



**Arman Financial Services Ltd.**



**Arman Financial  
Services Ltd.**

Q3 FY21 - Investor Presentation  
February 2021

**from ACCESS to INCLUSION**

# DISCLAIMER

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**Arman Financial Services Ltd.**



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# Financial Performance Update - Q3 & 9MFY21





# Q3 & 9M FY21 - Financial Performance Highlights



Total AUM declined by 13% YoY to INR 7,200 Mn (Q3 FY21 AUM: INR 8,238 Mn)



Shareholders Equity Stood at INR 1,843 Mn in Q3 FY21

*Consolidated Debt-Equity Ratio stood at 3.1x on 31 December'20 (exclude direct assignment)*



Pre-Provisioning Operating Profit declined by 20% YoY to INR 181 Mn in Q3 FY21, and 6% YoY to INR 555 Mn in 9M FY21



Operating expenses declined by 5% YoY to INR 127 Mn in Q3 FY21, and 7% YoY to INR 353 Mn in 9M FY21

*Cost-to-income ratio stood at 41.3% in Q3 FY21 and 38.8% in 9M FY21*



Collection Efficiency Improved Significantly to ~93% in December 2020 vis-à-vis ~87% in September 2020



Cumulative Provisions stood at INR 517 Mn as on 31<sup>st</sup> Dec 2020 (covering 7.2% of the total AUM)

*Strengthened Provision Coverage by Prudently Recognizing Provisions and Write-off of INR 147 Mn in Q3 FY21, and INR 436 Mn in 9M FY21*

## Update on Collections

- ❑ Collections have improved significantly across all 3 segments since September 2020 to reach ~93% in January 2021. *(details given in the table below)*
  - **'Microfinance' collections picked-up strongly** as the repayment rates reached 84% in September 2020, and then further improved to 92% in January 2021
  - **2W and MSME collections** continued to be well-north of 90% during the period. **Repayment rates for Jan'21 closed at 95% for MSME and 96% for 2W.**
- ❑ **Cumulative Provisions stood at INR 517 Mn as of 31<sup>st</sup> December 2020 covering 7.2% of the total AUM**
  - **Namra:** Cumulative Provisions stood at INR 336 Mn as of 31<sup>st</sup> Dec 2020 covering 6.1% of the total AUM
  - **Standalone:** Cumulative Provisions stood at INR 181 Mn as of 31<sup>st</sup> Dec 2020 covering 10.6% of the total AUM
- ❑ **The Company has sufficient provisions in place for customers who have not resumed paying their EMIs post the March 2020 lock-downs.**

## Collection Efficiency % (September 2020 – January 2021)

Business Segment	Collections Due (Oct'20)	Amount Collected (Oct'20)	Collection Efficiency % (Oct'20)	Collections Due (Nov'20)	Amount Collected (Nov'20)	Collection Efficiency % (Nov'20)	Collections Due (Dec'20)	Amount Collected (Dec'20)	Collection Efficiency % (Dec'20)	Collections Due (Jan'21)	Amount Collected (Jan'21)	Collection Efficiency % (Jan'21)
<b>Total</b>	<b>811</b>	<b>737</b>	<b>91%</b>	<b>760</b>	<b>697</b>	<b>92%</b>	<b>767</b>	<b>708</b>	<b>92%</b>	<b>726</b>	<b>676</b>	<b>93%</b>
Microfinance	606	542	89%	575	521	91%	571	521	91%	551	508	92%
MSME	139	131	94%	134	127	95%	134	126	95%	129	123	95%
Two-wheeler	66	64	97%	51	49	96%	63	60	96%	46	44	96%

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

## Update on Liquidity

- ❑ **Healthy Liquidity position with INR ~1,264 Mn in cash/bank balance, liquid investments, and undrawn CC limits**
- ❑ Successfully raised INR 640 Mn since September 2020
- ❑ Liquidity position has improved driven by the pick-up in collections and the incremental debt capital raised since the start of April. The company has **accelerated repayments of high-cost borrowings and replace it with low-cost borrowings from Q3FY21 onwards.**

## Update on Disbursements

- ❑ **Disbursements picked-up the pace across all segments in Q3FY21 after gradually starting from August 2020 onwards**
  - Loan Disbursements during Q3 FY21 stood at INR 1,819 Mn compared to INR 507 Mn in Q2 FY21. Disbursements are expected to reach pre-covid level from March 2021 onwards.
  - The company has taken its footprint to Haryana with 10 branches in Jan'21. Also added 3 more branches in Rajasthan.
  - In microfinance, the company primarily focused on renewing loans of existing customers who have already made their repayments and completed their tenure during Q3FY21.
  - In the MSME & 2-wheeler segments, the company has slowly started disbursing with a more stringent underwriting process
- ❑ **Incremental measures taken by the company to further tighten its 2-Wheeler and MSME credit appraisal process. These measures are over & above the existing requirements.**
  - **2-Wheeler:** 1) Increased down payment and credit score requirements, 2) Currently, not making any fresh disbursements in areas witnessing higher default rates
  - **MSME:** 1) Tightened the positive cash flow requirement, 2) Added an Additional 'Covid Impact Assessment Layer' – where the 'credit team' assess the 'forward-looking impact on cash flows' for the 'occupations that have been impacted by the on-going Covid crisis' as a part of the appraisal process for evaluating fresh disbursements

# Q3 & 9M FY21 - Consolidated Profit & Loss Statement



Particulars (INR Mn)	Q3 FY21	Q3 FY20	YoY (%)	9MFY21	9MFY20	YoY (%)
<b>Assets Under Management (AUM)</b>	<b>7,200</b>	<b>8,238</b>	<b>(13%)</b>	<b>7,200</b>	<b>8,238</b>	<b>(13%)</b>
<b>Disbursements</b>	<b>1,819</b>	<b>2,258</b>	<b>(19%)</b>	<b>2,345</b>	<b>6,488</b>	<b>(64%)</b>
<b>Shareholder's Equity *</b>	<b>1,842</b>	<b>1,256</b>	<b>47%</b>	<b>1,842</b>	<b>1,256</b>	<b>47%</b>
Income from Operations	472.0	565.1	(16%)	1,470.3	1,566.9	(6%)
Other Income	6.7	5.3	(26%)	19.2	29.1	(34%)
<b>Gross Total Income</b>	<b>478.7</b>	<b>570.4</b>	<b>(16%)</b>	<b>1,489.5</b>	<b>1,596.0</b>	<b>(7%)</b>
Finance Costs	172.1	212.9	(19%)	582.0	627.1	(7%)
<b>Net Total Income (NTI)</b>	<b>306.6</b>	<b>357.5</b>	<b>(14%)</b>	<b>907.6</b>	<b>969.0</b>	<b>(6%)</b>
Employee Benefits Expenses	89.9	90.2	0%	263.8	258.3	2%
Depreciation and Amortisation	2	2.1	(3%)	6.1	5.9	3%
Other Expenses	34.7	40.4	(14%)	82.7	115.8	(29%)
<b>Pre-Provision Operating Profit</b>	<b>180.1</b>	<b>224.9</b>	<b>(20%)</b>	<b>555.0</b>	<b>589.0</b>	<b>(6%)</b>
Total Provisions & Write-offs	146.8	43.7	236%	435.8	80.8	440%
<b>Profit Before Tax</b>	<b>33.3</b>	<b>181.2</b>	<b>(82%)</b>	<b>119.2</b>	<b>508.2</b>	<b>(77%)</b>
<b>Profit After tax</b>	<b>29.2</b>	<b>135.6</b>	<b>(78%)</b>	<b>97.5</b>	<b>377.1</b>	<b>(74%)</b>
GNPA %	#0.7%/4.1%	1.2%	(290 bps)	#0.7%/4.1%	1.2%	(290 bps)
NNPA %	#0.0%/0.6%	0.5%	(10 bps)	#0.0%/0.6%	0.5%	(10 bps)
Return on Avg. AUM %	1.5%	7.2%	(574 bps)	1.6%	6.7%	(505 bps)
Return on Avg. Equity % *	5.0%	27.7%	(2267 bps)	5.6%	25.7%	(2010 bps)

**Note:**

- \* Fully-diluted equity base
- There may be minor variations between Namra + Standalone figures and the consolidated figures due to eliminations / knock-offs
- RoE = PAT / Avg. Fully Diluted Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book). RoE and Return on Avg. AUM figures are annualized.
- #GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order



# Q3 & 9M FY21 - Consolidated Balance Sheet



Particulars (in INR Mn)	Consolidated		Standalone	
	Dec 2020	March 2020	Dec 2020	March 2020
<b>ASSETS</b>				
<b><u>Financial Assets</u></b>				
Cash and cash equivalents	377	584	234	3
Bank Balance	551	384	177	56
Loans & Advances	6,283	7,785	1,474	2,231
Investments	363	33	828	624
Other Financial assets	168	75	52	23
<b>Total Financial Assets</b>	<b>7,743</b>	<b>8,861</b>	<b>2,765</b>	<b>2,938</b>
<b><u>Non-Financial Assets</u></b>				
Current tax assets (Net)	0	5	0	13
Deferred tax Assets (Net)	122	48	45	11
Property, Plant and Equipment	31	35	8	8
Other Intangible assets	1	2	0	0
Right To Use Asset	6	7	0	0
Other non-financial assets	1	4	1	2
<b>Total Non-Financial Assets</b>	<b>162</b>	<b>101</b>	<b>54</b>	<b>34</b>
<b>Total Assets</b>	<b>7,905</b>	<b>8,962</b>	<b>2,818</b>	<b>2,972</b>

	Consolidated		Standalone	
	Dec 2020	March 2020	Dec 2020	March 2020
<b>LIABILITIES &amp; EQUITY</b>				
Equity Share capital	85	85	85	85
Reserves & Surplus	1,758	1,638	1,171	1,123
<b>Total Shareholders Funds</b>	<b>1,843</b>	<b>1,722</b>	<b>1,256</b>	<b>1,207</b>
<b><u>Financial Liabilities</u></b>				
Debt Securities	5,548	6,828	1,405	1,657
Total Borrowings	150	150	50	50
Other Financial Liabilities	269	241	72	50
<b>Total Financial Liabilities</b>	<b>5,967</b>	<b>7,219</b>	<b>1,527</b>	<b>1,757</b>
<b><u>Non-Financial Liabilities</u></b>				
Current tax liabilities (Net)	79	8	29	4
Deferred tax liabilities (Net)	0	0	0	0
Provisions	11	0	5	0
Other non-financial liabilities	5	13	1	4
<b>Total Non-Financial Liabilities</b>	<b>95</b>	<b>21</b>	<b>35</b>	<b>8</b>
<b>Total Liabilities &amp; Equity</b>	<b>7,905</b>	<b>8,962</b>	<b>2,818</b>	<b>2,972</b>

