



Arman Financial Services Ltd.



**Arman Financial
Services Ltd.**

Q2 FY21 - Investor Presentation
November 2020

from ACCESS to INCLUSION

DISCLAIMER

Certain statements in this document that are not historical facts are forward looking statements. Such forward-looking statements are subject to certain risks and uncertainties like government actions, local, political or economic developments, technological risks, and many other factors that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Arman Financial Services Ltd will not be in any way be responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.



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Financial Performance Update - Q2 FY21



Q2 & H1 FY21 - Financial Performance Highlights



Total AUM declined by 6% YoY to INR 7,043 Mn (Q2 FY20 AUM: INR 7,531 Mn)



Shareholders Equity Stood at INR 1,814 Mn in Q2 FY21 (BVPS is INR 215)

Consolidated Debt-Equity Ratio stood at 3.3x on 30 September'20 (exclude direct assignment)



Pre-Provisioning Operating Profit Increased by 10% YoY to INR 206 Mn in Q2 FY21, and 3% YoY to INR 375 Mn in H1 FY21



Operating expenses declined by 4% YoY to INR 124 Mn in Q2 FY21, and 9% YoY to INR 226 Mn in H1 FY21

Cost-to-income ratio improved by ~320 bps YoY to 37.6% in Q2 FY21, and 284 bps YoY to 37.5% in H1 FY21



Collection Efficiency Improved Significantly to ~91% in October 2020 vis-à-vis ~66% in June 2020



Cumulative Provisions stood at INR 438 Mn as on 30th Sep 2020 (covering 6.2% of the total AUM)

Strengthened Provision Coverage by Prudently Recognizing Provisions of INR 141 Mn in Q2 FY21, and INR 243 Mn in H1 FY21

Update on Collections

- ❑ Collections have improved significantly across all 3 segments since June 2020 to reach ~91% in October (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 89% in October 2020.
 - 2W and MSME collections continued to be well-north of 90% during the period ‘July – Oct 2020’. Repayment rates for Oct’20 closed at 94% for MSME and 97% for 2W.
- ❑ Cumulative Provisions stood at INR 438 Mn as of 30th September 2020 covering 6.2% of the total AUM.
 - Namra: Cumulative Provisions stood at INR 271 Mn as of 30th Sep 2020 covering 5.2% of the total AUM.
 - Standalone: Cumulative Provisions stood at INR 167 Mn as of 30th Sep 2020 covering 9.2% of the total AUM.
- ❑ Priority of the company remains on getting the repayment rates back to normal (especially in the MFI segment) in the upcoming months. The company has taken significant strides towards achieving this objective in Oct’20.
 - **Microfinance:** ~93% of customers have paid at least one instalment in the period 'Apr '20 – 'Oct'20' (24,904 customers have not made any payment during this period).
 - **MSME:** ~96.4% of customers have paid at least one instalment from the period 'Apr '20 – 'Oct'20'. (1,502 customers have not paid any instalments during this period).
 - **2-Wheeler:** ~97.1% of customers have paid at least one instalment from the period 'Apr '20 – 'Oct'20'. (783 customers have not made any payments during this period).

Collection Efficiency % (August – October 2020)

Business Segment	Collections Due (Jul'20)	Amount Collected (Jul'20)	Collection Efficiency % (Jul'20)	Collections Due (Aug'20)	Amount Collected (Aug'20)	Collection Efficiency % (Aug'20)	Collections Due (Sep'20)	Amount Collected (Sep'20)	Collection Efficiency % (Sep'20)	Collections Due (Oct'20)	Amount Collected (Oct'20)	Collection Efficiency % (Oct'20)
Total	863	694	81%	844	666	80%	851	738	87%	811	737	91%
Microfinance	657	497	76%	651	485	75%	639	540	84%	606	542	89%
MSME	139	132	95%	129	119	92%	142	132	93%	139	131	94%
Two-wheeler	68	66	97%	63	61	97%	70	67	96%	66	64	97%

Note: All the amounts are in INR Mn.

Update on Liquidity

- ❑ **Healthy Liquidity position with INR ~1,350 Mn in cash/bank balance, liquid investments, and undrawn CC limits.**
- ❑ Successfully raised INR 500 Mn since July 2020.
- ❑ Liquidity position has improved driven by the pick-up in collections and the incremental debt capital raised since the start of April. Consequently, the company has duly repaid all the debt obligations that were due in Q2 FY21 as well as the moratorium obligations of April & May 2020 (i.e. voluntarily cancelled moratorium) to reduce moratorium interest burden.

Update on Disbursements

- ❑ **Gradually resumed disbursements across all segments from August 2020 onwards.**
 - Loan Disbursements during Q2 FY21 stood at INR 507 Mn. A gradual pick up in disbursements expected from Q3 FY21 onwards.
 - In microfinance, the company is primarily renewing loans of existing customers who have already made their repayments and completed their tenure.
 - 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.

Q2 FY21 - Consolidated Profit & Loss Statement



Particulars (INR Mn)	Q2 FY21	Q2 FY20	YoY (%)	H1FY21	H1FY20	YoY (%)
Assets Under Management (AUM)	7,043	7,531	(6%)	7,043	7,531	(6%)
Disbursements	507	2,315	(78%)	507	4,216	(88%)
Shareholder's Equity *	1,814	1,600	13%	1,814	1,600	13%
Income from Operations	507.7	526.3	(4%)	998.3	1,001.8	0%
Other Income	9.2	17.3	(47%)	12.5	23.8	(48%)
Gross Total Income	516.9	543.7	(5%)	1,010.8	1,025.6	(1%)
Finance Costs	186.4	227.0	(18%)	409.9	414.1	(1%)
Net Total Income (NTI)	330.5	316.7	4%	600.9	611.5	(2%)
Employee Benefits Expenses	91.0	88.1	3%	174.0	168.1	3%
Depreciation and Amortisation	2.0	2.2	(10%)	4.1	3.8	7%
Other Expenses	31.4	38.9	(19%)	48.0	75.4	(36%)
Pre-Provision Operating Profit	206.2	187.5	10%	374.9	364.1	3%
Total Provisions & Write-offs	186.6	22.3	736%	289.0	37.1	679%
Profit Before Tax	19.6	165.2	(88%)	85.9	327.0	(74%)
Profit After tax	15.1	120.0	(87%)	68.2	241.5	(72%)
GNPA %	1.1%	1.1%	(2 bps)	1.1%	1.0%	(2 bps)
NNPA %	0.2%	0.6%	(45 bps)	0.2%	0.6%	(45 bps)
Return on Avg. AUM %	0.8%	6.5%	-	1.7%	6.7%	-
Return on Avg. Equity % *	3.4%	32.6%	-	7.7%	33.8%	-

