



ARMAN FINANCIAL SERVICES LTD.

“Arman Financial Services Limited Q3 FY2021 Earnings Conference Call”

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ARMAN FINANCIAL SERVICES LTD.



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Moderator: Ladies and gentlemen, welcome to the Q3 FY2021 Results call of Arman Financial Services hosted by Emkay Global Financial Services. We have with us today, Mr. Jayendra Patel, Vice Chairman & MD, Mr. Aalok Patel, Joint MD, Mr. Vivek Modi, Group CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jignesh Shial, Research Analyst of Emkay Global. Thank you and over to you!

Jignesh Shial: Thanks a lot, and on behalf of Emkay Global, I would like to thank the management of Arman Financial for giving us this opportunity to hosting the call. Along with us we have Mr. Jayendrabhai Patel, Aalok Patel and Vivek Modi, the top management of Arman Financial. I will hand it over to Mr. Jayendrabhai Patel for the opening remarks and then we should open for question and answers. Over to you Sir!

Jayendrabhai Patel: Thank you Jignesh Bhai. Good evening everyone, thank you for all taking the time to discuss our financial performance for the third quarter and nine months of FY2021. We had issued a detailed press release and investor presentation for the past quarter. Hopefully, all of you have had a chance to review it.

As always, I hope that all of you and your loved ones are healthy and doing well in these unprecedented times. Indian economy is picking up stream and recovering from the COVID-19 pandemic over the last few months.

We are seeing income generating activity increasing the rural areas and hope to see them resume to pre-COVID levels as the vaccine distribution picks up. We are also encouraged by RBI's announcements to harmonize the regulatory frameworks for various regulatory vendors in the microfinance space which would stop the regulatory arbitrage among the non-NBFC MFIs, microfinance practitioners and create a more robust industry to prevent overleveraging by the microfinance clients and strengthen client protection principles. This is something that the NBFC MFIs has been requesting for some time now and is a welcome move.

On the business front the consolidated collection efficiency has picked up significantly from 87% in September 2020 to 92% in December 2020 and 93% in January 2021, this continuous progress on the repayment front on a month-to-month basis is encouraging ensures the resilience and the positive intensions of our customers.



I will now give a brief overview of our financial performance for the third quarter and post that, touch upon collections, liquidity, and disbursements in more detail.

At the end of the third quarter our consolidated loan book stood at Rs 720 Crores lower by 13% year-over-year as higher repayment rates combined with lower disbursement in nine months led to a rundown in the loan book.

As you all know being a very conservative lender, we had essentially stopped disbursements during the moratorium period and slowly started disbursement from August. In the microfinance division we initially focused on renewal loans for our existing clients based who had completed their previous loans.

This is because lot of the credit bureau data was same in the MSME and the two-wheeler segments. We have started disbursing to all customers although with a more stringent underwriting process. As a policy we did not indulge in any top ups or net off loans in any of our products to prevent ever greening of our portfolio.

Loan disbursement for the quarter stood at 182 Crores the face of disbursement is expected to reach pre-COVID level this Q1 FY22 onwards. The portfolio decline had stabilized and that started increasing.

Our microfinance and MSME portfolio stood at Rs 549 Crores and Rs 117 Crores respectively at the end of Q3 lower by 7% and 12% year-on-year. In the urban two-wheeler segment our performance was impacted by the decline in two-wheeler sales in the last one year given the challenging economic environment. However, our newly launched rural two-wheeler product has demonstrated relatively better performance reporting a year-on-year assets under management growth of 20% to reach Rs.11 Crores at the end of December.

The rural two-wheeler book now constitutes approximately 20% of our total two-wheeler portfolio, gross total income declines 16% to Rs 48 Crores due to decline portfolio and softer yields on post COVID disbursement coupled with lower booking of processing fees on account of lower disbursement.

Similarly, our net total income decreased by 14% year-on-year at Rs.31 Crores during Q3 led by rundown in the loan book. The company's continuous efforts on rationalizing operating expenses bore fruit as opex declined by 5% on year-on-year to Rs.13 Crores in Q3 while our cost to income ratio stood at 41.3% in Q3 FY2021.

In keeping with our conservative approach, we strengthened our provisioning coverage by prudently recognizing provisions of Rs.15 Crores during the Q3 further we have also taken an aggressive write-off of Rs.7.04 Crores in Q3 to help reduce the NPA burden of pre-



COVID doubtful assets in the future. Including the additional provisions recognized during the second quarter cumulative total provisions at the end of Q3 stood at Rs.52 Crores at the consolidated level covering approximately 7.2% of our loan book.

At the standalone level cumulative total provision stood at Rs.18 Crores at the end of December 2020 covering 10.6% of the total AUM strengthening our provision coverage should help us deal with any impairment on account of COVID in the future.

As a result of the higher provisioning our net profit stood lower at Rs.2.9 Crores for the Q3 adjusted for the higher provisioning on account of COVID induced disruption profit after tax would have been substantially higher.

Our gross NPA and net NPA has continued to remain low and steady at 0.7% and 0.0% respectively. The NPA numbers are after considering no change in NPA recognition after August 31, in accordance with Honorable Supreme Court's order. If the Supreme Court order did not exist gross NPA and net NPA would have been 4.1% and 0.6% respectively. In terms of capitalization, we remain adequately capitalized with consolidated net debt to equity ratio of 3.1 times.

Liquidity wise we are in a very comfortable position right now. As on December 31, 2020 we had a cash reverses of approximately Rs.127 Crores including the undrawn CC limits. Liquidity position has improved driven by the pickup in collections and the incremental debt capital raise since the start of April. Further we have also raised Rs.64 Crores at attractive rate since September 2020 to bolster our liquidity position.