# Q3 FY21 - Microfinance “Namra” Performance Update



Particulars (INR Mn)	Q3 FY21	Q3 FY20	YoY (%)	9MFY21	9MFY20	YoY (%)
<b>Asset Under Management</b>	<b>5,487</b>	<b>5,888</b>	<b>(7%)</b>	<b>5,487</b>	<b>5,888</b>	<b>(7%)</b>
<b>Disbursements</b>	<b>1,473</b>	<b>1,605</b>	<b>(8%)</b>	<b>1,878</b>	<b>4,729</b>	<b>(60%)</b>
Income from Operations	328.6	391.4	(16%)	1,007.8	1,073.0	(6%)
Other Income	3.3	3.4	(5%)	13.6	21.0	(35%)
<b>Gross Total Income</b>	<b>331.8</b>	<b>394.9</b>	<b>(16%)</b>	<b>1,021.4</b>	<b>1,094.0</b>	<b>(7%)</b>
Finance Costs	127.6	165.9	(23%)	441.7	479.9	(8%)
<b>Net Total Income (NTI)</b>	<b>204.3</b>	<b>229.0</b>	<b>(11%)</b>	<b>579.7</b>	<b>614.2</b>	<b>(6%)</b>
Employee Benefits Expenses	60.0	56.2	7%	179.0	162.2	10%
Depreciation and Amortisation	1.7	1.8	(1%)	5.3	5.1	5%
Other Expenses	24.4	26.5	(8%)	60.3	79.1	(24%)
<b>Pre-Provision Operating Profit</b>	<b>118.2</b>	<b>144.6</b>	<b>(18%)</b>	<b>335.2</b>	<b>367.8</b>	<b>(9%)</b>
Total Provision & Write-offs *	114.0	27.7	311%	289.9	55.0	427%
<b>Profit After Tax</b>	<b>7.5</b>	<b>87.4</b>	<b>(91%)</b>	<b>40.6</b>	<b>231.2</b>	<b>(82%)</b>
GNPA %	#0.5%/3.5%	0.9%	260 bps	#0.5%/3.5%	0.9%	260 bps
NNPA %	0.0%	0.3%	(30 bps)	0.0%	0.3%	(30 bps)
Return on Avg. AUM %	0.5%	6.6%	(604 bps)	0.9%	5.8%	(485 bps)
Return on Avg. Equity %	2.6%	36.8%	(3422 bps)	4.6%	32.4%	(2782 bps)

## Note:

- Income from Operations includes: Interest Income on loans and managed assets; processing fees, and other charges in respect of loans. Other Income includes capital gains on liquid funds
- NIM = NTI / Avg. AUM (On + Off-Book); Yields = Gross Interest Income / Avg. AUM (On + Off-Book); Cost-to-Income Ratio = Opex (excl. provisions) / Net Total Income; RoE = PAT / Avg. Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book); NIM %, RoE and Return on Avg. AUM figures are annualized
- #GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order

## ❖ Q3FY21 witnessed the reversal of de-growth in microfinance AUM.

- The Portfolio has grown from the low of INR 5,230 Mn in Sep'20 to INR 5,487 Mn in Q3FY21.
- Active MFI Customer base stood at 3.2 Lakhs in Q3 FY21. Adding 39,000 new loans in Q3FY21.
- The disbursements have picked up in Q3 reversing the fall in AUM seen in the Q1 & Q2FY21. The disbursements reached 70%+ of pre-covid levels in December 2020.

## ❖ Gradually begun disbursements from August onwards – renewing loans of customers that have already made their repayments and completed their tenure.

- Completed disbursements of INR 1,473 Mn in Q3 FY21, compared to INR 386 Mn in Q2 FY21. Pace of disbursements to reach pre-covid levels from Q1 FY22 onwards.

## ❖ Gross Total Income declined by 16% YoY to INR 331.1 Mn due to softer yields softer yields on post-covid disbursements in FY21 and lower booking of processing fees on account of lower disbursements.

## ❖ Similarly, Net Total Income de-grew by 11% YoY to INR 204.3 Mn led by a lower run-down in the loan book.

## ❖ Provisions for the quarter rose 311% YoY to INR 114 Mn.

- Strengthening the provision coverage should hold the company in good stead in future to deal with potential asset quality risks on account of Covid.
- Cumulative Total Provisions as on 31<sup>st</sup> Dec'20 stood at INR 336 Mn covering 6.1% of the total AUM. (Cumulative Covid provisions stood at INR 143 Mn)**

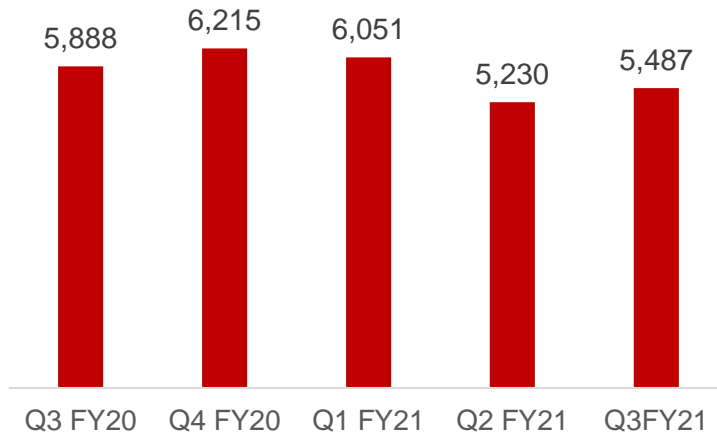
## ❖ Gross NPA % was higher at 3.5% in Q3 FY21. Post ECL adjustment, NNPA % stood at 0.0%.

## ❖ Repayment rates picked-up significantly reaching 91% in Dec'20

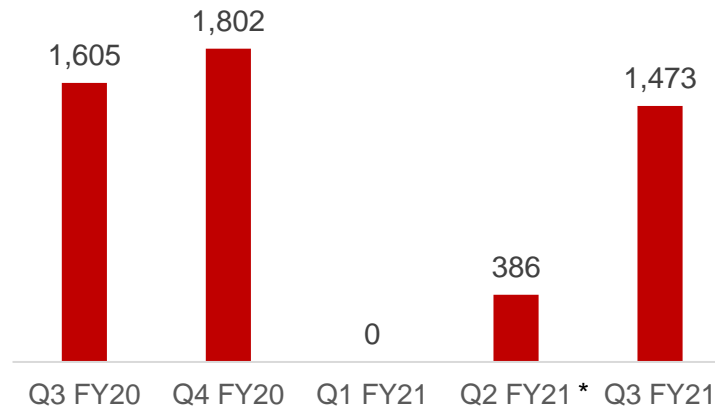
# Q3 FY21 - Microfinance Performance Update



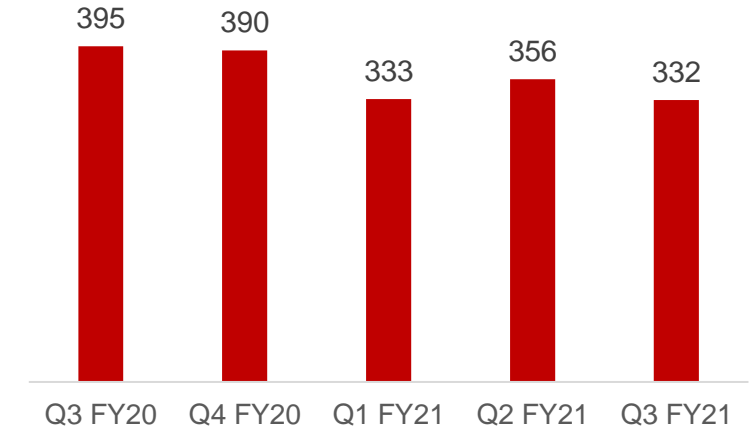
## AUM (INR Mn)



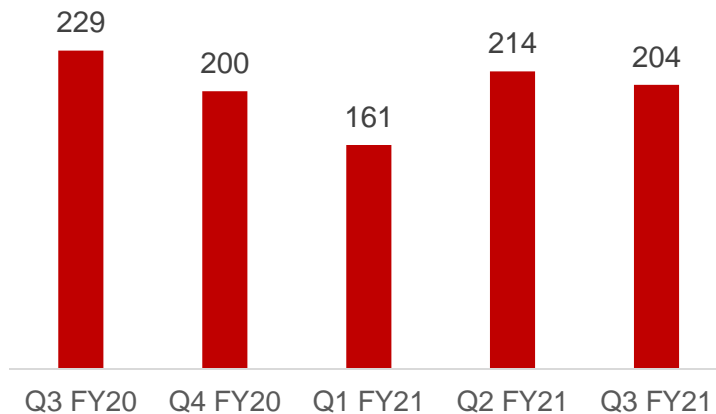
## Disbursement (INR Mn)



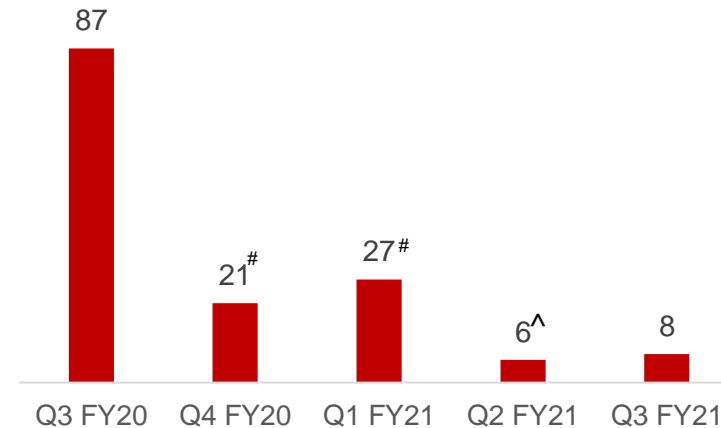
## Gross Total Income (INR Mn)



## Net Total Income (INR Mn)



## PAT (INR Mn)



### Note:

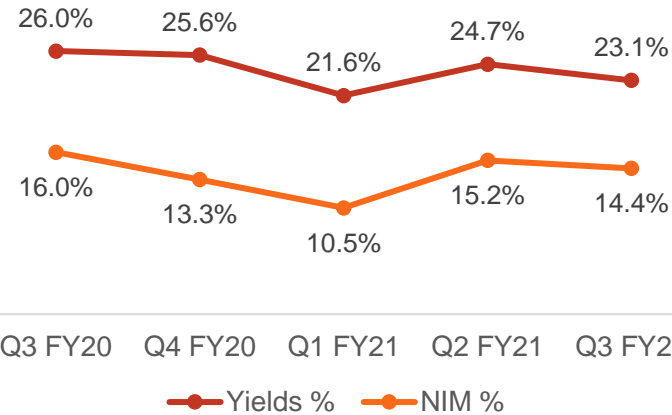
- \* Nationwide Lockdown and the Covid-19 induced disruption led to the disbursements being halted. Company's priority was on improving the collection efficiency
- # Includes Covid specific provision of INR 45.3 Mn in Q4 FY20, and INR 57.2 Mn in Q1 FY21. ^ Includes aggressive provisioning and write-offs of INR 80 Mn and INR 39 Mn in Q2FY21 respectively
- Net Total Income = Gross Total Income – Finance Cost



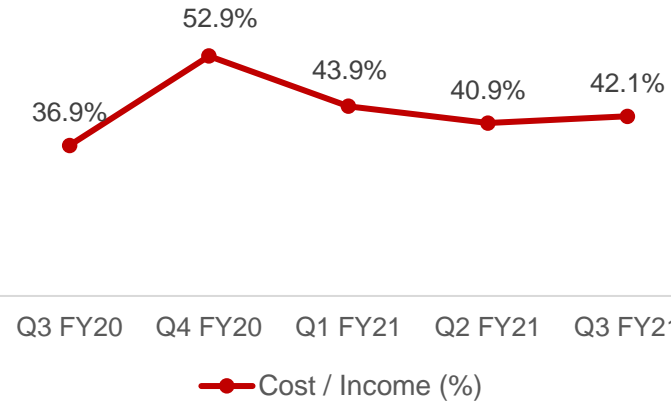
# Q3 FY21 - Microfinance Performance Update