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

Q2 & H1 FY21 - Consolidated Balance Sheet



Particulars (in INR Mn)	Consolidated		Standalone	
	Sep 2020	March 2020	Sep 2020	March 2020
ASSETS				
<u>Financial Assets</u>				
Cash and cash equivalents	354	584	247	3
Bank Balance	729	384	177	56
Loans & Advances	6123	7,785	1563	2,231
Investments	623	33	826	624
Other Financial assets	127	75	24	23
Total Financial Assets	7,957	8,861	2,837	2,938
<u>Non-Financial Assets</u>				
Current tax assets (Net)	0	5	0	13
Deferred tax Assets (Net)	99	48	42	11
Property, Plant and Equipment	33	35	8	8
Other Intangible assets	1	2	0	0
Right To Use Asset	7	7	0	0
Other non-financial assets	2	4	1	2
Total Non-Financial Assets	142	101	50	34
Total Assets	8,099	8,962	2,887	2,972

	Consolidated		Standalone	
	Sep 2020	March 2020	Sep 2020	March 2020
LIABILITIES & EQUITY				
Equity Share capital	85	85	85	85
Reserves & Surplus	1,729	1,638	1,156	1,123
Total Shareholders Funds	1,814	1,722	1,240	1,207
<u>Financial Liabilities</u>				
Debt Securities	1	6,828	0	1,657
Total Borrowings	5,975	150	1,570	50
Other Financial Liabilities	230	241	50	50
Total Financial Liabilities	6,206	7,219	1,620	1,757
<u>Non-Financial Liabilities</u>				
Current tax liabilities (Net)	64	8	22	4
Deferred tax liabilities (Net)	0	0	0	0
Provisions	10	0	4	0
Other non-financial liabilities	4	13	1	4
Total Non-Financial Liabilities	79	21	27	8
Total Liabilities & Equity	8,099	8,962	2,887	2,972

Q2 FY21 - Microfinance “Namra” Performance Update



Particulars (INR Mn)	Q2 FY21	Q2 FY20	YoY (%)	H1FY21	H1FY20	YoY (%)
Asset Under Management	5,230	5,553	(6%)	5,230	5,553	(6%)
Disbursements	386	1,729	(78%)	386	3,124	(88%)
Income from Operations	348.6	361.5	(4%)	679.3	681.6	0%
Other Income	7.5	13.5	(44%)	10.3	17.6	(41%)
Gross Total Income	356.1	374.9	(5%)	689.6	699.2	(1%)
Finance Costs	141.9	174.7	(19%)	314.1	314.0	0%
Net Total Income (NTI)	214.2	200.2	7%	375.4	385.2	(3%)
Employee Benefits Expenses	61.7	56.0	10%	119.0	106.0	12%
Depreciation and Amortisation	1.8	2.0	(10%)	3.6	3.3	8%
Other Expenses	24.1	28.7	(16%)	35.9	52.6	(32%)
Pre-Provision Operating Profit	126.6	113.6	11%	217.0	223.3	(3%)
Total Provision & Write-offs *	118.1	18.7	532%	175.8	27.2	545%
Profit After Tax	6.4	71.9	(91%)	33.0	143.8	(77%)
GNPA %	0.9%	0.6%	32 bps	0.9%	0.6%	32 bps
NNPA % (after ECL impact)	0.1%	0.2%	(12 bps)	0.1%	0.2%	12 bps
Return on Avg. AUM %	0.5%	5.4%	-	1.2%	5.5%	-
Return on Avg. Equity %	2.2%	30.5%	-	5.7%	31.7%	-

Note:

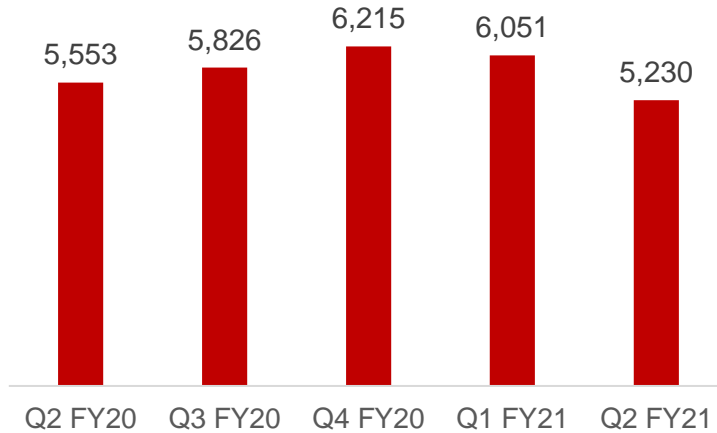
- Income from Operations includes: Interest Income on loans and managed assets; processing fees, and other charges in respect of loans. Other Income includes capital gains on liquid funds
- NIM = NTI / Avg. AUM (On + Off-Book); Yields = Gross Interest Income / Avg. AUM (On + Off-Book); Cost-to-Income 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

- ❖ **Microfinance AUM dipped by 6% YoY to INR 5,230 Mn.**
 - Active MFI Customer base stood at 3.3 Lakhs in Q2 FY21 (+0.4% YoY).
 - Lower disbursements in H1 FY21 due to the Covid induced disruption combined with higher repayments led to a run-down in loan book.
- ❖ **Gradually begun disbursements from August onwards** – primarily renewing loans of customers that have made their repayments and completed their tenure.
 - Completed disbursements of INR 386 Mn in Q2 FY21. Pace of disbursements to pick up gradually from Q3 FY21 onwards.
- ❖ **Gross Total Income** declined by 5% YoY to INR 356.1 Mn due to softer yields and lower booking of processing fees on account of lower disbursements.
- ❖ **However, Net Total Income grew by 7% YoY to INR 214.2 Mn** led by a combination of decline in borrowings, and efficient cost management.
- ❖ **Provisions** for the quarter rose to INR 118 Mn, as the company prudently created provisions of INR 79 Mn and took a write-off of INR 39 Mn to reduce the NPA burden of Pre-Covid doubtful assets.
 - 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 30th Sep'20 stood at INR 271 Mn covering 5.2% of the total AUM. (Cumulative Covid provisions stood at INR 136 Mn) .**
- ❖ GNPA & NNPA (post ECL adjustment) remained low & stable at 0.9%.and 0.1%.
- ❖ **Repayment rates picked-up significantly reaching 89% in Oct'20.**

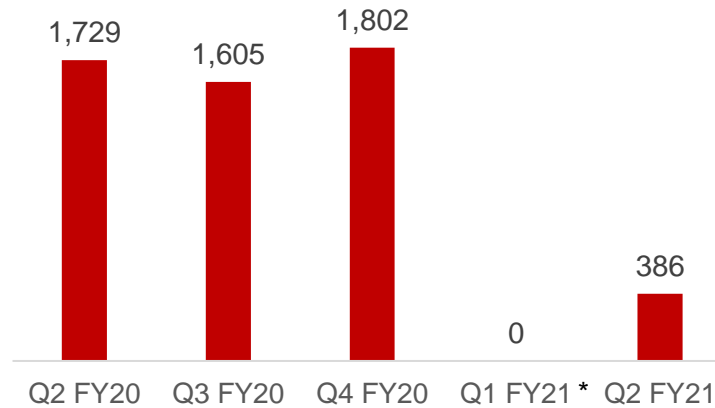
Q2 FY21 - Microfinance Performance Update