As per the RBI guidelines the company has provided relief to distressed customers allowing a onetime restructure. The restructuring was provided to release MFIs and MSME customers who showed genuine distress and then EMI deduction was feasibly by increasing tenure.

Loan moratorium or additional top up loans were provided. As of December 31, 2021, 5.6% of our loans, which 3.4% were 90 plus overdue have been restructured. Now to give you a more granular breakdown on collections in the microfinance segment particularly the improvement in collections have been very encouraging as a repayment rates have been jumped from 84% in September to 91% in December and 92% in January.

In MSME the repayment rates improved marginally from 93% in September to 95% in December and in January while in the two-wheeler segment the repayment rates stood stable at 96% in December and 97% in January. With a recovery in the economy and pickup in repayment rates we now till comfortable to scale up our disbursement gradually and carefully, hence going forward we expect pre-COVID growth in disbursement from Q1



FY2022 onwards. Further to aid disbursement the company has expanded its footprints with decision to open, 10 branches in Haryana in January 2021, also added few more branches in Rajasthan with a plan to further 10 branches before the fiscal year end.

Finally, to conclude, I would like to express my gratitude to all our stakeholders for their continued support during these difficult times. A special note of appreciation for the company's field staffs and also other team members who have perseverance and untiring efforts are all the sole reason why we have been able to report steady improvements in repayment rates since June.

Overall, our confidence to successfully navigate our way through the storm gets stronger every month and every quarter. I would now request the operator to open the floor for questions and answers. Thank you all.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Mantri from 2Point2 Capital. Please go ahead.

Amit Mantri: Sir just wanted to understand this GNPA that we had reported of 4.1% in this the restructured book is also included the 3.4% which is 90 plus overdue or is that separate?

Aalok Patel: That would be separate.

Amit Mantri: If that is more structuring then the GNPA number would have been 7.5% is it.

Aalok Patel: 7.2% or something like that actually, yes, it is little over 7.2%.

Amit Mantri: So GNPA including the restructuring is 7.2% okay something like that?

Aalok Patel: It is little over 7% whether it is 7.2% or 7.3% I do not recall at this point.

Amit Mantri: What percent of the loan book has not paid a single EMI?

Aalok Patel: In microfinance out of 3.2 lakh customers today we have about 18000 customers who have not paid us anything so that is above 5.6% in microfinance.

Amit Mantri: In terms of loan book how much would that be?

Aalok Patel: That is what I am saying so in terms of loan book it was lower. It will be slightly lower than that it is about 4% in terms of loan book.

Amit Mantri: In microfinance it is 4% of loan book which has not paid a single EMI?



- Aalok Patel:** The good part is because the restructuring is doing some fruit so out of the customers get, we manage restructuring that has not paid us a single dime since this COVID started about 27% paid their first installments in January. So I mean 27% to 30% is what we, I mean that is as far as I am concerned it is nothing to right now about of course I would have preferred the number to be much higher but remember these are customers who did not pay you a dime for even now the better part of nine months so getting them started is actually a good sign so restructuring was in some way effective the overall estimate is that this month we might manage closing at right around 40% of the restructured loans to get the repayment rate of the restructured loans.
- Amit Mantri:** What about the total write-offs in this entire financial year?
- Vivek Modi:** The total write-off both the companies I mean on a consolidated level have been Rs 7.04 Crores of which about 80% about Rs 5.30 Crores or Rs 5.80 Crores would have been in microfinance.
- Amit Mantri:** I think in this quarter it is around Rs 3 Crores is it?
- Vivek Modi:** Yes, this quarter it is Rs 3 Crores and Rs 5 Crores.
- Amit Mantri:** Sir what is the estimate I think because it is now, I think it has been sometime so now what do you expect the COVID impact in terms of credit cost on the overall pre-COVID book that we have?
- Aalok Patel:** It will definitely be in the single digits, but that being said I do not want to give a percentage on it but probably in a higher single digit.
- Amit Mantri:** Have you also, you have provided for about 7.2% of the AUM you have already provided and 1% is write-off so already 8.2% is what do you have already received?
- Aalok Patel:** You have to understand not all of that 7% will be available to me for COVID asset right there will be some that I will have to keep on non-COVID assets as well for example there will be some on standard assets so not all of it will be available to me when the time is there to write-off against COVID related disruption assets right.
- Amit Mantri:** So, there would be further provisioning in the next few quarters?
- Aalok Patel:** As far as Arman and the two-wheeler and MSME we have more than sufficient provisions. I do not think we are expecting to take any more provisions that are in place. For micro maybe one more quarter will be required.