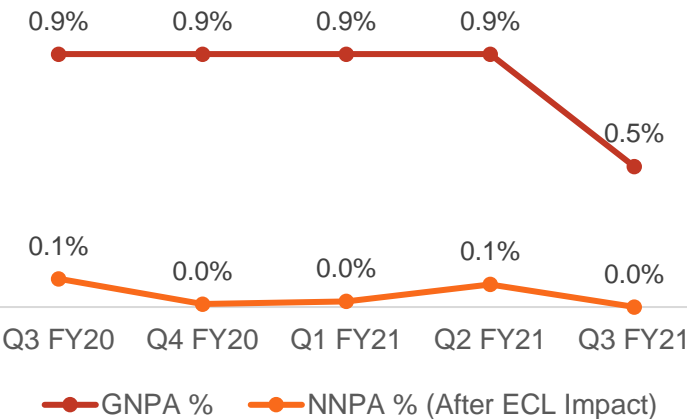
## Yields % and NIM %



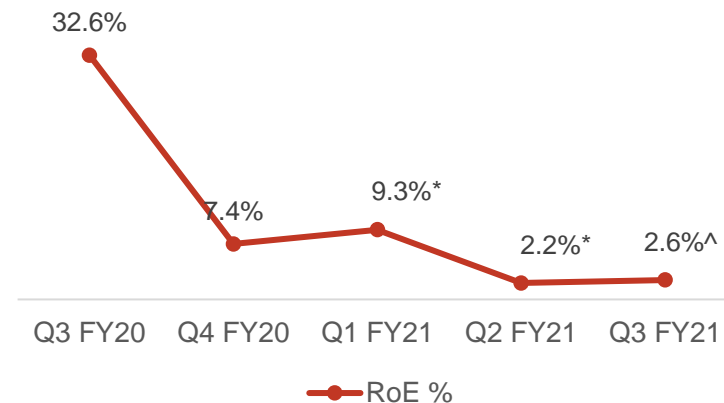
## Cost-to-Income Ratio %



## Asset Quality<sup>#</sup>



## ROE %



### Note:

- \* Includes Covid specific provision of INR 45.3 Mn in Q4 FY20 INR 57.2 Mn in Q1 FY21. ^ Includes aggressive provisioning and write-offs of INR 80 Mn and INR 39 Mn in Q2FY21 respectively
- NIM =  $NTI / \text{Avg. AUM (On + Off-Book)}$ ; Yields =  $\text{Gross Interest Income} / \text{Avg. AUM (On + Off-Book)}$ ; Cost-to-Income Ratio =  $\text{Opex (excl. provisions)} / \text{Net Total Income}$ ; NNPA % =  $NNPA / AUM$ ; RoE =  $PAT / \text{Avg. Equity}$ . RoE, Yields and NIM % figures are annualized
- GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order

# Q3 FY21 - Standalone Performance Update (2W & MSME)



Particulars (INR Mn)	Q3 FY21	Q3 FY20	YoY (%)	9MFY21	9MFY20	YoY (%)
<b>Asset Under Management</b>	<b>1,713</b>	<b>2,350</b>	<b>(27%)</b>	<b>1,713</b>	<b>2,350</b>	<b>(27%)</b>
<b>Disbursements</b>	<b>345</b>	<b>653</b>	<b>(47%)</b>	<b>466</b>	<b>1,758</b>	<b>(73%)</b>
Income from Operations	146.7	184.7	(21%)	472.8	514.5	(8%)
Other Income	7.3	5.4	36%	23.8	15.0	59%
<b>Gross Total Income</b>	<b>154.0</b>	<b>190.1</b>	<b>(19%)</b>	<b>496.6</b>	<b>529.5</b>	<b>(6%)</b>
Finance Costs	47.8	56.2	(15%)	150.6	159.8	(6%)
<b>Net Total Income (NTI)</b>	<b>106.2</b>	<b>133.8</b>	<b>(21%)</b>	<b>346.0</b>	<b>369.8</b>	<b>(6%)</b>
Employee Benefits Expenses	29.9	34.0	(12%)	84.9	96.1	(12%)
Depreciation and Amortisation	0.2	0.3	(18%)	0.8	0.9	(7%)
Other Expenses	10.3	13.9	(26%)	22.4	36.7	(39%)
<b>Pre-Provision Operating Profit</b>	<b>65.7</b>	<b>85.6</b>	<b>(23%)</b>	<b>238.0</b>	<b>236.1</b>	<b>1%</b>
Total Provision & Write-offs	32.8	14.9	120%	146.0	26.0	462%
<b>Profit After Tax</b>	<b>25.5</b>	<b>54.4</b>	<b>(53%)</b>	<b>75.1</b>	<b>160.8</b>	<b>(53%)</b>
GNPA %	#1.4%/6.0%	1.9%	410 bps	#1.4%/6.0%	1.9%	410 bps
NNPA %	#0.0%/2.3%	1.3%	(130 bps)	#0.0%/2.3%	1.3%	(130 bps)
Return on Avg. AUM %	5.8%	9.5%	(372 bps)	4.9%	9.8%	(495 bps)
Return on Avg. Equity %	8.2%	20.3%	(1214 bps)	8.1%	20.1%	(1195 bps)

## Note:

- Income from operations includes interest income on loans and managed assets, other Income includes processing fees, other charges in respect of loans, late payment charges, etc.
- Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NIM = NTI / Avg. AUM (On + Off-Book); RoE = PAT / Avg. Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book).
- ROAE and ROAA figures are annualized
- GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order

## ❖ Standalone AUM stood at INR 1,713 Mn on Dec'20

- MSME AUM stood at INR 1,168 Mn
- 2W AUM declined by 47% YoY to INR 544 Mn, as the overall 2W sales have declined in the last one year.
- Rural 2W Book stands at INR 112.6 Mn (higher by 20% YoY). It has shown resilience and building up on a Q-o-Q basis.

## ❖ MSME disbursements have reached 60-70% of the pre- COVID level and expected to reach the pre-covid levels by March 2021.

## ❖ Implemented cost rationalization measures which resulted in operating expenses coming down by 16% YoY to INR 40.5 Mn.

## ❖ Cost-to-income ratio stood at 38.1% in Q3 FY21 compared to 36.0% in Q3FY20.

## ❖ Provisions & write-offs rose to INR 32.8 Mn in Q3 FY21 as the company prudently undertook aggressive provisioning to deal with possible future Covid related impairments.

## ❖ Cumulative Provisions on 31<sup>st</sup> Dec'20 stood at INR 181 Mn covering 10.6% of total AUM. (Cumulative Covid provisions stood at INR 128 Mn)

## ❖ GNPA % and NNPA % stood at \*1.4%/6.0% and \*0.0%/1.9% respectively. (GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order)

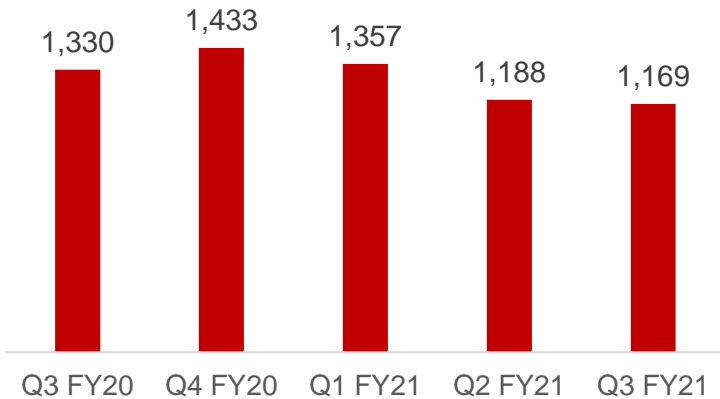
## ❖ Repayment rates improved further in Q3FY21-

- MSME:** Repayment rates improved to 95% in Dec'20
- 2W:** Repayment rates were healthy and steady at 96% in Dec'20

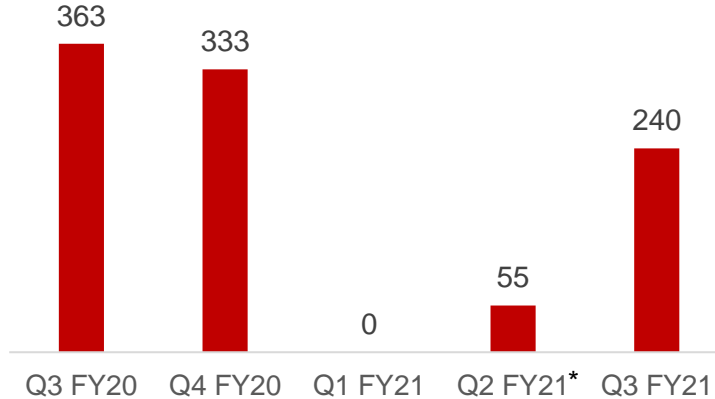
# Q3 FY21 - MSME Performance Update



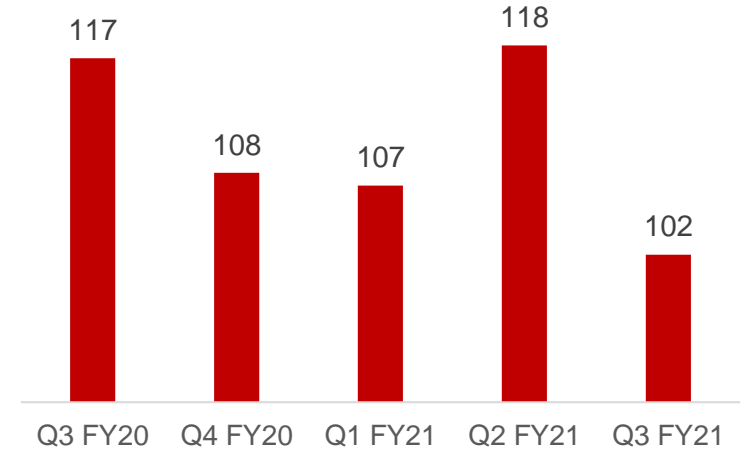
## AUM (INR Mn)



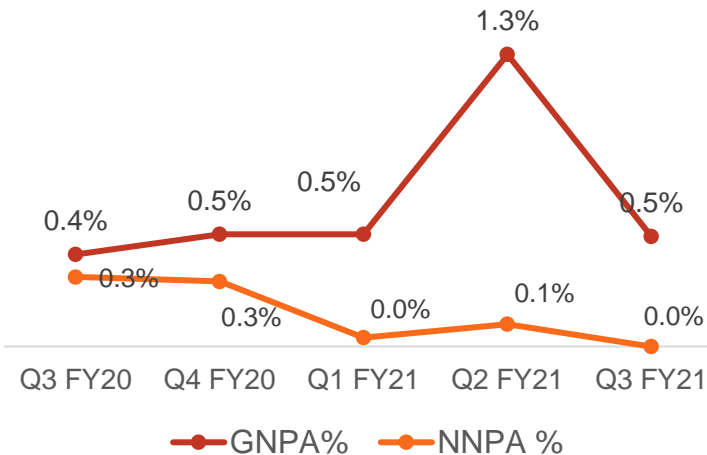
## Disbursements (INR Mn)



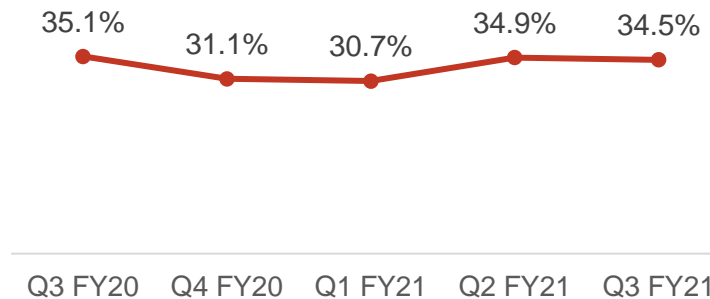
## Gross Interest Income (INR Mn)



## Asset Quality<sup>#</sup>



## Yields %



### Note:

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

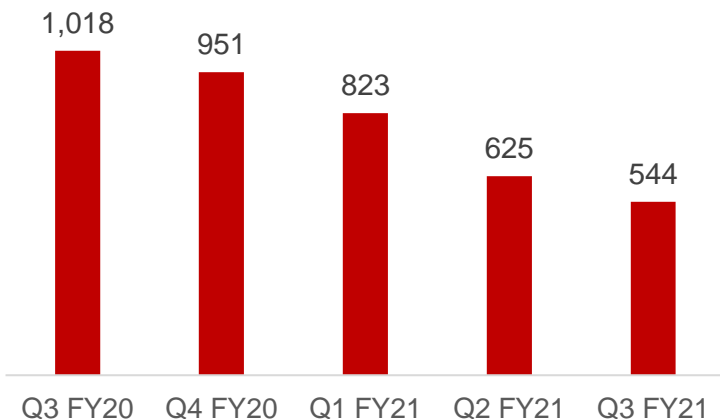
<sup>#</sup> GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order (Actual GNPA 4.9% and NNPA 1.3%)