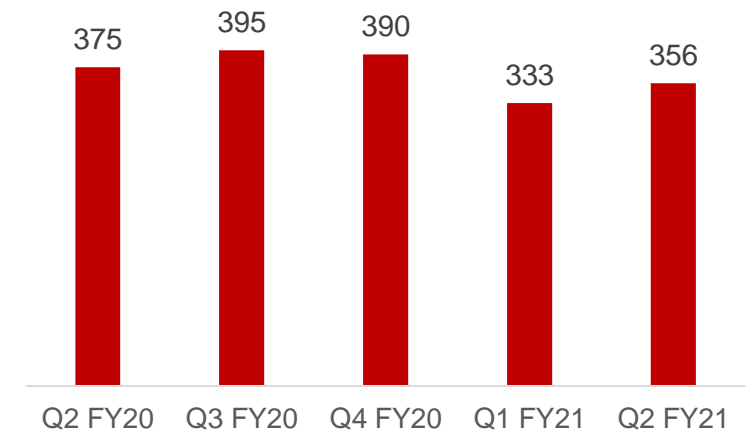
AUM (INR Mn)



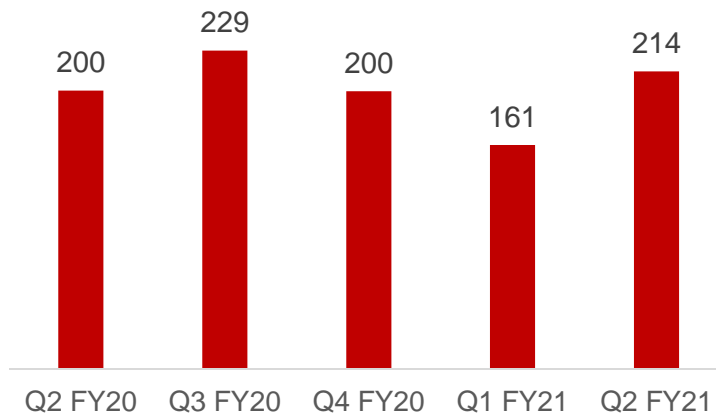
Disbursement (INR Mn)



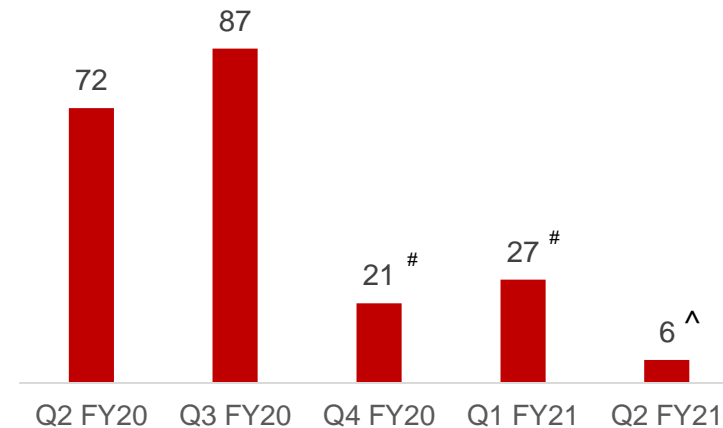
Gross Total Income (INR Mn)



Net Total Income (INR Mn)



PAT (INR Mn)



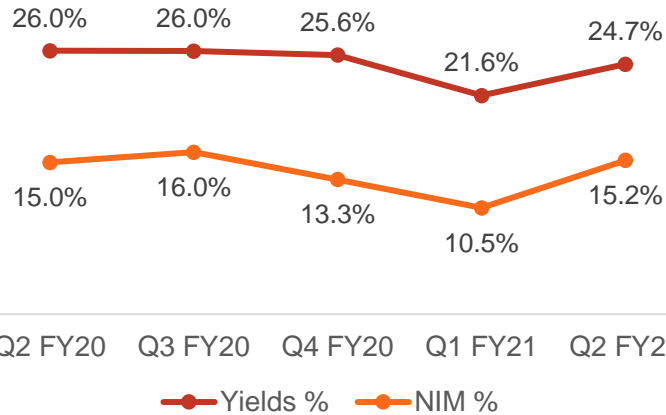
Note:

- * 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 79 Mn and INR 39 Mn in Q2FY21 respectively
- Net Total Income = Gross Total Income – Finance Cost

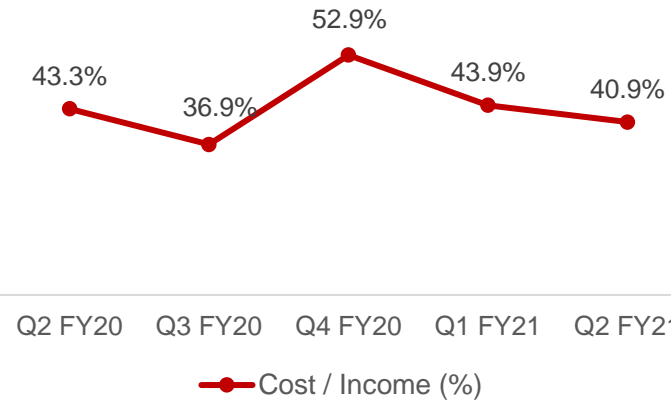
Q2 FY21 - Microfinance Performance Update