- Amit Mantri:** The net NPA what about that you are paying these are if we improve more than provision then the net NPA number should be just to zero right and you have reported about...?
- Aalok Patel:** Yes, so that was my question to when I saw it. The thing is see when you switch to ECL at every bucket you have to have a separate provisioning so when you talk about 90 plus bucket overall provisioning might be enough but then 90 plus bucket provisioning will be that 0.6% Vivek you have a better way of explaining it.
- Vivek Modi:** Amit, in terms of the MSME and two-wheeler book, the provisioning would be close to about 70% so the net NPA would be the balance 30% will be translated to about 1.4% or something and in terms of the microfinance book we have and turnout to be about I mean low single digit in terms of percentage, the net NPA that is without the Supreme Court dispensation being available. On the Supreme Court dispensation to obviously I am sure like everybody I think we would be 100% covered on the gross and net, I mean, on the net NPA would be zero.
- Aalok Patel:** Just to put it another way prior to NBF ECL the only provisions that were being created was on 90 plus overdue assets. Under ECL you also must provide of course a lot lower provisioning, but you also have to provide for standard assets, you also have to provide for 1 to 30 and 30 to 60 so counting all of those provisions, of course you will be covered in the entire NPA but till if you just considered the provision against 90 plus assets you will get that net NPA provisioning.
- Amit Mantri:** If you look at microfinance in January despite restructuring, we are at 92% collection efficiency so how much of this impact that we still have this huge gap is because of the Maharashtra book and how much would be non-Maharashtra impact so how much would be the collection efficiency in Maharashtra for example?
- Aalok Patel:** I will give you December numbers we have Gujarat at 95%, MP at 90%, Maharashtra at 85%, Rajasthan at 96%, and UP at about 93%.
- Amit Mantri:** Is it collection efficiency numbers including arrears or this is billing efficiency?
- Jayendrabhai Patel:** No, I mean this would be in to so you mean like overdue amounts.
- Amit Mantri:** Yes.
- Aalok Patel:** Yes, of course I mean this would include over you would like to count it somewhere like it will be get one during this month. So those would be included yes.
- Amit Mantri:** But from a prepayment and all that will not be included?



- Aalok Patel:** Amit the prepayment will not be included but what happens is the simple way that we use is that let us say there is a prepayment of Rs.10 on an original demand of Rs.100, so the original demand is firmed up by 10 to the denominator and numerator both are utilization, you know the repayment rate actually this is the ratio which I do not particularly care for because there are multiple ways to calculate it and see according to your question so if you are counting arrears for example so if I do not count it somewhere where do I either I have to change my repayment rate of previous months or I will have to count it in this month right so honestly we just have to kind of agree on one methodology and stick to it to make a comparable from month-to-month.
- Amit Mantri:** I am just confirming them so on the other case you have a due this month and you have Rs.90 for this month and Rs.2 from previous month you are calculating the collection efficiency at 92%.
- Aalok Patel:** Yes, so you are basically using Rs.92 as the collection amount divided by Rs.100 and Rs.2. So, for active clients let us say customer has an installment of Rs.100 and they are overdue two installment so overall in their current month there would be Rs.100 due for this month's installment and another Rs.200 due for overdue installments in this example. So, for me to collect I would have to collect more than a Rs.100 to impact as what you are saying so that will typically not happen like a customer is not going to come and give me Rs.300 if they pay me Rs.100 against what is due and Rs.100 then obviously it is recorded against this month demand. For me to collect on the arrears it would have to be collecting more than 100 from that particular customer.
- Amit Mantri:** Thank you very much. Let me come back in the queue.
- Moderator:** Thank you. The next question is from the line of Amit Mantri from 2Point2 Capital. Please go ahead.
- Amit Mantri:** Just a couple of questions, one is on your liabilities NBFC as the promotion has declined from 29 to 21 now we have been attending all the calls of these NBFCs that you borrow from you put picture of the NBFCs so they still to be now refocusing on this segment or completely stop lending to other NBFCs so what I just seeing that incrementally our it is when they say lending to like I have to now look at other sources of funding?
- Aalok Patel:** See to be very honest with you one savings raised and for us is that liquidity has not been an issue. In fact that certainly get far more than what we can actually take so right now we are in a situation where we get to pick and choose so obviously we will go for the lower kind of, lower IRR kind of low cost which are coming from banks and they are coming from BFIs that is not to say offers from NBFCs are not coming they are coming but for now that seems to be other better alternatives or cheaper alternatives rather I should say.



- Amit Mantri:** What has the cost of funding would have moved towards the last few quarters what is it now?
- Aalok Patel:** Out cost of borrowing is not higher returns, has come down.
- Amit Mantri:** What is it exactly?
- Vivek Modi:** Amit on a quarterly basis it is very difficult to calculate but what has been seen is that lot of resets have happened for the NCLR with the PUS banks and on a large number of loans which were existing it has come down by anywhere between 75 BPS and 125 BPS so whatever we have demonstrated anywhere at least a 100 BPS lower plus as Jayendrabhai just pointed out we have been able to get a lot of low cost funds in the sense AFIs like NABARD or SIDBI. So overall I would say our cost of borrowing would be approximately around 13.25% it has been somewhere around that neighborhood right now.
- Amit Mantri:** On the securitization and assignment that also thing, is that banks are now reluctant to especially in MFIs to do that so are you seeing that?
- Vivek Modi:** We have seen a lot of active interest, Amit. We are at every quarter time we have as Aalok pointed out more active interest than you would probably be willing to take your drawdown right now hence we have a more situation of that we can pick and choose from the lowest cost of funds maybe.
- Amit Mantri:** And any updates on the equity rate?
- Aalok Patel:** No, updates were reported now.
- Amit Mantri/ Aalok Patel:** So now on the growth front so microfinance you have now slowly started giving to new customers which and largely till now it has been two existing borrowers were completed repayment but of MSME is and two-wheeler you are still sounding quite that you want to go slow there so while when we look at the collection efficiency numbers MSME and two-wheelers is where the numbers are quite good versus microfinance so we are having and doing a lot of are still now the issue was see lot of the credit dues data that we were getting was so for you need to evaluate a customer especially for two-wheeler let us say lot of my primary reliance is going on the credit bureau data so I mean what you do in that case you maybe you up the down payments, you up the underwriting, and those kinds of things. The same thing was there with MSME so a person could come with the completely clean credit bureau report, but you do not know whether you have defaulted actually defaulted at some other company or not. So, it is just required a sort of a deeper dive into the numbers of the customer but now we are lot more comfortable of course that still credit bureau data that Jayendrabhai has also mentioning that is getting back on lying and companies are of course



reporting maybe not as much as enthusiastically as they were pre-COVID of course people are still restructuring and things like that but at least the data available from the credit bureau side is a lot better.