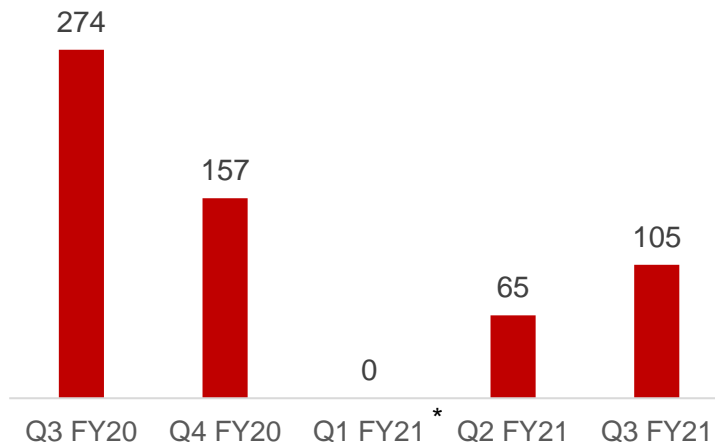
# Q3 FY21 - 2W Performance Update



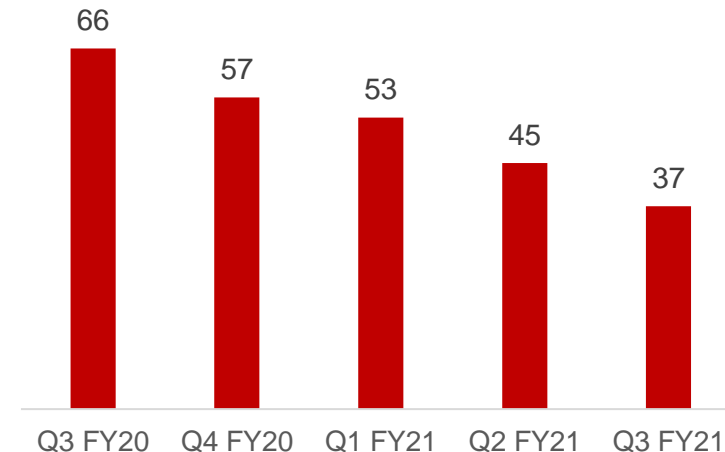
## AUM (INR Mn)



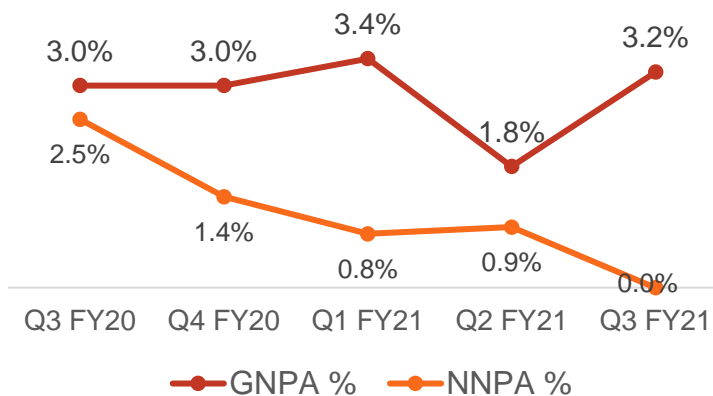
## Disbursement (INR Mn)



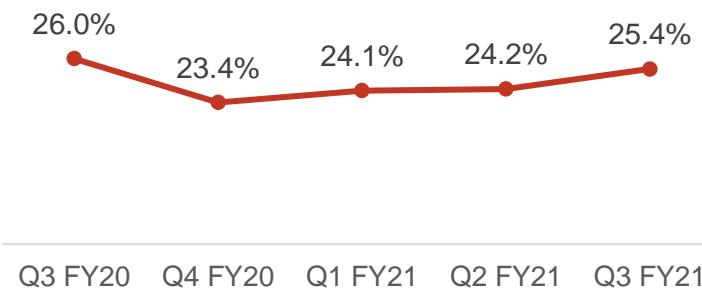
## Gross Interest Income (INR Mn)



## Asset Quality #



## Yields %



### Note:

- \* Nationwide Lockdown and the Covid-19 induced disruption led to the disbursements being halted. Company's priority was on improving the collection efficiency
- Gross Interest Income = Interest Income + processing fees / other charges, Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NNPA % = NNPA / AUM. Yields % figures are annualized
- # GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order (Actual GNPA 8.4% and NNPA 2.9%)



**Arman Financial Services Ltd.**



## Liability Overview

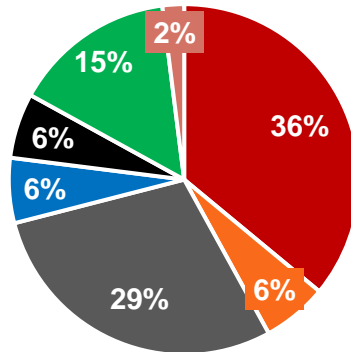
# Efficient Liability Management



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

Q4 FY20 - Borrowing Mix %

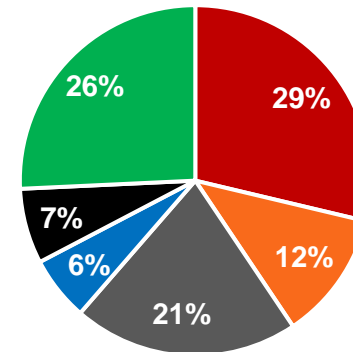
INR 7,665 Mn \*



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

Q3 FY21 - Borrowing Mix %

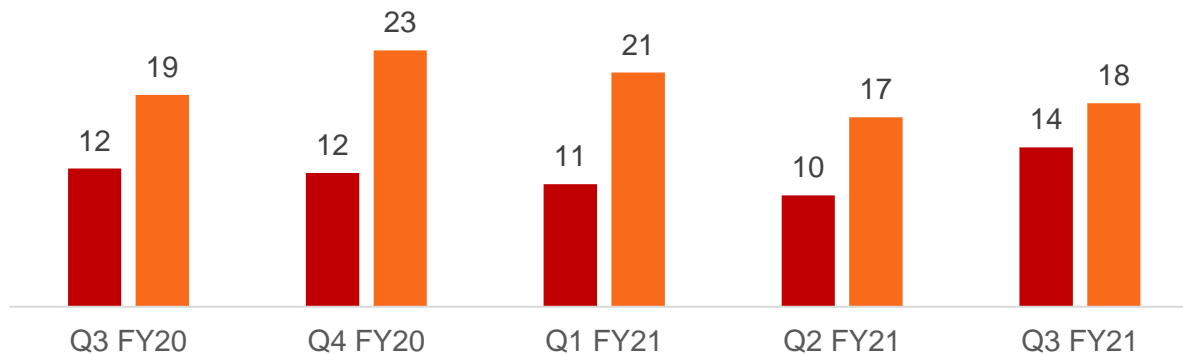
INR 6,064 Mn #



Note: # INR 6,064 Mn includes direct assignment of INR 269 Mn

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

## Positive ALM (in Months)



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

- Well-diversified borrowing mix with increasing share of NCD's, ECB's, DFIs (NABARD Refinance, MUDRA, SIDBI) and Securitization
  - Share of NCD's, ECB's, DFIs, and Securitization represented **~46% of borrowings in Q3 FY21**
- **Constant rating upgrades** have helped lower cost of funds in recent years
  - Credit rating has moved up **1 notch** in last year: Upgraded to **BBB+** in **FY19 (CARE Ratings)**
  - Ratings Reaffirmed recently to **BBB+** for FY20 by CARE Ratings
  - Group has A2 rating by CARE Ratings for **short-term bank facilities**
- **Fresh NCD of INR 488 Mn with bullet payment after 36 months provides the positive push to ALM**
- **Comfortable liquidity position with a potential to increase leverage.**



# Lending partners



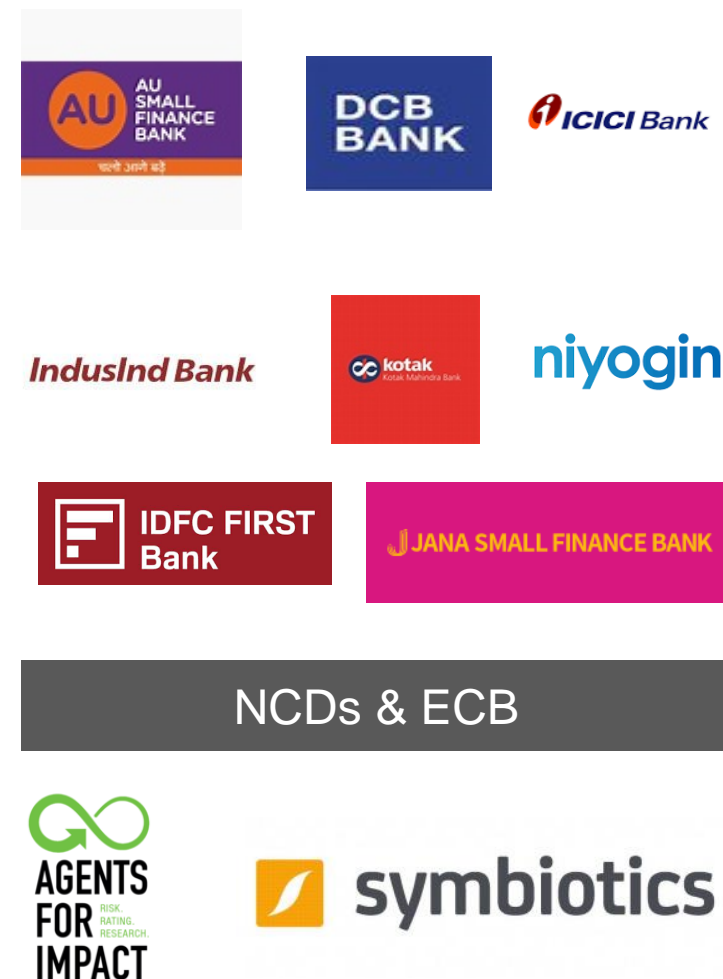
## Bank Borrowings



## Non-Bank Borrowings



## Securitization Partners



## NCDs & ECB



**Arman Financial Services Ltd.**



## Company Overview





## Genesis

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

## Presence in Attractive Retail Lending Segments

- **Total Loan Assets of INR 7,200 Mn in Q3 FY21**
- **Microfinance – 76% of AUM** (via 100% owned subsidiary “**Namra Finance**”)
- **MSME Loans – 16% of AUM**
- **2-Wheeler Loans – 8% of AUM**
- **Healthy Spreads:** Yields 24.5%, NIM 15.9% (Q3 FY21)

**Arman Financial Services Ltd.**



## Strong Retail Presence & Wide Distribution Network

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

## Robust Risk Management Framework

- **Superior Asset Quality – #GNPA: 0.7%/4.1%; NNPA: #0.0%/0.6% (Q3 FY21)**
- **Consistent rating upgrades** backed by strong financial & operating performance – Currently rated **BBB+** by CARE Ratings
- **Track record of consistent profitability** - Never reported an annual loss
- **Completely in-house operations** with **bottoms up** driven credit appraisal models and rigorous collections practices – tailored for the areas of operations

## Strong Financial Performance

- **High-Growth Trajectory (FY2015-20 CAGR) :**
  - **AUM: 50%**
  - **PAT: 46%**
- **Consolidated debt to equity ratio of 3.1:1** – Sufficient Capital to drive growth going forward
- **High Return Ratios for FY20 - ROE: 28.1%; ROAA: 5.4%**
- **The Company delivered comfortable Return Ratios<sup>#</sup> despite the pandemic - Q3 FY21 - ROE (%): 5.0%\*, ROAA (%): 1.5%\***