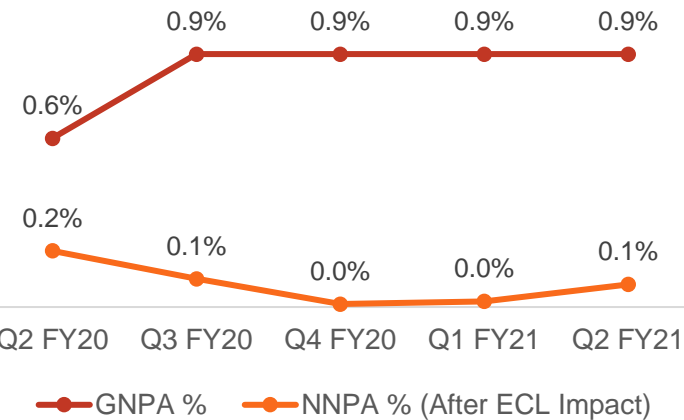
Yields % and NIM %



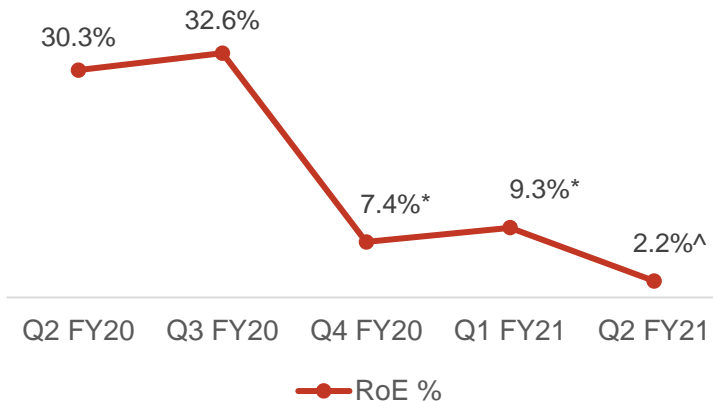
Cost-to-Income Ratio %



Asset Quality



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 79 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 = $\text{PAT} / \text{Avg. Equity}$.
RoE, Yields and NIM % figures are annualized

Q2 FY21 - Standalone Performance Update (2W & MSME)



Particulars (INR Mn)	Q2 FY21	Q2 FY20	YoY (%)	H1FY21	H1FY20	YoY (%)
Asset Under Management	1,813	2,218	(18%)	1,813	2,218	(18%)
Disbursements	121	585	(79%)	121	1,092	(89%)
Income from Operations	164.3	167.5	(2%)	326.1	323.7	1%
Other Income	9.9	10.3	(4%)	16.5	15.8	5%
Gross Total Income	174.3	177.8	(2%)	342.7	339.5	1%
Finance Costs	49.7	54.9	(9%)	102.8	103.5	(1%)
Net Total Income (NTI)	124.6	122.9	1%	239.8	235.9	2%
Employee Benefits Expenses	29.2	32.0	(9%)	55.0	62.1	(11%)
Depreciation and Amortisation	0.3	0.3	(9%)	0.5	0.5	(1%)
Other Expenses	7.2	10.2	(29%)	12.1	22.8	(47%)
Pre-Provision Operating Profit	87.9	80.4	9%	172.2	150.5	14%
Total Provision & Write-offs	68.5	4.8	1,317%	113.2	11.1	921%
Profit After Tax	17.0	54.2	(69%)	49.6	106.5	(53%)
GNPA %	1.6%	2.2%	(67 bps)	1.6%	2.2%	(66 bps)
NNPA %	0.5%	1.6%	(116 bps)	0.5%	1.6%	(116 bps)
Return on Avg. AUM %	3.4%	10.0%	-	4.7%	10.1%	-
Return on Avg. Equity %	5.5%	21.0%	-	8.1%	21.2%	-

Note:

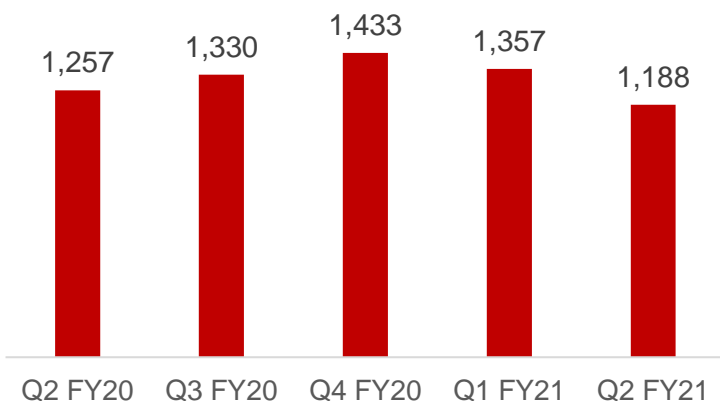
- Income from operations includes interest income on loans and managed assets, other Income includes processing fees, other charges in respect of loans, late payment charges, etc.
- Yields = Gross Interest Income / Avg. AUM (On + Off-Book); NIM = NTI / Avg. AUM (On + Off-Book); RoE = PAT / Avg. Equity; GNPA % = GNPA / AUM (On + Off-Book); NNPA % = NNPA / AUM (On + Off-Book).
- ROAE and ROAA figures are annualized

- ❖ **Standalone AUM stood at INR 1,813 Mn on Sep'20.**
 - MSME AUM de-grew by 5% YoY to INR 1,188 Mn.
 - 2W AUM declined by 35% YoY to INR 625 Mn, as the 2W sales have declined in the last one year given the challenging economic environment. Further, lower disbursements in H1 FY21 along with high repayment rates led to a run down in the book.
 - Rural 2W Book stands at INR 79 Mn (higher by 10% YoY).
- ❖ Implemented cost rationalization measures which resulted in operating expenses coming down by 14% YoY to INR 36.7 Mn.
- ❖ **Consequently, cost-to-income ratio improved by ~510 bps YoY to 29.5% in Q2 FY21 resulting in higher Pre-provisioning Operating Profit growth (+9% YoY).**
- ❖ Provisions & write-offs rose to INR 68.5 Mn in Q2 FY21, as the company prudently undertook aggressive provisioning to deal with possible future Covid related impairments.(Provisions: INR 61.5 Mn, Write-offs: INR 7 Mn).
- ❖ **Cumulative Provisions on 30th Sep'20 stood at INR 167 Mn covering 9.2% of total AUM. (Cumulative Covid provisions stood at INR 123 Mn).**
- ❖ GNPA improved to 1.6%, and Net NPA improved to 0.5%.
- ❖ **Repayment rates improved in the last couple of months -**
 - MSME:** Repayment rates improved to 93% in Sep'20, and 94% in Oct'20.
 - 2W:** Repayment rates were healthy and steady at 97% in Oct'20.

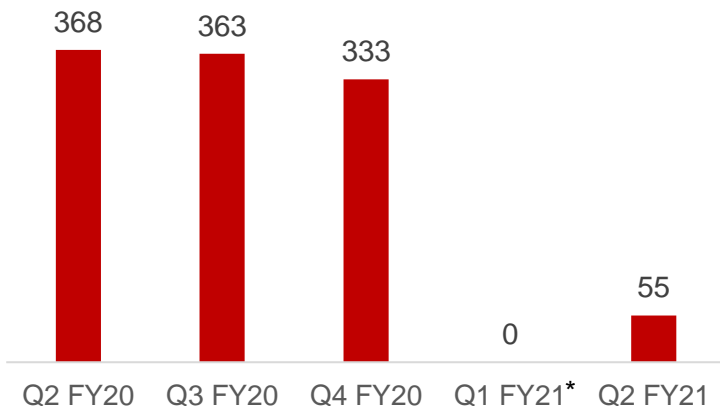
Q2 FY21 - MSME Performance Update



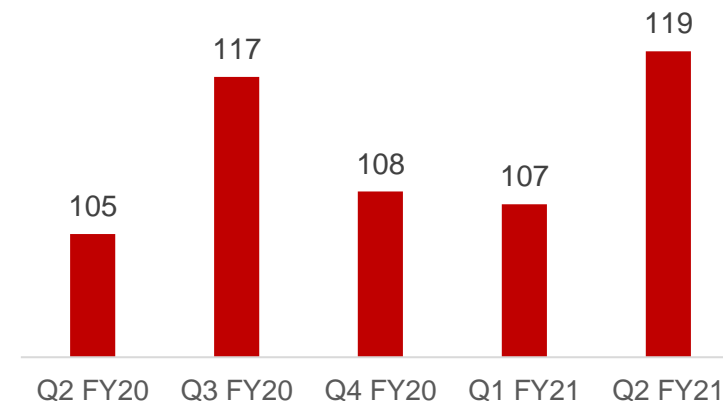
AUM (INR Mn)



