efficiency and financial stability.

- **Management's Guidance:**

- Management expressed their hope to maintain the cost-to-income ratio at current levels for the next couple of quarters.

- **Actual Results:**

['Q4', '2023']:

- Data Not Available

['Q2', '2024']:

- Arman Financial Services Limited. Cost to income for the quarter stood at about 25%.

['Q3', '2023']:

- Cost to Income Ratio (%) 52.6%, 36.0%, 34.9%, 33.9%, 32.2% for Q3 FY22 to Q3 FY23

['Q1', '2024']:

- Cost to income for the quarter stood at 26% as compared to 37% over the same period last year.

- **Evaluation:**

- **Expectations Exceeded:** The management aimed to maintain the cost-to-income ratio at current levels, but the actual results show a significant improvement from 37% to 26% and then further to 25%, surpassing the management's stability-focused guidance.

4. Capital Adequacy Ratio (CAR)

- **Narrative:** Management focused on enhancing the equity base to solidify the company's capital structure, aiming for improved capital adequacy in the upcoming quarters.

- **Management's Guidance:**

- On a fully-diluted basis, assuming full convergence of all convertible instruments within the next 15 months, the total equity base stands at INR 383 crores.

- **Actual Results:**

['Q1', '2024']:

- As on June 30, 2023, the company is well capitalized with the capital adequacy ratio for the standalone business at 31.64% and for the subsidiary Namra at 26.32%.

['Q4', '2023']:

- The company is well capitalized with capital adequacy ratio for the stand-alone business at 32.61% and Namra is 25.62%.

['Q2', '2024']:

- Shareholder's Equity INR 470 Crore CRAR: Arman (Standalone): 35.15%; CRAR: Namra Finance: 25.75%

['Q3', '2023']:

- Capital adequacy for Arman stood at 48% while the subsidiary Namra stood at 21.6%.

- **Evaluation:**

- **Expectations Exceeded:** The management aimed to enhance the capital adequacy, and the actual results showed a significant increase in the Capital Adequacy Ratio (CAR) for Arman, reaching 35.15% by Q2 2024, which exceeds the typical expectations for capital adequacy improvements.

5. Tier 1 Capital Ratio

- **Narrative:** Management highlighted a strategic initiative involving the issuance of Compulsorily Convertible Debentures (CCDs) aimed at bolstering the Tier 1 capital ratio. The conversion of these instruments into equity is planned to enhance the company's capital structure.

- **Management's Guidance:**

- The management anticipates that these CCDs, amounting to INR 76 crores, will convert into tier-one equity within approximately 13.5 months, specifically by March 2024.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

6. Geographic Expansion Plans

- **Narrative:** Management outlined plans to broaden the company's operational footprint by entering three new markets in the upcoming two years, highlighting a strategic focus on geographic expansion.

- **Management's Guidance:**

- Management anticipates entering three new markets over the next two years.

- **Actual Results:**

['Q4', '2023']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q1', '2024']:

- In Q1 2024, the company commenced operations in the states of Haryana and Bihar, entered the new states of Telangana and Jharkhand, and expanded into Rajasthan. Additionally, they entered a new state of Telangana with 3 branches.

- **Evaluation:**

- **Expectations Exceeded:** The company exceeded its geographic expansion plans by entering five new states, surpassing the management's guidance of three new markets over two years.

7. Client Acquisition Rate

- **Narrative:** The management has been focusing on scaling disbursements and achieving targeted Assets Under Management (AUMs) while maintaining book quality and profitability. This reflects their strategic direction towards enhancing market position and sustaining growth in the upcoming quarters.

- **Management's Guidance:**

- The company is on track to scale its disbursements and achieve targeted AUMs while maintaining book quality and profitability in the coming quarters.

- **Actual Results:**

['Q1', '2024']:

- During Q1 2024, the company added 51,100 new customers, and the active Microfinance Institution (MFI) customer base stood at 6 Lakhs.

['Q4', '2023']:

- Active MFI Customer base stood at 5.4 Lakhs and added more than 30,000 new customers in Q4 FY23

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Active MFI Customer base stood at 5.1 Lakhs and added more than 37,000 new customers in Q3 FY23

- **Evaluation:**

- **Expectations Met:** The company steadily increased its active MFI customer base from 5.1 Lakhs in Q3 FY23 to 6 Lakhs in Q1 2024, adding a significant number of new customers each quarter, aligning with management's guidance to scale disbursements and achieve targeted AUMs.

8. Impact Assessment Studies

- **Narrative:** Management has outlined a clear commitment towards enhancing the company's social impact through targeted initiatives. They have emphasized the significance of measuring and improving their environmental and social footprint as a core component of their strategic objectives.

- **Management's Guidance:**

- Management expects to reduce the company's carbon footprint by 20% by 2025.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

9. Debt-to-Equity Ratio

- Narrative: Management has reiterated its strategy to maintain a disciplined approach to managing the company's debt-to-equity ratio. The discussion highlighted the company's commitment to not exceeding a 5x debt-to-equity ratio, reflecting a prudent stance towards balancing growth with financial stability.

- Management's Guidance:

- Management has indicated the company will strive to maintain a debt-to-equity ratio below 5x. This approach is designed to ensure financial stability while supporting potential future funding needs.

- Actual Results:

['Q1', '2024']:

- The debt to equity ratio stood at 3.4x.

['Q4', '2023']:

- The actual performance for Q4 2023 shows a debt-to-equity ratio of 4x, which is within the management's guidance of maintaining below 5x.

['Q2', '2024']:

- The actual debt-to-equity ratio reported for the period was 3.4, which is below the management's target of maintaining it below 5x.

['Q3', '2023']:

- The company's equity stood at INR 332 crores with a debt-to-equity ratio of 3.6x.

- Evaluation:

- Expectations Met: The management's guidance was to maintain a debt-to-equity ratio below 5x, and the actual results consistently reported ratios well below this threshold, aligning with their stated financial stability goals.

10. Sources of Funding and Cost of Funds

- Narrative: Management discussed the anticipated rise in carry costs due to holding a larger cash balance by the end of March 31st. This strategy is in response to expected slower debt volumes in the first quarter, which aligns with historical trends.

- Management's Guidance:

- Management expects slightly higher carry costs as a result of maintaining a larger cash reserve to address slower debt volumes typically observed in the first quarter.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.