## Efficient Liability Management

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

### **Note:**

- ROAA - Return on Avg. AUM. \* Includes aggressive provisioning and write-offs of INR 147 Mn in Q3FY21 # Fall in return ratios due to aggressive provisions and write-offs.
- Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NIM = NTI / Avg. AUM (On + Off-Book); RoE = PAT / Avg. Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book). Yields, NIM, ROAA and ROE figures are annualized.
- # GNPA considering no change in NPA recognition after 31st August in accordance with hon'ble Supreme Court Order



# Business Progression



Company incorporated.  
Started bill discounting & machine leasing

1992

1995

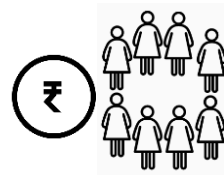
Listing on BSE – Issue subscribed 22x

1998

Launched 2W Loans

2010

Launched Microfinance business



Raised PE funding from Incofin; Disbursement crosses 50 Cr

2011

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

2013

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

2014-16

Launched MSME Loans business



2017

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

2017-18

Raised PE funding from SAIF Partners

2018

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

2019

# Product Snapshot



**ARMAN FINANCIAL SERVICES LTD.**

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

## Microfinance



## MSME Loans



## 2-Wheeler Loans



## Rural 2W Loans



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



# Differentiated Operations



## KEY STRATEGIC DIFFERENTIATORS

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

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

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

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

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

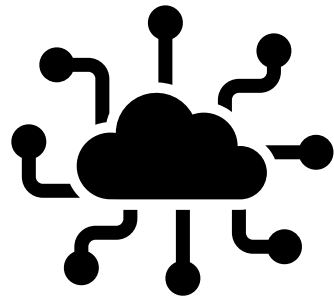


# Technological Initiatives to Strengthen Operations

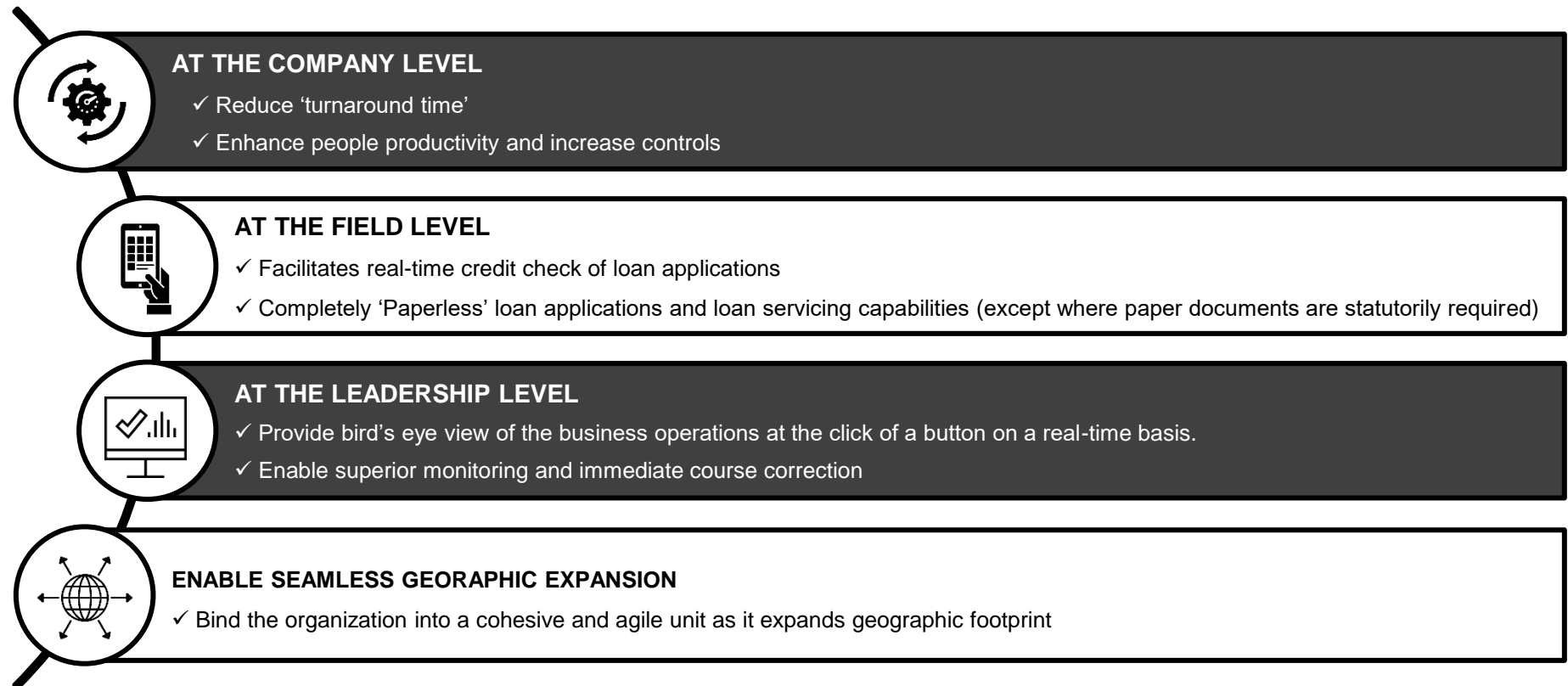


- ❖ In FY19, the company launched an integrated mobile interface for its MFI field staff to enable seamless on-boarding of MFI customers by digitizing & standardizing the loan origination and appraisal process. **‘This technology has been successfully implemented across all the MFI branches now.’**
-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

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



### DRIVING DIGITAL TRANSFORMATION

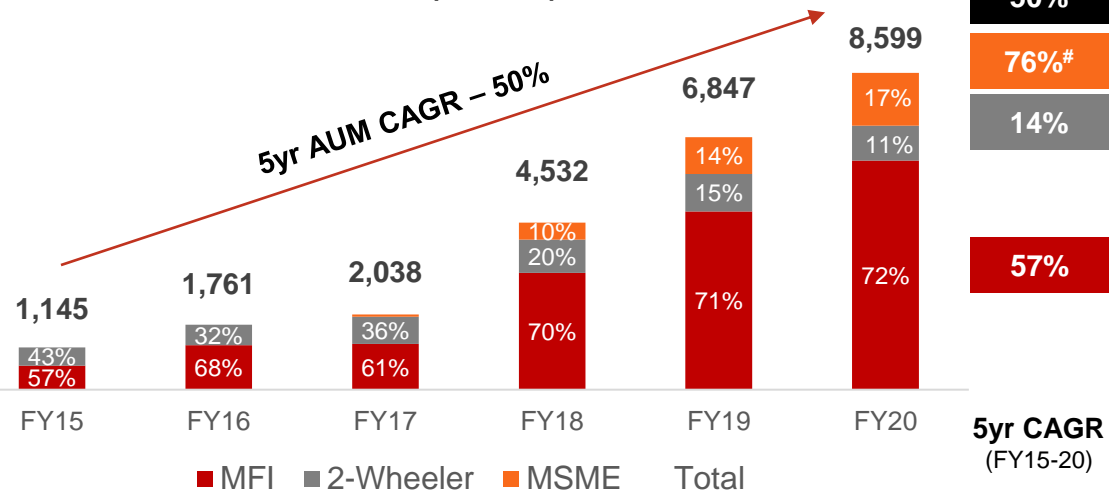




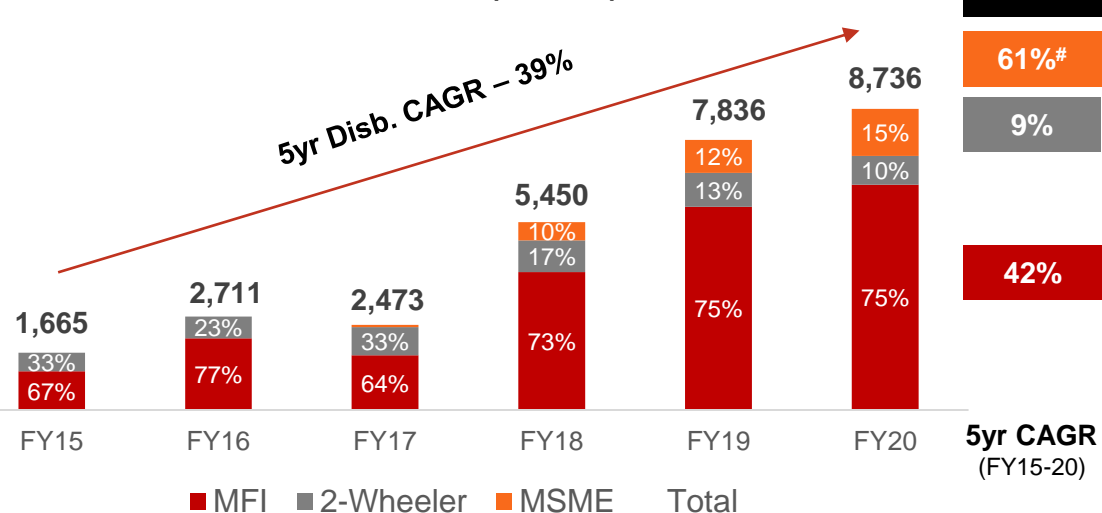
# Strong Growth in AUM & Disbursements....



Total AUM (INR Mn)



Total Disbursements (INR Mn)



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

## Asset Strategy at Arman

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

Self-employed / cash-income informal segment customers

High-yield rural focused products – 20%+ yields

Stringent underwriting

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

Aim to deliver 3-5% post-tax ROA

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

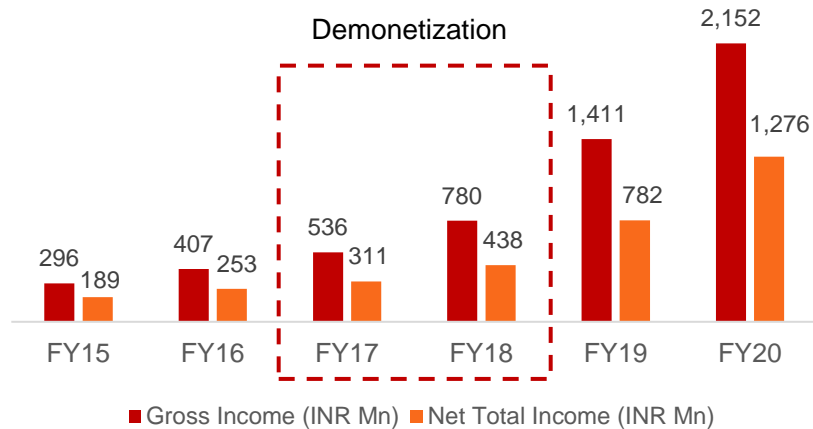
# .....While Maintaining Superior Cost Efficiency & Asset Quality



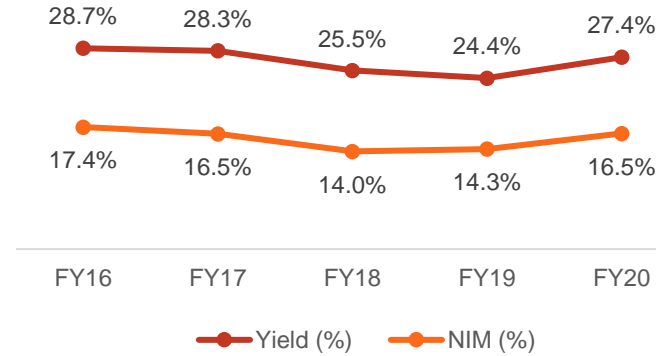
## Gross Income and Net Total Income (INR Mn)