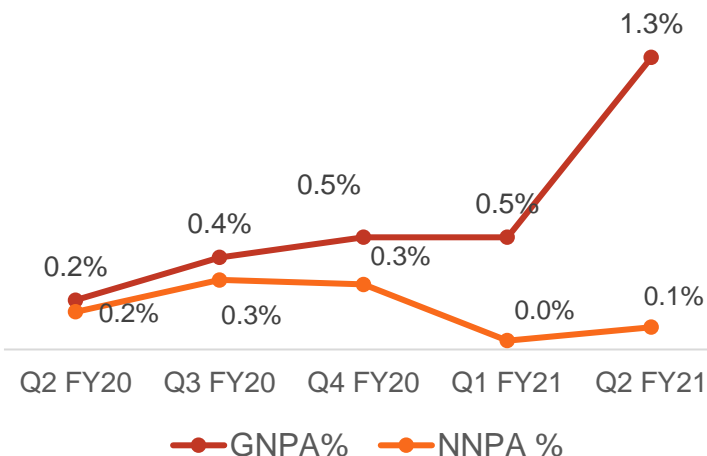
Disbursements (INR Mn)



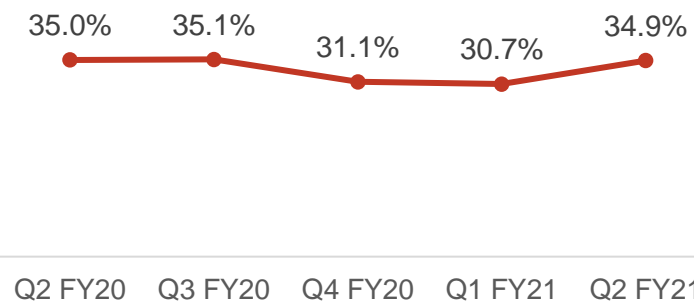
Gross Interest Income (INR Mn)



Asset Quality



Yields %



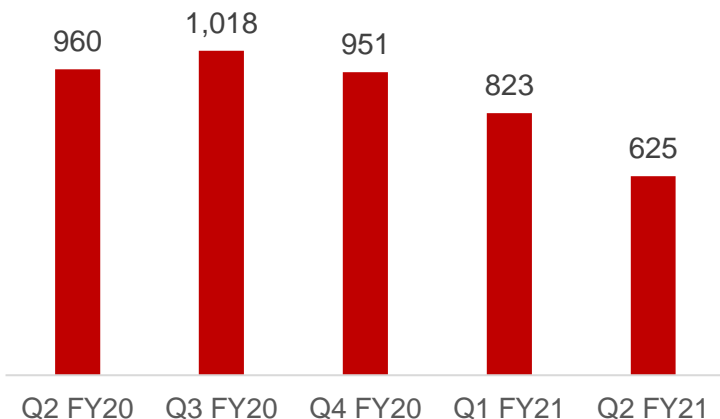
Note:

- * 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.

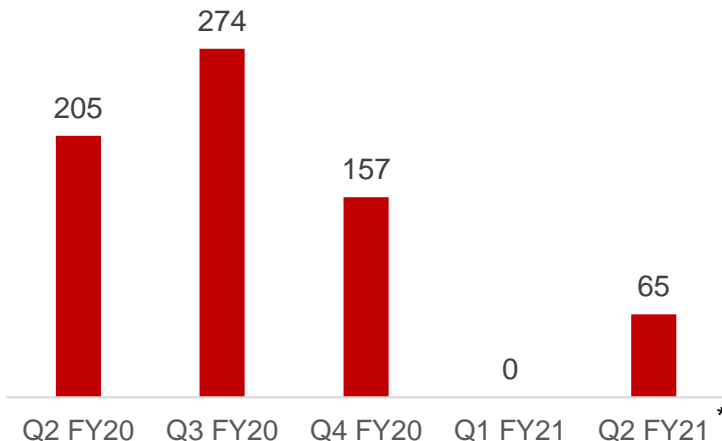
Q2 FY21 - 2W Performance Update



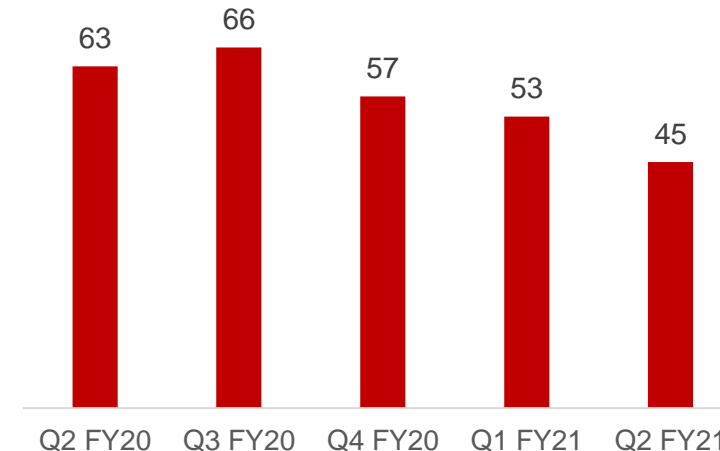
AUM (INR Mn)



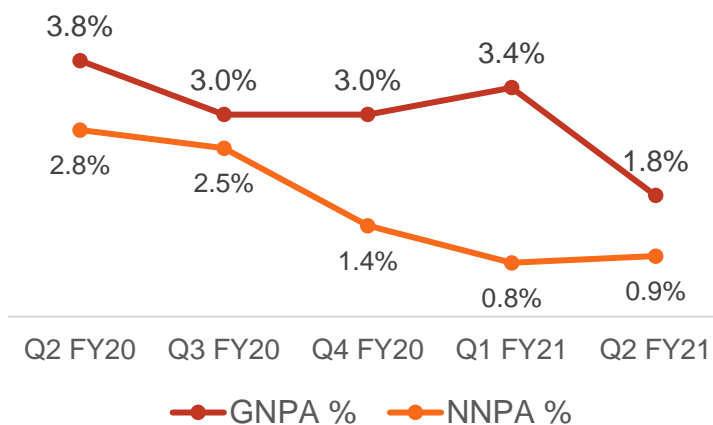
Disbursement (INR Mn)