Amit Mantri: Will you now be starting to lend aggressively to MSME?

Aalok Patel: I would not call it aggressively, but the numbers are increasing so pre-COVID maths was about Rs 17 Crores, last month was about Rs 14 Crores this month will probably reach about Rs 15 to Rs 16 Crores so by this month or next month we should be back on pre-COVID levels.

Amit Mantri: Can you give a number of what percentages of your MSME customers are already borrowing from someone else from either MFI bank or anyone else?

Aalok Patel: I mean I would really have to pull that out I do not know it on top of my head. Typically speaking in the MSME space almost 30% would be no debts so 70% would have other loans.

Amit Mantri: Can we safely assume that 30% of course in borrowers 70% surely have borrowed or have outstanding for somebody else?

Aalok Patel: Yes.

Amit Mantri: What percentage would be say your existing loans, when we are now shifted to the MSME book?

Aalok Patel: Those are few I mean less than 5%.

Amit Mantri: Maybe a year back one of the things that was planned from the growth side was the LAP or a rural LAP that you had mentioned so and what is the any plans going forward on that?

Aalok Patel: No, I mean I think if you recall we had shared that for a bit post different kinds of prices and of course we have not taken it of our shelves post COVID, but this is definitely something that we can explore a year now starting Q1. We have this exploring other individual kind of loans in the MFI segment. So, these would be the customers that were with you for past three, four years and kind of similar to the MSME but of course the ticket size would be slightly lower.

Amit Mantri: Now after both Arman and the industry have taken this COVID hit and this has come not just a few years and after the demonetization hit what does it mean for the microfinance business does the business model have to change in any fundamental way or is it continue to be the same.

**Aalok Patel:**

I do not know, that is a very practical one and philosophical question. To a certain extent after and there is no good crisis gets wasted in terms of microfinance so there is always something to learn and improve I think post demonetisation also lot of people shifted towards more cashless disbursements and things of that sort I think the next bit focus for the MFIs will be cashless collections but that is a challenge which is exponentially harder than cashless disbursements. So already we are putting for the efforts in doing that switching over to UPI based payments the response right now is very limited from the customers. Honestly, we have tried to tie-up with many of the payments players as well such as FINO payment bank where the customers can go and deposit the money at their local merchants or FOS themselves can do it. I mean overall all said and done even post this crisis it seems that our customers are definitely resilient, I mean nobody enjoys seeing numbers like 92%, 93% repayments but that means still 90% of my people are back to track and they are repaying and remember you are dealing with the most vulnerable people if you and I we lose our jobs we can probably pay our EMIs for three, four months out of our savings. This is not the case with our customers. If their income stops then the EMI stops so overall, I guess my confidence is somewhat boosted that this is we called demonetization as the worst-case scenario this is at the expense of using the same terminology exponentially worse than what demonetisation ever was and even then, if we can get away with maybe a year worth of profit, I will not say this is a resilient sector.

Amit Mantri:

But even now when we talk to lot of the other players a larger industry player be it Credit Taxes, Ujjivan or any of the other guys they are still talking about the aggregate credit cost of 5% maximum and not more than that which puts set in the demonetisation category and not exponentially higher at least. So what is disconnect with while you are saying that this is much, much bigger and the industry the larger players were saying that similar kind of credit cost as demonetisation?

Aalok Patel:

I think if you ask for people's opinions you are going to get just that different opinion. I am simply giving my opinion. Ujjivan has. None of us is right or wrong but to say the magnitude of this event is in line with demonetisation, little bit out there for me personally but 4%, 4.5% hit on a static pool basis during demonetisation, so of course I really do not think that our losses are going to be limited to 4%, 4.5% on a static pool basis. Now by the time now for all the JVs is there in place if we grow to a level where the denominator increases sure maybe there might be 4.5%, there might be less there might be more who knows. Anyway, I mean collect will continue for it already we have an RO structure to similarly what we did with demonetisation but still attempting to recover even 18 to 24 months after they were and so it is not like even if we write it off, we are going to stop attempting to collect money right that is not going to happen in the next, I think for a long time to come.



Amit Mantri: You are saying that even for those 90 plus overdues many people are coming back after restructuring so which probably was not, you are not seeing that kind of recoveries post demonetisation maybe, but it seems that there might be a longer repayment cycle for many borrowers?

Aalok Patel: In fact the entire restructuring philosophy is behind that model only that given the kind of pandemic situation and wherein it has almost extended to nine months now and if you get them a breather there is definitely a probability that they might want to fall in line over a period of time because microfinance funding has been there for, factual source of funding so they would definitely want to fall in line once their incomes kind of replenish over a period of time. So, the hard part is in micro is of course losing that discipline, so you constantly have to deal with that, but from this at least 1.5% to 2% of our customers and who were to be found as and their house is locked and they are what we call absconding in our terms. Those EMIs are very difficult to recover. I mean we cannot even find the customer. They have migrated from their selves so I do not know what exactly the situation is so those will be amongst the 4%, 4.5% which have not started here because we cannot even find them.

Amit Mantri: Thank you very much and good luck hopefully for next quarter onwards things will become normal.

Aalok Patel: Yes, I think so. I think the overall my overall goal is that from April 1 everything getting you would set reset button, and everything start fresh again and hopefully forget that COVID ever happened and really kind of move up from a business perspective.

Amit Mantri: Just last question what is the growth we are looking in next year?