CAGR: 49%

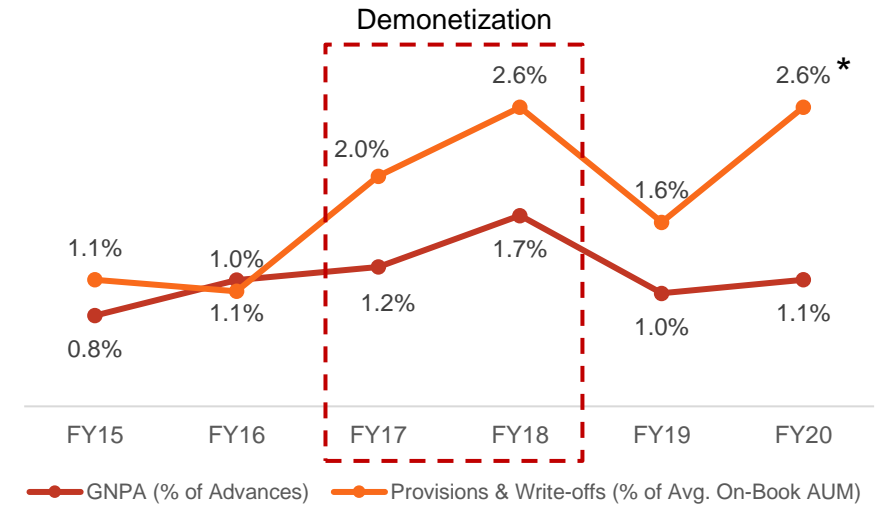
CAGR: 47%



## Yield % and NIM %

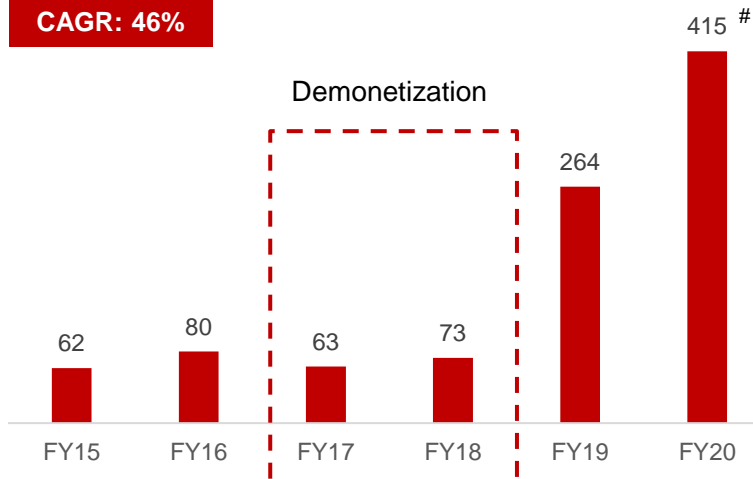


## Focus on risk have led to immaculate through-cycle asset quality

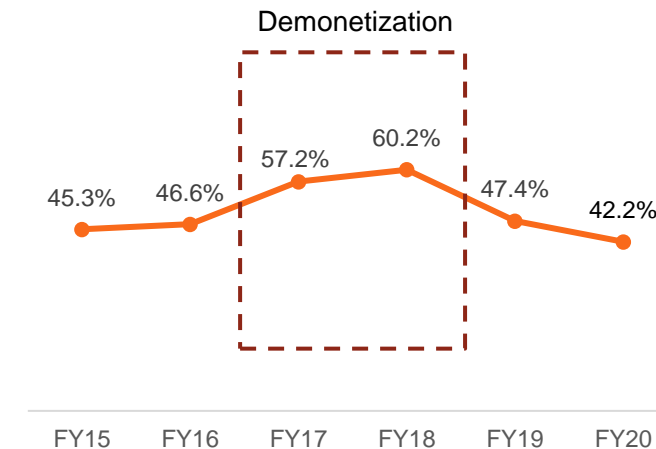


## PAT (INR Mn)

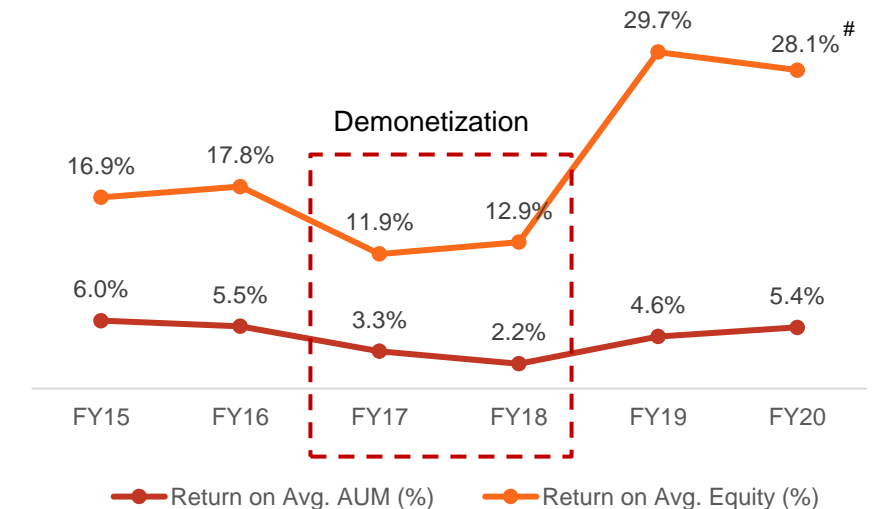
CAGR: 46%



## Cost to Income Ratio %



## Consistently high through cycle ROA / ROE



### Note:

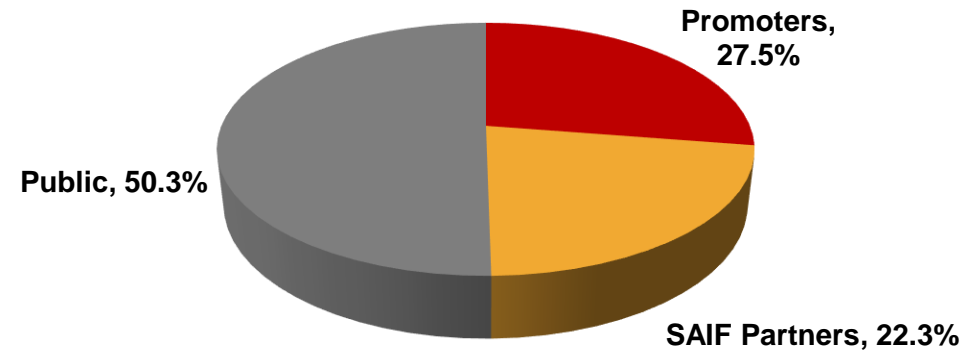
- \* Includes Covid specific provisioning of INR 66.8 Mn. <sup>#</sup> Adjusted for the Covid Provisioning of INR 66.8 Mn, PAT would have stood at INR 482 Mn in FY20; and ROE would have been 32.6%
- FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. NIM = NII / Average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



# Shareholding Pattern



SHAREHOLDING – 31<sup>st</sup> December 2020



Source – Company

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



**Arman Financial Services Ltd.**



**MSME LOANS**



**MICROFINANCE**



**TWO WHEELER LOANS**

## Product Overview





## Product Overview

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

## FY20 – Key Metrics (Mn)

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

## FY20 – Key Metrics (%)

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

# Product Overview: 2W & Rural 2W Loans



## Product Overview

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

## FY20 – Key Metrics (Mn)

**951**

AUM (INR Mn)

**843**

Disbursement (INR Mn)

**251**

Total Income (INR Mn)

**42,000**

Avg. Ticket Size (INR)

## FY20 – Key Metrics (%)

**25.5%**

Yield

**16.5%**

NIM

**3.0%**

GNPA

**1.4%**

NNPA

# Product Overview: MSME Loans



## Product Overview

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

### FY20 – Key Metrics (%)

<b>1,433</b>	<b>1,362</b>
AUM (INR Mn)	Disbursement (INR Mn)
<b>421</b>	<b>70,000</b>
Total Income (INR Mn)	Avg. Ticket Size (INR)

### FY20 – Key Metrics (%)

<b>34.7%</b>	<b>23.8%</b>
Yield	NIM
<b>0.5%</b>	<b>0.3%</b>
GNPA	NNPA

## MSME Process Overview

### Sourcing

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

### Underwriting

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

### Collections

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



# Thank You



**Arman Financial Services Ltd.**

**Vivek Modi**  
Group – CFO  
Arman Financial Services Ltd  
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**DICKENSON**

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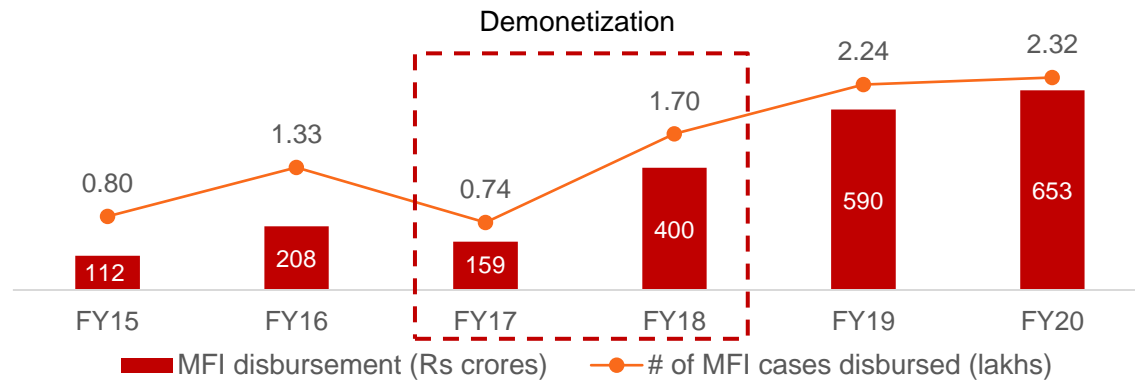
from ACCESS to INCLUSION

## Annexures

# Microfinance: 5-Year Performance



## Disbursement growth is driven by customer & branch addition

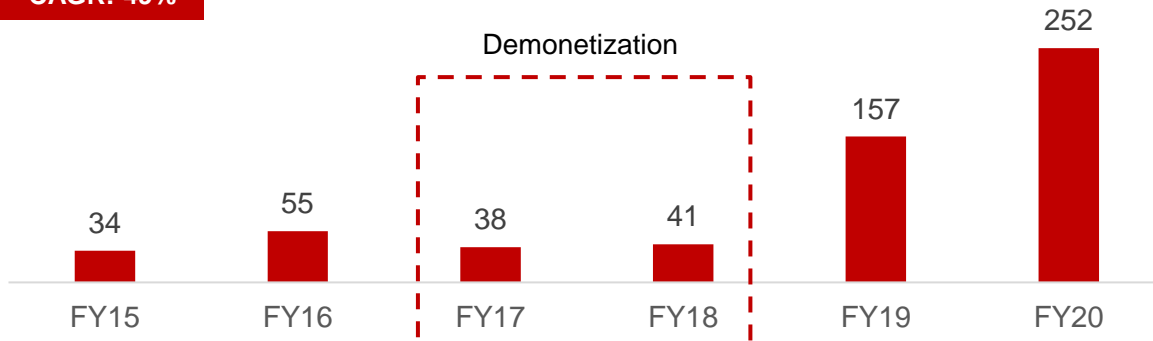


	FY15	FY16	FY17	FY18	FY19	FY20
MFI Branches	39	55	80	107	138	170
Avg. Ticket size (INR)	13,937	15,583	21,477	23,517	26,358	28,133