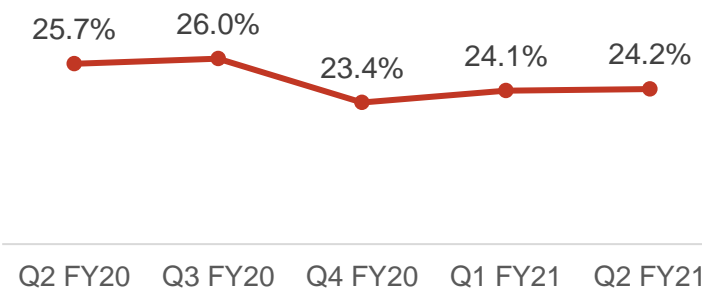
Gross Interest Income (INR Mn)



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



Arman Financial Services Ltd.



Liability Overview

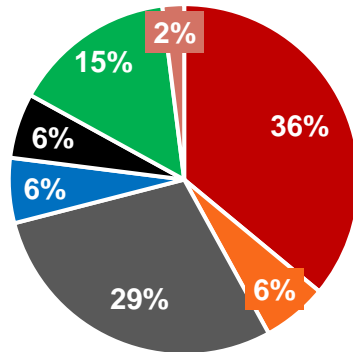
Efficient Liability Management



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

Q4 FY20 - Borrowing Mix %

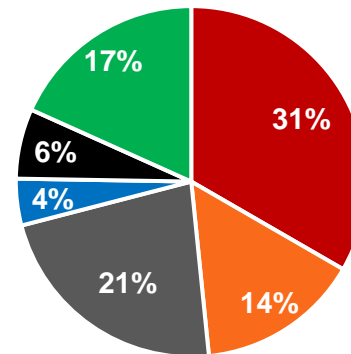
INR 7,665 Mn *



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

Q2 FY21 - Borrowing Mix %

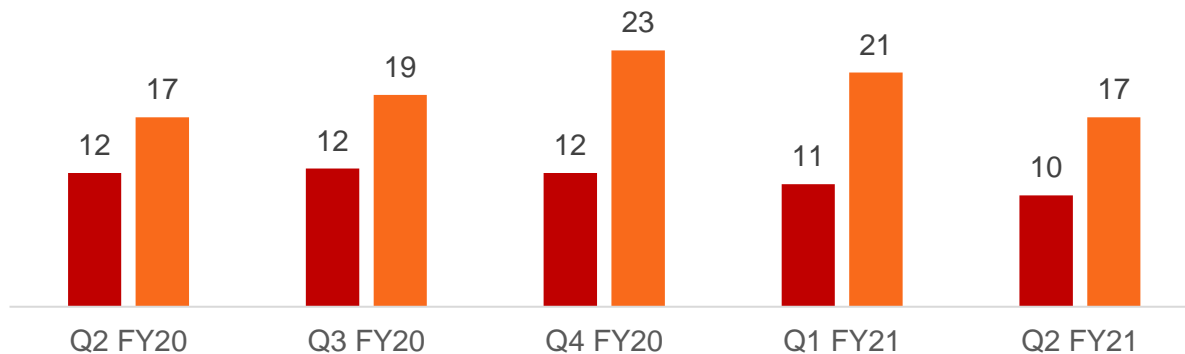
INR 6,444 Mn #



Note: # INR 6,444 Mn includes direct assignment of INR 410 Mn

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

Positive ALM (in Months)



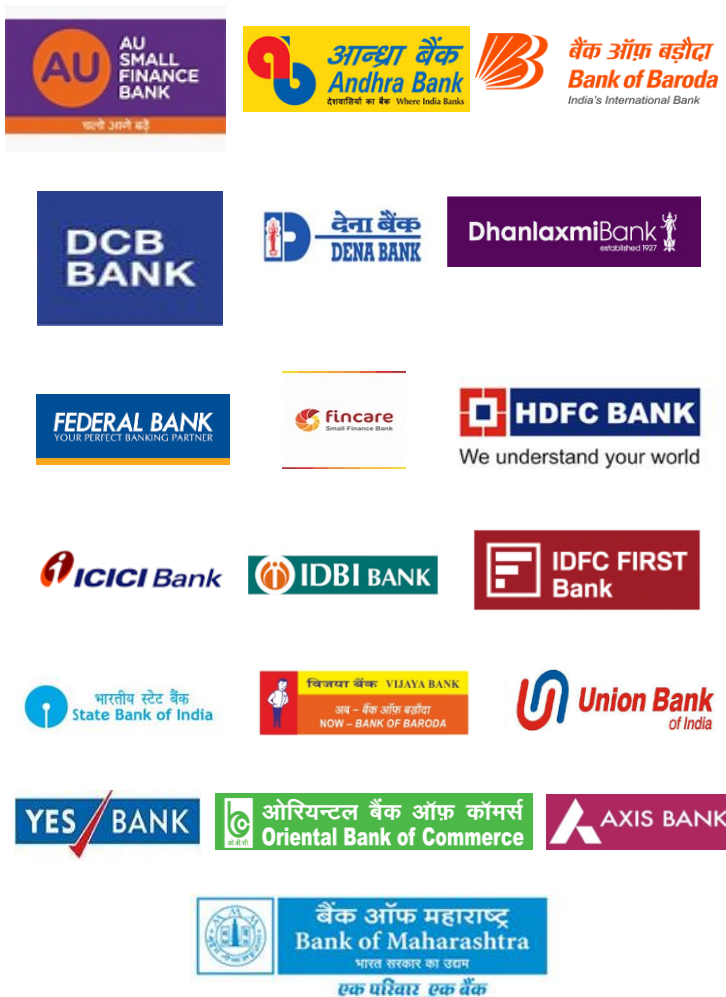
■ Average Tenor of Active Assets (months) ■ Average Maturity of Active Borrowings (months)

- 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 **~41% of borrowings in Q2 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**
- **Comfortable liquidity position backed by Positive ALM**