Aalok Patel: Ask me again next quarter concall. I am not sure yet. We are working on it but there is lot of challenges. Other than the secured basis what would happen is that 2021 is going to be a slow year in terms of disbursement so again though we want to show growth based on what happened in 2021 or should it be a almost like a full blown exercise to see what can be achieved in 2022 is something maybe another 45 days of a month we have kind of move on from March things would move, maybe around 8 to 10 branches will probably never start disbursements again those will be the worst hit areas so at least the maybe it might not start again or we have not started for a long time that will request us to replace those branches with other disbursing branches. Of course, I will have to keep the older one's banks so that will increase the operating cost and stuff like. There is a lot of consideration, lot of things to consider, but we are still working on it.

Moderator: Thank you. The next question is from the line of Debashish Negi from Digitian. Please go ahead.



Debashish Negi: Sir see COVID is once in a hundred-year kind of black swan event and you could not have done anything about it and now you are putting all the nuts and bolts so that you provide adequately for this year and going by the collection trend it is improving slowly but steadily which is a good sign and you are putting all the pivots for next year growth. Now my question is from next year perspective in terms of growth see the underpenetrated MFI regions whatever I know is Maharashtra, Uttar Pradesh, Madhya Pradesh, in these places what is we are plan for opening branches for next year and what is the reason of opening up in Haryana?

Aalok Patel: See Haryana was very specific. Specifically, we were thinking about opening in certain areas of Haryana especially around the UP border. So western UP for ourselves is performing amazingly so right now we have about 16 or 17 odd branches in Western UP and I think about 11 or 12 of them have already reached a 100% kind of a repayment there. So that has been performing quite well and I have a good team down there also few people who are highly experienced from Haryana. So, it was a good time to expand into Haryana and it seems that lot of the other MFIs in the areas that we have opened or are planning to open have fared quite well during COVID as well you know as far as the repayments are concerned. So, the other places that they are opening it is in Rajasthan so Rajasthan has also performed very well post COVID. The repayments rates for us have been 96% odd for quite some time now and this was basically the Rajasthan was one of the first states for us to recover on a 90 plus kind of repayment rate post COVID. So, these are the two areas that we are thinking now. Rajasthan has a lot of scope because region who did there last year. So, there are lots of branches that you can open there. Haryana, I believe will be limited to probably a max of 10 to 15 branches. Other areas are in under consideration so there are lot of areas in Bihar especially in the North Western side which have performed quite well other areas might not have performed too well so I am not sure. Gujarat we are probably every place that we have wanted to open branches we have opened. Maharashtra, I do not know. I highly doubt that I am going to open any more branches in Maharashtra for at least another year or so. MP we can consider. MP the primary area that has been impacted is the Jabalpur region, rest of MP has performed quite okay. So other areas we can consider. Just try to stay away from Jabalpur or any of the impacted areas. Basically, I mean COVID you are right it is a black swan event. Nowadays I have seen so many black swans that all I see is white swans, but the fact remains that it also gives you a lot of good data. My prediction is that the customers that have continuously repaid even during the COVID disruptions that will lend a lot of confidence to the other lenders especially people like myself also. So, it might be feasible to give a higher ticket size to those customers or move them towards more of an individual loan which is what our thought process is to for the individual loan side in the microfinance division.

Debashish Negi: This is a beautiful business to be in and COVID has actually distorted all the figures but before COVID Arman has been on all parameters has been doing exceptionally well for the



last three to five years. You do not get a business where the PAT grows at more than 40% NIMs grows at more than 40% you have a ROA of 5%, 6%, ROE of 25%, 30% consistently now the question is earlier the black swan events whether it is demonetisation, loan waiver, IL&FS crisis, used to happen this black swan, the black swan events the preferential event has off late reduced, earlier it use to be one thing maybe four, five years now it looks like once in every two years so how you have prepared yourself for it does not it make sense you over provide for such events then you assume that ROE is not 30% maybe 25% and provide for it is a little more than normal.

Aalok Patel:

See there are definitely policies that you can frame to kind of expect regional level black swan events which we do so maybe any district we do not have more than a 5% portfolio and on any one branch if it reaches Rs 5 Crores and we split that branch so from a risk framework perspective we definitely take steps to reduce risk from a geographical perspective as much as possible so if there are certain bias that erupt in certain regions hopefully that one specific event is not going to impact us too much but when you talk about a national level event like demonetisation or a global level event like the present COVID, I really do not see what I could have done different in FY2019 or something to really prepare myself. I mean short of taking pandemic insurance I am not exactly sure what we could have done differently but yes as far as provisioning is concerned, I think you are right that it is probably safe to build up provisioning let us say from 1% to 2% or something like that. In the MSME we have already started taking more provisions when we needed even before COVID because there was adequate profits and everything was in place and maybe it was considered to be a slightly riskier business although I do not see how given our performance so that yes definitely once we return back to profitability that is one thing that we can consider is a higher provisioning but against the event like this when you might have to write-off 7%, 8% I mean how much I cannot keep a 7%, 8% provisioning on my book right that is impossible.

Debashish Negi:

COVID is an exception I am not talking about COVID I am talking about more frequent kind of black swan event apart from the COVID whatever has happened in the last four five years?

Aalok Patel:

I said this pre-COVID also and I am saying it now that even on our pre-COVID the time of microfinance with a 100% repayment rate has gone. It is no longer there. It was there because everybody was targeting low hanging fruits and customers at a different kind of a culture where they were not used to getting easily available credit. Today the culture has changed then credit is readily available and there is lot of competition also so when you add all those things into the mix, it is even if COVID did not happen you could not reasonably extract a zero-loan loss kind of a figure. It just was not going to happen. So, in any case you were ready to accept maybe 1%, 1.5% loan loss on the micro book going forward we can probably provide for 2% or something like that on a steady basis.