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

## PAT (INR Mn)

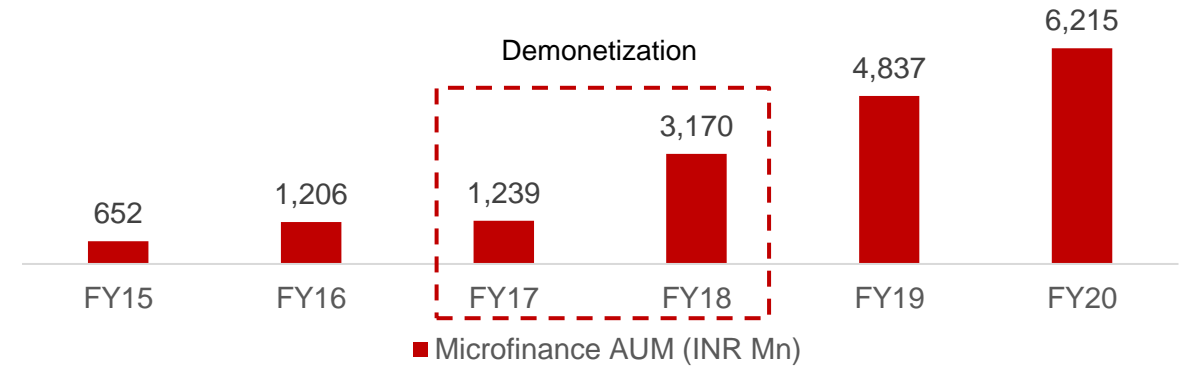
CAGR: 49%



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

## AUM growth exceeds MFI industry growth rates

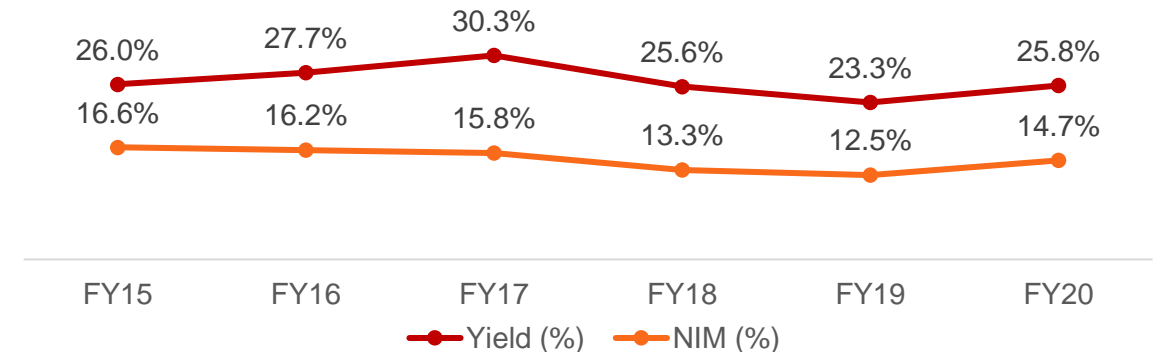
CAGR: 57%



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

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

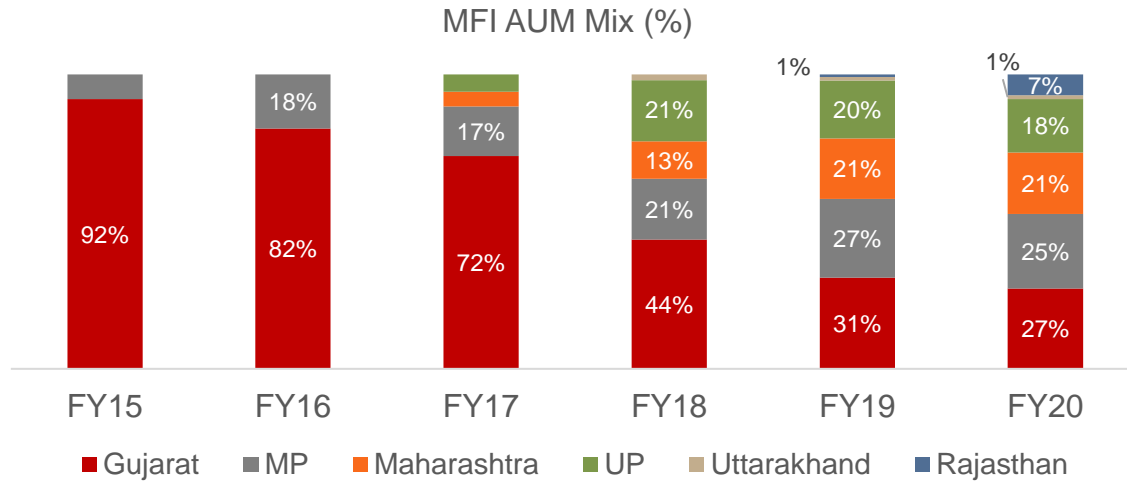
## Yields (%) & NIM (%) Trend



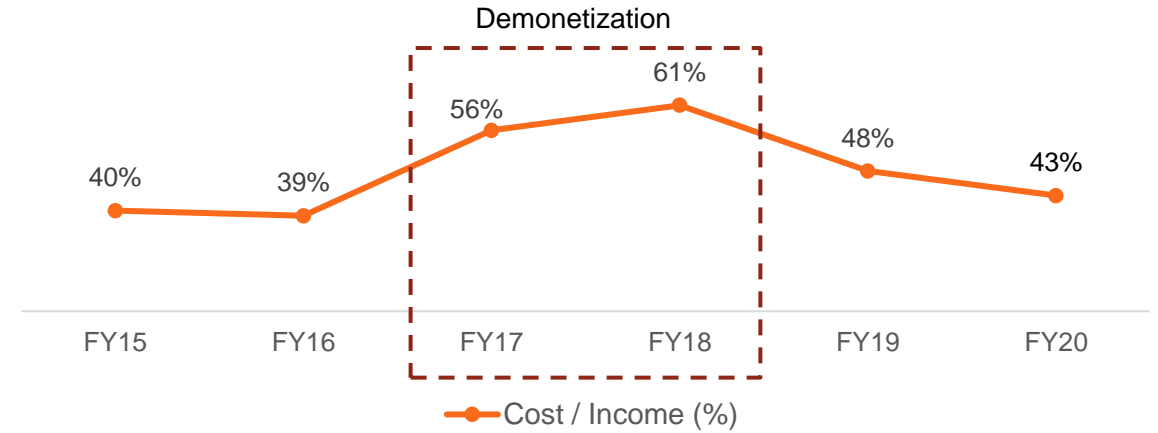
# Microfinance: 5-Year Performance



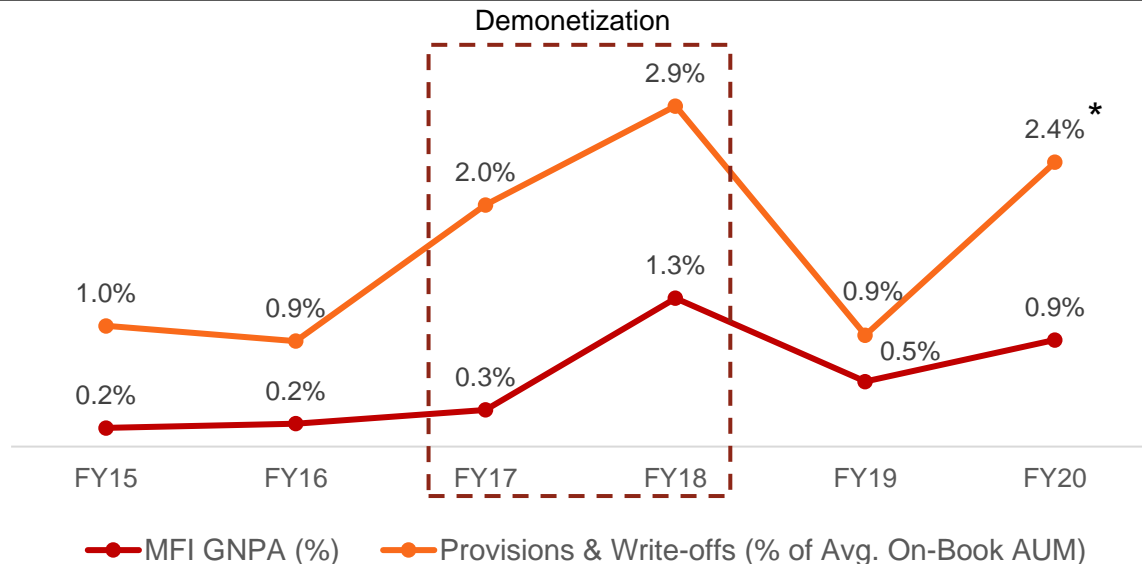
## Well diversified across geographies



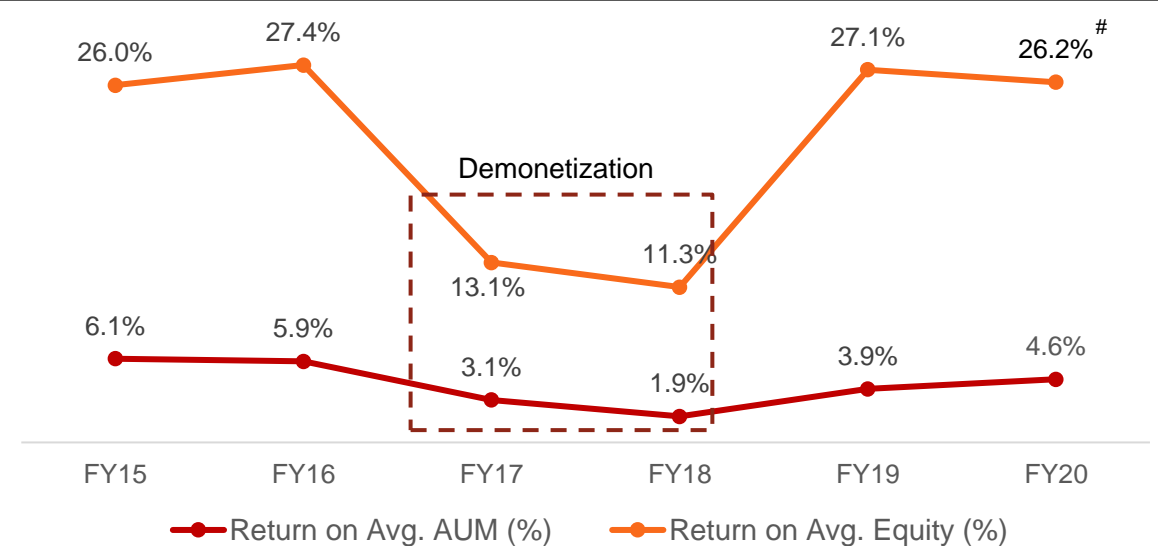
## Maintaining high operational efficiency



## Through cycle asset quality under control



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

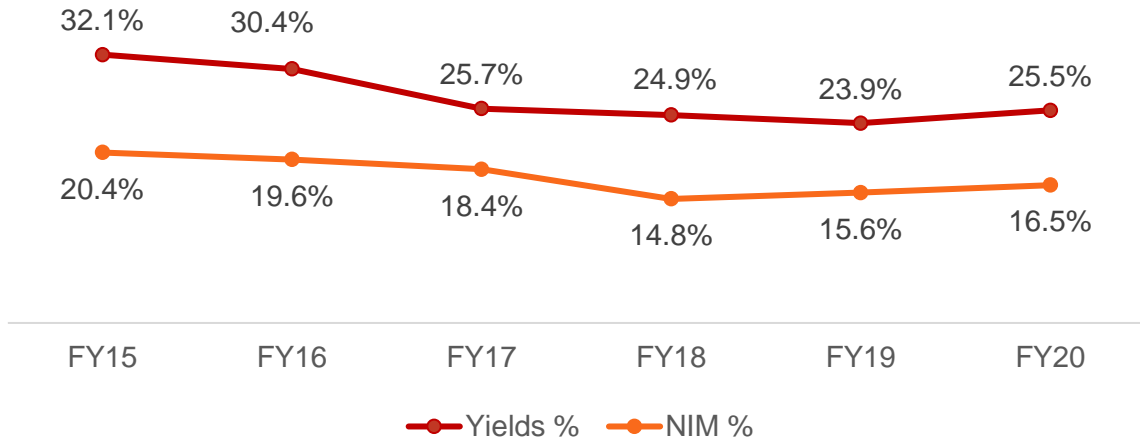


**Note:** FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. \* Includes Covid specific provisioning of INR 45.3 Mn. # Adjusted for Covid Provisioning, ROE stood at 30.9% in FY20