Lending partners



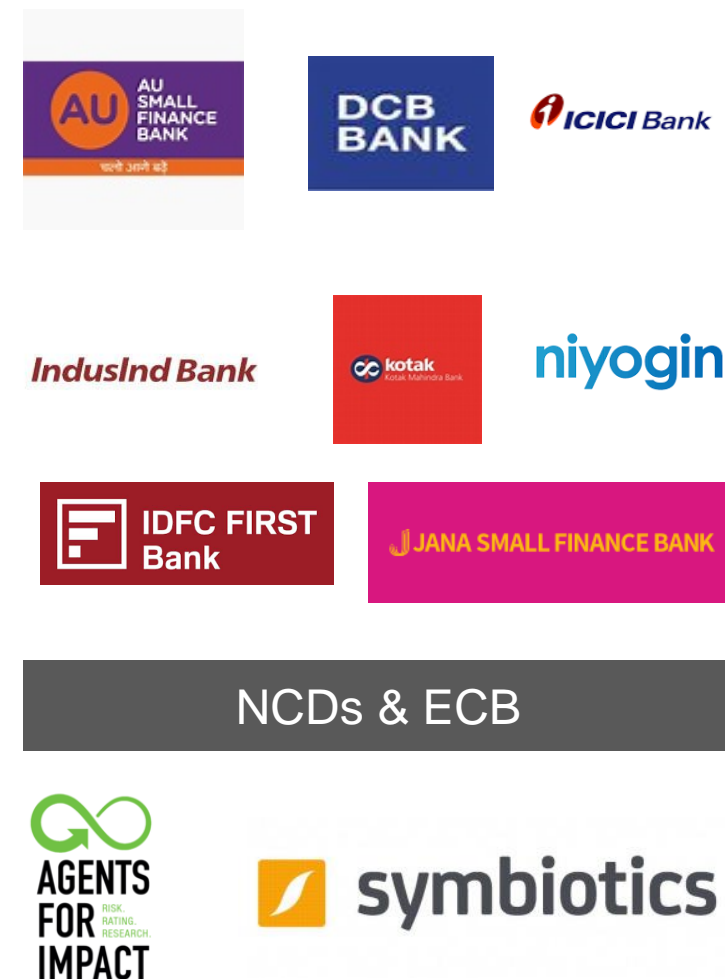
Bank Borrowings



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

Robust Risk Management Framework

- **Superior Asset Quality – GNPA: 1.1%; NNPA: 0.2% (Q2 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

Presence in Attractive Retail Lending

Segments

- **Total Loan Assets of INR 7,043 Mn in Q2 FY21**
- **Microfinance – 74% of AUM** (via 100% owned subsidiary “**Namra Finance**”)
- **MSME Loans – 17% of AUM**
- **2-Wheeler Loans – 9% of AUM**
- **Healthy Spreads:** Yields 26.6%, NIM 17.3% (Q2 FY21)



Arman Financial Services Ltd.

Strong Financial Performance

- **High-Growth Trajectory (FY2015-20 CAGR) :**
 - **AUM: 50%**
 - **PAT: 46%**
- **Consolidated debt to equity ratio of 3.3:1** – Sufficient Capital to drive growth going forward
- **High Return Ratios:**
 - **Q2 FY21 - ROE (%): 3.4%* , ROAA (%): 0.8% ***

Strong Retail Presence & Wide Distribution Network

- 211 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

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 of INR 141 Mn and write-offs of INR 46 Mn in Q2 FY21.
- 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.

Business Progression



Company incorporated. Started bill discounting & machine leasing

1992

1995

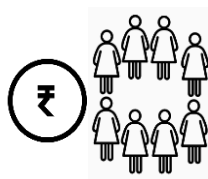
Listing on BSE – Issue subscribed 22x

Launched 2W Loans

1998

2010

Launched Microfinance business



Raised PE funding from Incofin; Disbursement crosses 50 Cr

2011

2013

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

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

2014-16

2017

Launched MSME Loans business



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

2017-18

2018

Raised PE funding from SAIF Partners

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

2019

2020

AUM & Disbursements cross 800 Cr; Branch Network crosses 200

Product Snapshot



ARMA 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%

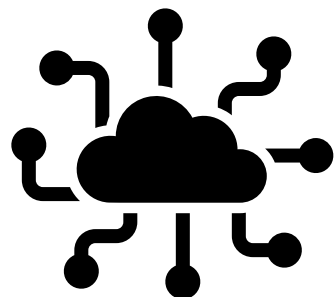


Technological Initiatives to Strengthen Operations

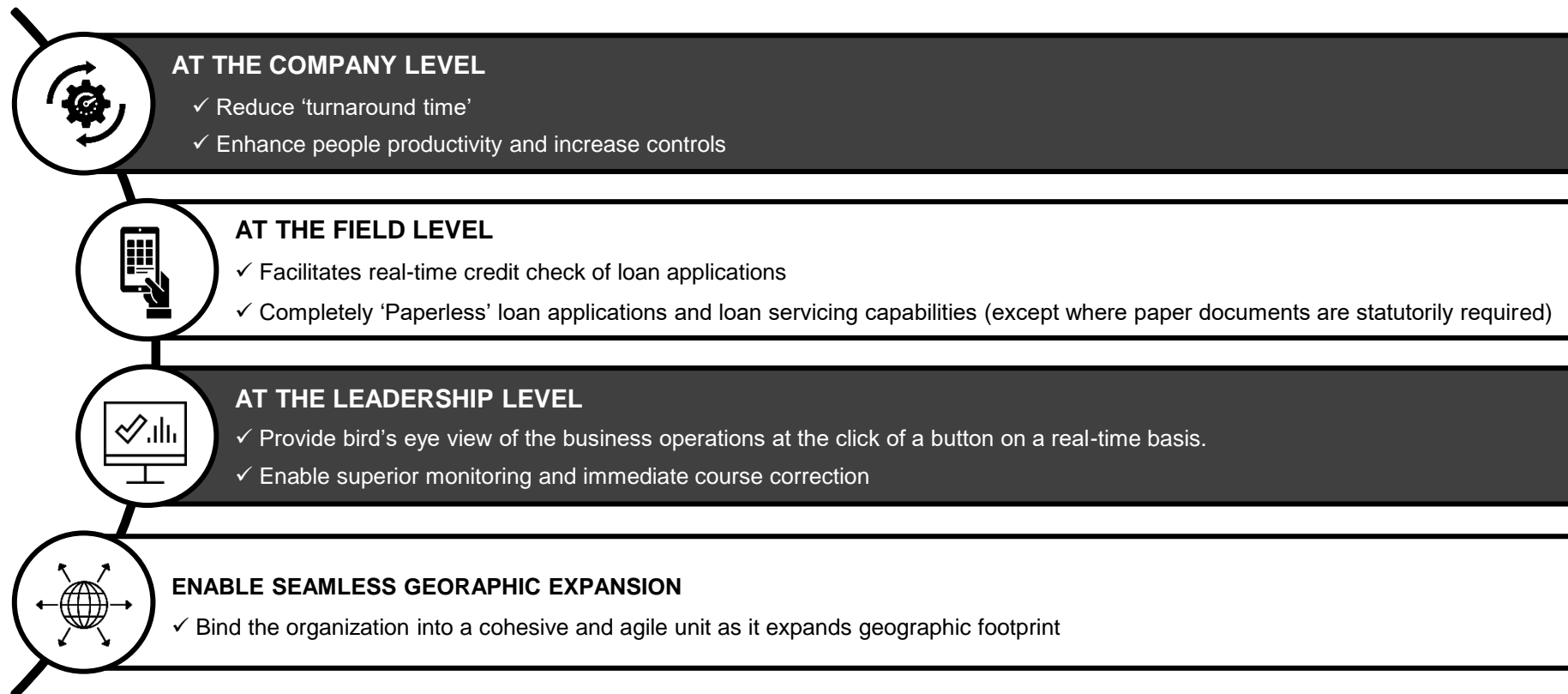


- ❖ In FY19, the company launched an integrated mobile interface for its MFI field staff to enable seamless on-boarding of MFI customers by digitizing & standardizing the loan origination and appraisal process. **‘This technology has been successfully implemented across all the MFI branches now.’**
- ❖ 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