- Debashish Negi:** Last question Aalok before COVID if you were to bifurcate the growth of MFI into ticket size and customer count what would be the split?
- Aalok Patel:** I forgot what it was but we have done that so if you were to split the CAGR between the customer growth and the ticket size growth so ticket size growth was I believe about 14% and it was 26% in the client side growth that is in one of our presentation if it is not in this one also or it might be in the IR presentation it will be on our website but I am pretty sure it is 14% and somewhere around 25% basically between ticket size.
- Debashish Negi:** Ticket size and other borrowing costs.
- Aalok Patel:** Yes, that is right.
- Moderator:** Thank you. The next question is from the line of V Srinath from Bellwether Capital. Please go ahead.
- V Srinath:** Just wanted to get some few maintenance questions out of them first in the 5.6% restructured is this completely for the MFI business or have we restructured some MSME in two-wheeler customers also.
- Jayendrabhai Patel:** Not two-wheelers but that is including MFI and MSME customers.
- V Srinath:** Is it largely MFI right?
- Vivek Modi:** Yes, the amount will be largely the MFI, yes on a percentage level it will be, in terms of percentage levels in Arman the restructuring has happened to about 1.98% while in MFI it would be about 6.5%.
- V Srinath:** Can you come back again the 6.5% of the book has been restructured for MSME?
- Aalok Patel:** For microfinance.
- V Srinath:** This 5.6% minus 3.4% that the DPD 90 structured is 3.4% so the 2.2% residual are paying customers they are paying them.
- Aalok Patel:** They are paying customers, but these are customers who are themselves requested some kind of a cut in their EMIs because they are facing hardship for every month the struggle is there, so they told they are not paying on the center meeting date but they might be paying 10 days, 15 days later or the FOS has assumed say okay these people can become regularized if the EMIs were cut down so those are those customers. Those are basically genuine hardship customers who need some break in the EMI amounts.



- V Srinath:** We would love to say this to this 2.2% has no willingness problem it is genuine hardship which over a period of time since they are all essential services the cash flow should come back and that is an area of which one should not worry too much about right?
- Aalok Patel:** No, I would not worry about the restructured loans which are sub 90 days DPD ones so those are paying it in fact for us it amounts to higher interest went on the customers overall, so I think net impact is okay as far as the balance sheet is concerned.
- V Srinath:** So, value in a way is the 4.1 plus the 3.4 that is the 7.5.
- Aalok Patel:** Yes, correct.
- V Srinath:** In these 18000 customers who have not paid even one installment could you kind of give a flavor like, so you had made a mention to Amit's answer that about 1% of loan book is completely absconded or just some flavor is this largely 18000 coming from Maharashtra or is it largely willingness issues or some broad flavor as to what do you see the problem with these 18000 customers?
- Aalok Patel:** Honestly, most of them have been disrupted completely out of their livelihoods. A lot of them were in hardship..So, just to give you an idea about 50% of those customers are in Maharashtra, rest of them are in other states and I think probably the largest ones are the absconding customers but all of them I would say are disrupted. We do not really run into a lot of mean full defaulter is in microfinance. There might be a 1% or so which are willful defaulters by far and large their income has been disrupted.
- V Srinath:** But even in demonetisation Maharashtra had issues. What is your take on the state has been there has been persistent credit cost? I am not even only talking about it but at an industry level just want to get your feel or is it one of the states where one should kind of completely avoid?
- Aalok Patel:** In Maharashtra during demonetisation the losses were basically limited to Vidarbha region or Amaravati region and those areas which is like the eastern part of Maharashtra so that time we made a call that we are never going to go into those areas to begin with. Other areas which saw a loss were like the South of Maharashtra and stuff, I am sorry Sangli and places like that. So anyway, we are not in those areas. Basically, until June of 2019 Maharashtra was the best performing state that I had. They always made their targets, and the loan losses were one of the lowest in that state. So, this is the kind of business where fortunes turn fast. Let me give you another example during demonetization one of the worst impacted areas was in Gujarat. That has been performing beautifully right now. In fact, almost in those regions which were impacted fully in demonetisation I have almost have a 98% repayment rate in those areas because people continue to sell milk, so there was no



issue there. So, the gurus of the industry will make predictions and hindsight is always 2020 but we have lot of these things are very much unpredictable the only when you all need these that can you do a kind of a hindsight analysis is what went wrong but it is very difficult to predict these kinds of things that Maharashtra will turn bad or it is good or anything like that right.

V Srinath: This is basically in that right so income disruption was much higher is how I should be reading it. It is not a cultural thing.

Aalok Patel: It is not a cultural thing during in Maharashtra also the issue was that the lockdowns and stuff continued for a much longer time and initially there was a lot of political issues as well now that has gone away now but the damage was done to an extent. So that is another reason why we are seeing a lot of issue in Maharashtra, but I think there is an improvement like in the last two to three months it has the repayment rate has been improving the highest in Maharashtra obviously because of the low denominator but over a period of time it has consistently been improving so for example in November it was about 80% repayment rate, it went to about 85% in January so we are still getting improvement there.

V Srinath: Again, on a question that had come out earlier in the previous concall and so you had spoken about the stale data in the credit bureaus so just want to understand is this bureau data issue largely because of the Supreme Court order and until that is solved this bureau is going to be a problem?