# 2W Loans: 5-Year Performance

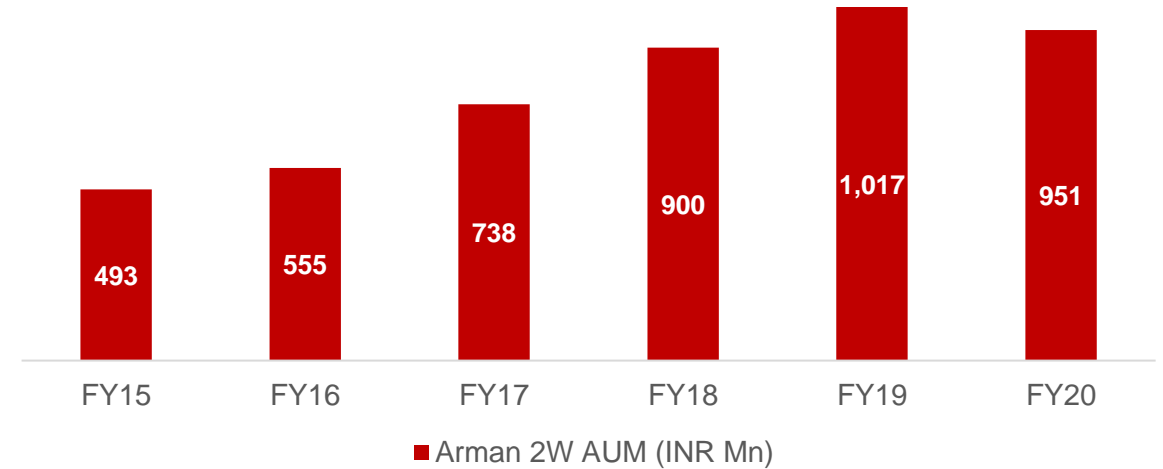


## Yields (%) & NIM (%) Trend

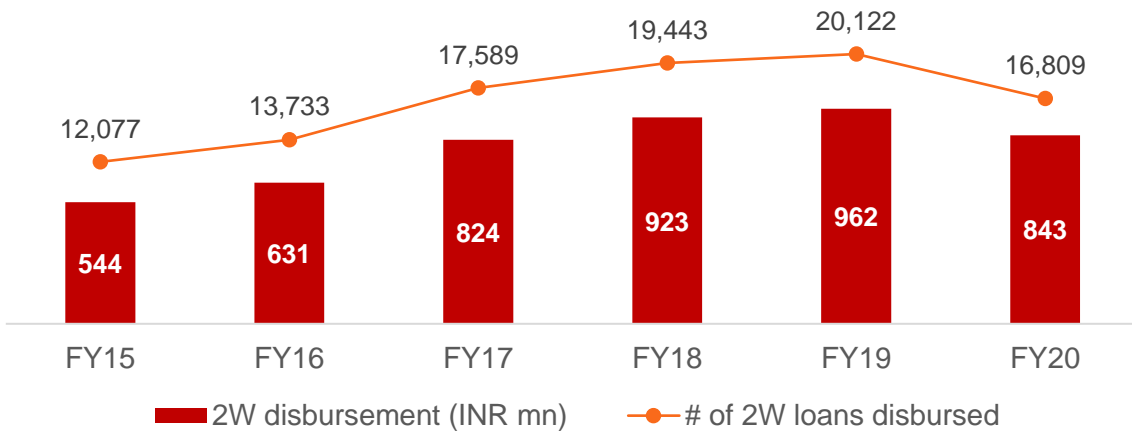


## Arman 2W AUM/ has seen steady growth over FY15-20

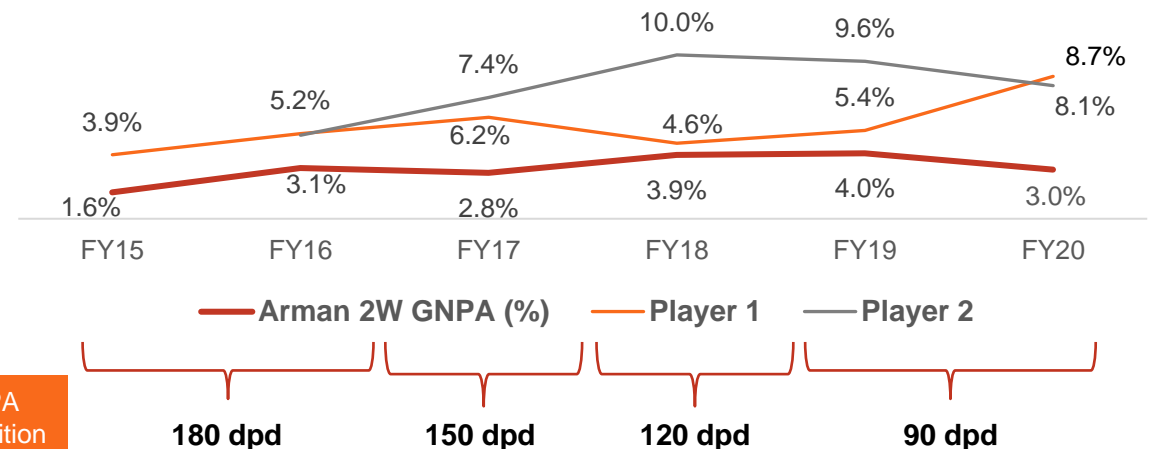
CAGR: 14%



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



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



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

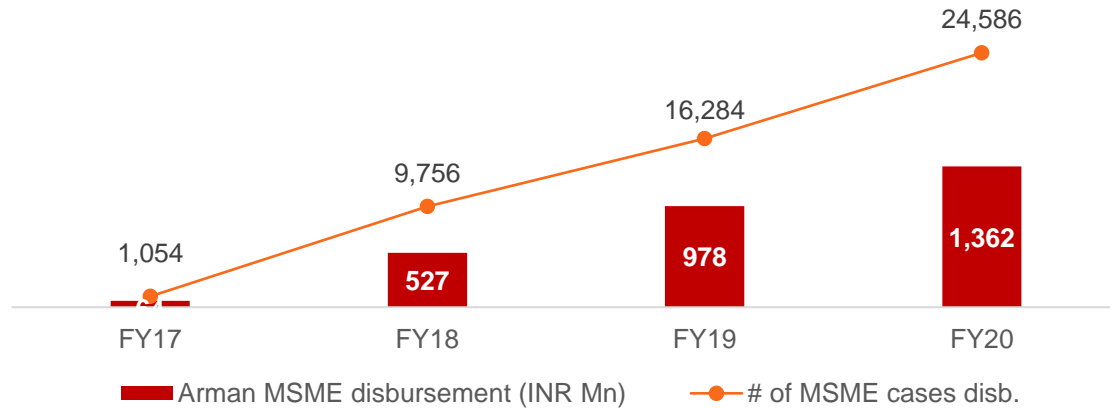


# MSME Loans: 3-Year Performance



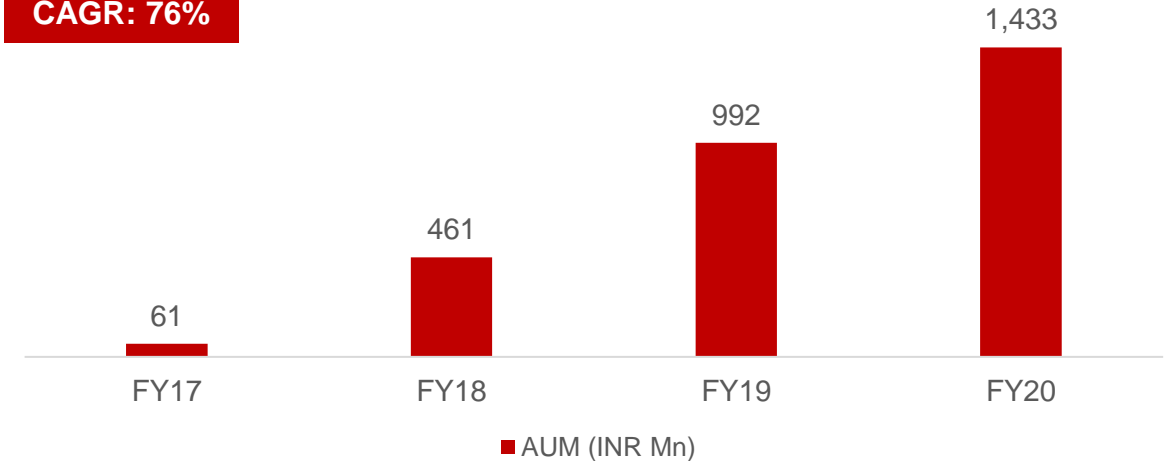
## Disbursement Growth

**CAGR: 61%**

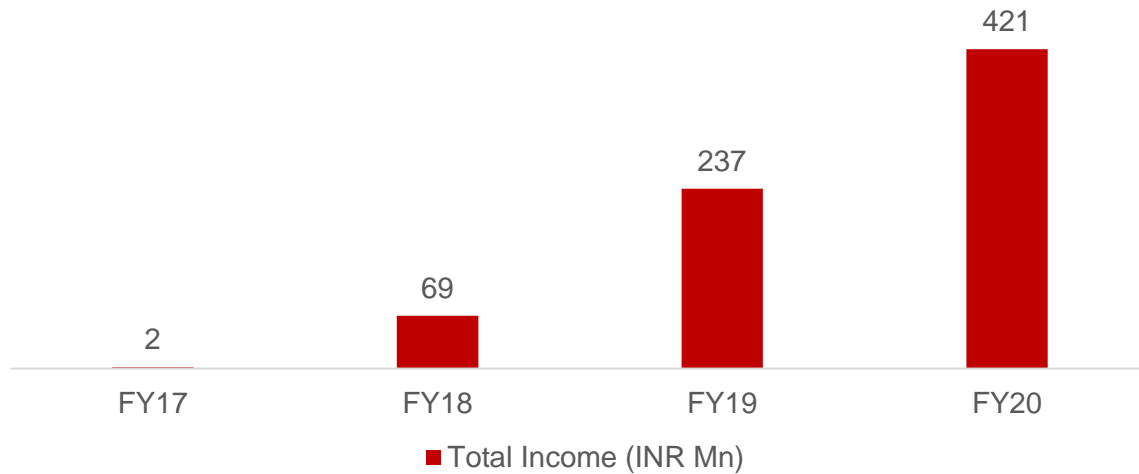


## AUM Growth

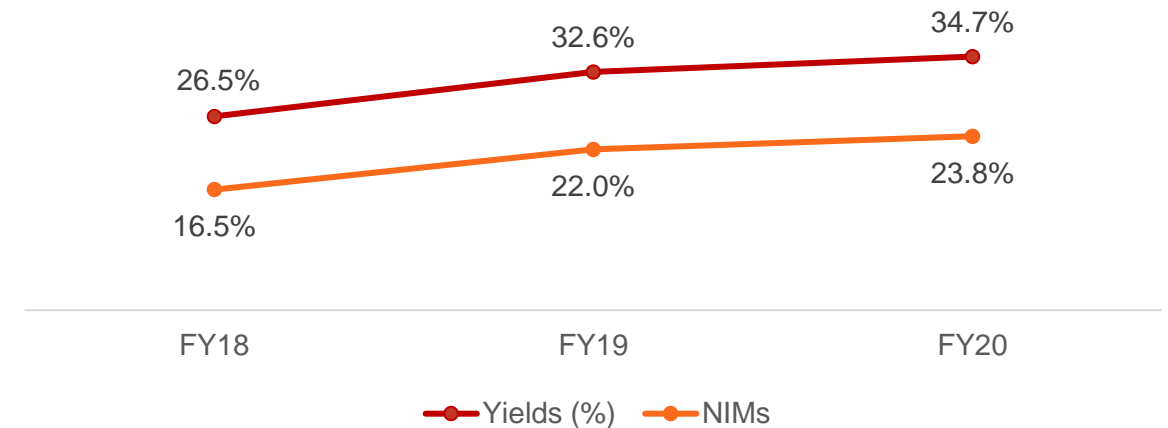
**CAGR: 76%**



## Total Income Growth



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



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