Aalok Patel: Yes, so that is one of the issues. Earlier on the issue was moratorium so nobody was really reporting anything. Post moratorium people were still kind of trying to fix their systems and stuff like that, so lot of the reporting was not being done by many of the companies on time. So, I am not saying it was a complete 100% issue but a 50%, 60%, of the data was not being updated correctly. So if you look at like the CIBIL report for example it gives you what date the report was last updated so that is what I mean by stale because the last update would have been if I get it in September the last update might have been in February or something like that, but now today also I mean while the reporting might be happening, I am not sure what the individual policies are for different banks or different NBFCs. Are they reporting NPA as it is with the credit bureaus or are, they reporting the 90-day DPD but not reporting them as NPA or are people continuing to do what they were doing before is really anybody's guess today it quite odd to be honest? So, there is no consistent methodology for reporting on credit bureaus vis-à-vis the Supreme Court order.

V Srinath: Basically, as the bureau data becomes better then that is when you are on liquid external customers so large part of the growth or the disbursements now will be targeted towards internal customers because you have the data with you.



- Aalok Patel:** Nowadays it is much better people have started reporting. So, the NPA customers might be different but if I see the customer's data has been updated and there are like three or four different lenders that they might be dealing with and all of them are okay and on time, that is fine. I can lend them money. What I was saying that post August when we started disbursements the initial two three months we were concentrating mostly only on our own customers because there were enough of those that had matured also so we could service them and second part was we were very busy collecting also so renewing your old customers is a lot easier than going and finding fresh customers for example so there were lot of advantages in just renewing your own customers at that time but today that is not the case. Of course, the weightage is still there but we are servicing customers now as well and that weightage will increase as every month as time goes.
- V Srinath:** Couple of more questions one question is on the Rs 7 Crores write-off just want to understand how does our write-off policy work as in are we writing off the DPD zero accounts who have not paid anything till now just want some clarity on that? That would be great.
- Vivek Modi:** Generally, I mean the write-offs would be driven by the DPDs and the customers which have not paid for us to us for the last six months or so and are falling in the neither DPD plus.
- Aalok Patel:** Yes, so this Rs 7 Crores is mostly the people that we were having problem with even pre-COVID and post COVID they have not paid anything, so it was basically back to they take them after books.
- Aalok Patel:** Additionally, a very minute number of cases that we have not been able to just be made it finds customer at all and we finally discover that this may not go on to a different state only it is there so on those selective customers we have already taken a call.
- V Srinath:** Last one to be on the MSME segment I think the collection numbers, the NPA or the restructuring everything has been a positive of course it could also been like last time you had said that geographically you are not present in Maharashtra and maybe that is why but generally on a get a feel of that particular business would it be the time for us in the next cycle to kind of scale it ahead of microfinance or those kind of significantly disproportionately scale that business given the very positive trends we have had in this cycle just want your very broad view?
- Aalok Patel:** Definitely, there I mean firstly I would like nothing more than to expanded MSME. So, we have already plans in place to open more branches. In fact, we have already opened couple of branches this month itself. The only issue is say if not as easy as it is in and maybe I will use the term easy mostly, but in terms of difficulty to expand in MSME it is not higher than



in microfinance but as I had told you, you have to take the specific region once you open a branch it takes a while for them to get in the groove of things, there are certain occupations that happened in certain areas which the field team needs to get acquainted with. It is not as I would say it is not as easy as is at microfinance where you have a kind of a McDonald type product where it is quite easy to find customers and to underwrite them and to disburse the money MSME is a little bit trickier to expand the team.

V Srinath: Just use the word individual loans in MFI could you kind of address that opportunity also broadly?

Aalok Patel: This is what the lot of people are doing and this was actually what is the MSME division was actually envisaged as in 2017 until it kind of put a life of its own trying to target the microfinance plus kind of people who were slightly higher in their mind cycles, but still you had the set of customers who have been with us for three cycles, four cycles, five cycles and these are customers who have repaid everything on time during COVID as well so I would say my confidence to lend them on an individual basis the slightly higher ticket size let us say Rs.50000, Rs.60000 becomes a lot easier so those are the kind of people that we are targeting.

V Srinath: This opportunity would be like say 15000, 20000, 30000, order worth 3 lakh plus clients some just kind of very broad understanding of who have survived these three cycles?

Aalok Patel: We had just put in the software and stuff in place right now. The goal is to start disbursing from next month in March. Really it will be a pilot for a good six months, so I do not want to set out any expectation, but I do not foresee it is being more than 10% to 15% of our overall book.

V Srinath: Thanks, Aalok. Thanks, a lot, and I would like to thank your team for transparent disclosure of policies also. Thanks.

Moderator: Thank you. The next question is from the line of Vinay Ambekar an individual investor. Please go ahead.

Vinay Ambekar: You just mentioned Aalok that you see a possible provision requirement continuing for this quarter also that is Q4 but since we are already halfway through can you indicate what is the level of provision that you envisage could come up? Could it be similar to what happened in Q3 which was roughly about 2% of the book or could it be lower or something?

Aalok Patel: I do not know. It is a little early to tell you absolutely all this, but in microfinance we are at about 6% right now. If I say we want to bump it up to 8% or 8.5% or something along those lines then we have about 2%, 2.5% seems reasonable to me now.



Vinay Ambekar: So, there are 2%, 2.5% of the microfinance book not because when I calculated Rs 15 Crores.

Aalok Patel: I think for MFI the MSME is I think we are probably over provisioned at this point.

Vinay Ambekar: So, in absolute amounts it could be lower than Rs 15 Crores.

Aalok Patel: On a consolidated basis yes.

Vinay Ambekar: Second point just I do not know I got dropped off in between so I do not know if this was addressed but then we were discussing collection efficiency a lot of other MFIs are giving data on like-to-like basis so for example what was the amount due in the month of January versus out of that how much was collected so excluding arrear and I believe that number earlier in the earlier presentations and earlier calls so it is just a surprising to see that now we are saying that it includes arrears also can you explain that a little?

Aalok Patel: Vinay, just to understand as of now everybody would be including arrears as far as all the people that I talk but otherwise where do you put it. I mean you put it next month, in the previous month, do retrospective so let us take it somebody was overdue in October and I am reporting January figures to you and that October overdue comes back to me, do I retrospectively go back and change October figures or do I put it in January so it is where should I put it and as far as my people are concerned see I cannot have one policy for my investors and another policy for the bankers and a third policy for the employees that will be chaotic. I want my people on the ground level to collect arrears and when they are incentives, and everything are tide to repayment rates obviously you would want to include that. I do not know the point. Vinay what happens is say this month demand also includes this month's even the cases which are in arrears have demand this month.

Vivek Modi: So, applying arrears in terms of application of funds is a different thing but in terms of what was the current month demand even including the overdue customers and against that what are we collected is the thing that which many the customer people have set and reporting that way I think put into that.

Aalok Patel: Yes, and it is not going to be a very large number see as I told I do not know if Amit asked this question or not, but as I mentioned earlier for me to count it in arrear these are the customer would have to pay this month installment and something more than that to cover his overdue so that is not going to happen and when we talk about arrears of course we are talking about on a post moratorium basis. So, moratorium is obviously not going to be included in this so that is something different. If somebody wants to pay that that is considered an advance or a prepayment and in that case the denominator will change of the repayment so that will be a net off effect. We were simply talking about I thought that



would be I mean for me it is an encouraging sign if the arrears are coming in right that means since the customers payments are a lot better.

Vinay Ambekar: No doubt. Only for some consistency of understanding, if I can just put a number to it for example if the EMI is Rs.5000 and for two EMIs he has not paid so the amount which is due from the borrower becomes Rs.10000 so is Rs.10000 included in the denominator?

Aalok Patel: No, let me put it this way. If a person has a Rs.5000 EMI and these two EMI is overdue so this total demand of this month will be Rs.5000 that will be the denominator and if I collected Rs.5000 so that would be 100%. Whatever he did not pay was deducted from the previous month repayment rate right. If he pays me Rs.10000 this month then obviously 10000 will be included because I do not want to go back and change it, I cannot go back to October and what November and take the repayment rate retrospectively so when would I account for that extra Rs.5000 that the customer paid.

Vinay Ambekar: Sure, so if you pay any amount more than 5000 then will you include 10000 in the denominator or no?

Aalok Patel: No, not in the case of arrears because in the case of arrears when the denominator was discussed if at all the repayment in advance.

Vinay Ambekar: So, if I were to exclude arrears what would that be 1%, 2% on a rough broad number?

Aalok Patel: Roughly probably not more than 1% or 1.5%, 2% maybe at the most that it takes it is not a very large amount. It is not going to provoke the figures by a huge amount.

Moderator: Thank you. The next question is from the line of Debashish Negi from Digitian. Please go ahead.

Devbshish Negi: This new regulatory framework puts in the NBFC MFI on the same level playing field with banks and SFBs now is this a small thing or is it a big thing given that competitive intensity will slightly be reduced, and credit discipline will improve how you see it from an operator perspective and Arman perspective?

Aalok Patel: From a microfinance perspective, I think that I mean I do not know what is considered these are small, but I would say this is definitely something that is worthwhile to or on an operational basis it is probably a large thing, and this is something that we were pushing for a quite a while. I think if you heard me talk about the CRL the code of responsible lending that is what our SRO MFIN was trying to get everybody to sign right including the Bandhans and the SFBs of the world because there was really a regulatory arbitrage so we were as MFIs we were respected that okay you cannot be a third lender and you would have



to keep the overall loan side below 1 lakh or 125000 or whatever it is so there were all these terms and conditions but there were no other terms for like the SSBs or the banks in general or the non-MFI, NBFCs so they could come in and kind of do anything they wanted now that is fine but if you want to be conservative like I do let us say I lend some customer Rs.40000 what is stopping men from coming in and giving that same customer Rs.1.5 lakh. So overall my risk increases even though the person who came in after me decided to take the additional risk of the customer. So, the hope is that with the common code everybody is at least I know what to expect. I know okay as a microfinance customer this guy cannot lend more than Rs.125000 or whatever the framework that RBI comes of it. So at least for as far as the MFIs are concerned, I think we were trying to get this done for a while. The RBI took its time but of course eventually agreed with us and even before this came out, we had launched the CRL which lot of the practitioner signed also to their credit including SMS because we are all of course swimming in the same pool so obviously we would want the client protected, we want our own portfolios protected against kind of rogue behavior by some of the practitioners.

Debashish Negi:

It comes with immediate effect?

Aalok Patel:

No. I mean they have just proposed it right now. I do not know when the guidelines will come, still if I can put it is since that the white paper level whether it is being discussed we will see.

Aalok Patel:

Now that they have announced it will come eventually. When it would come, I do not know that is okay I mean it is not an emergency kind of a thing that we needed right away, but at least it is forth coming.

Debashish Negi:

Thanks, Aalok. Very detailed presentation as usual and thanks to you and your team for a very open and transparent conference call and answering all the questions so candidly. Thank you so much I tried really, I can get what I can maybe I appear as very pessimistic.

Aalok Patel:

Thank you so much we appreciated I think if there is any more questions, I will answer otherwise we can probably end the call.

Moderator:

Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Jignesh Shial from Emkay Global for closing comments.

Jignesh Shial:

Thanks, a lot, Aalok and Jayendrabhai and Vivek for the detailed update and all and all the best for the coming quarters and all. Thanks everybody for attending the call. So, we will end the call here. Thank you very much.

Aalok Patel:

Thank you everyone.



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