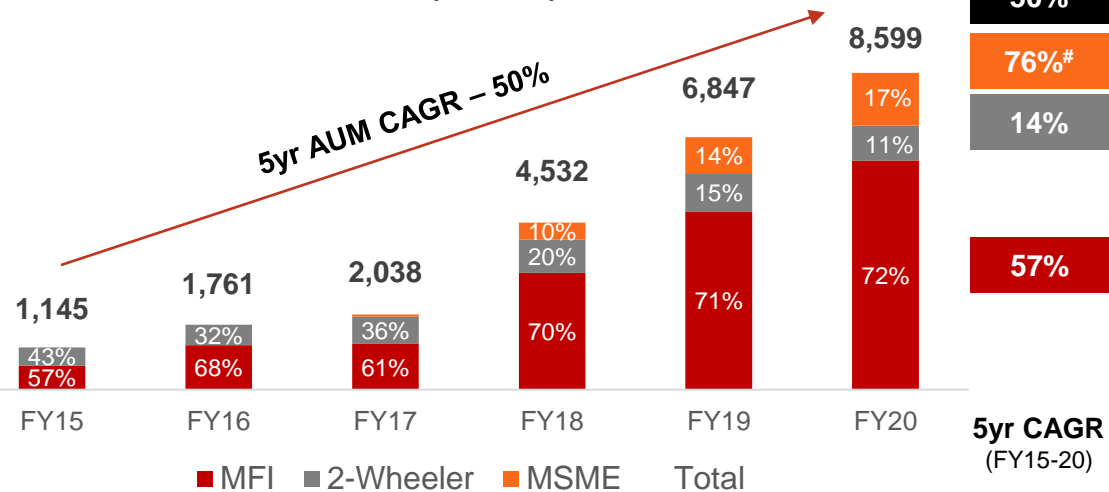
DRIVING DIGITAL TRANSFORMATION



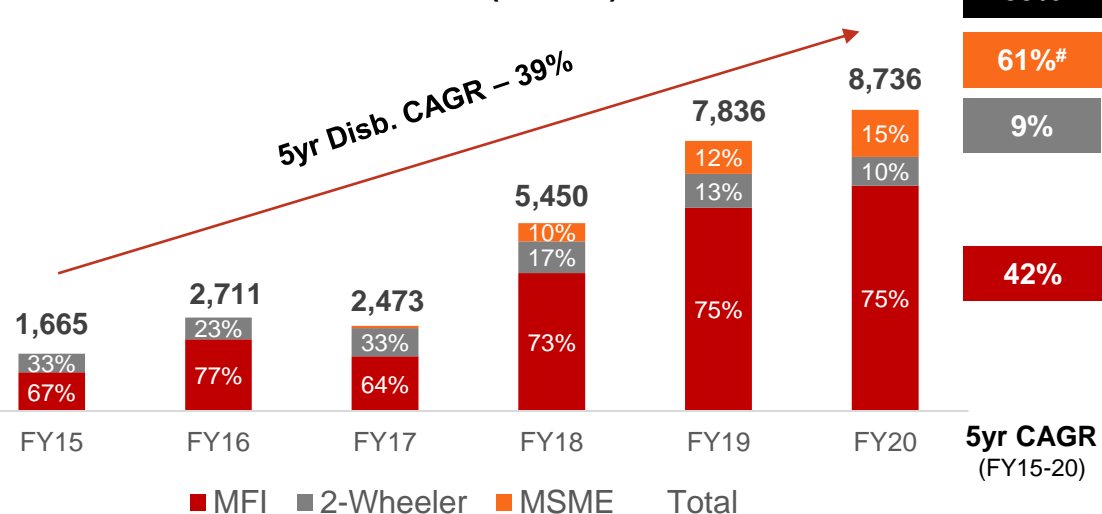
Strong Growth in AUM & Disbursements....



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)

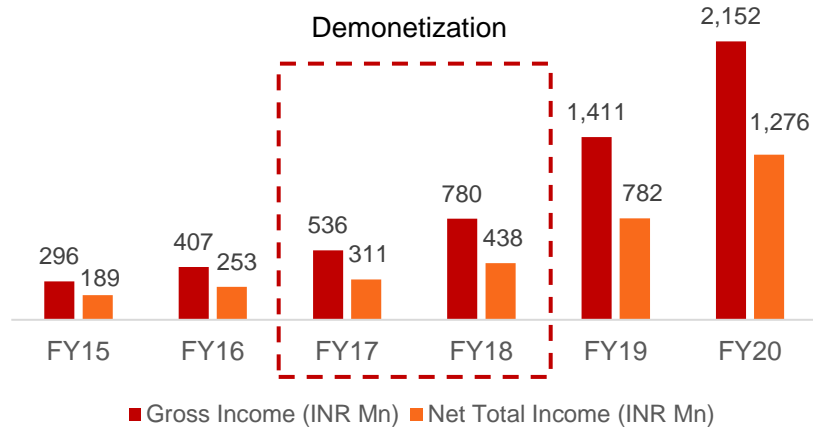
.....While Maintaining Superior Cost Efficiency & Asset Quality



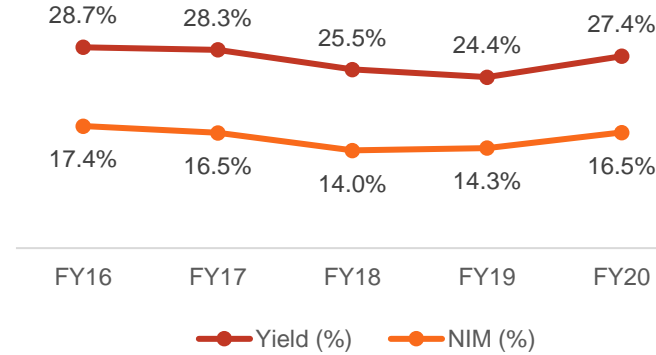
Gross Income and Net Total Income (INR Mn)

CAGR: 49%

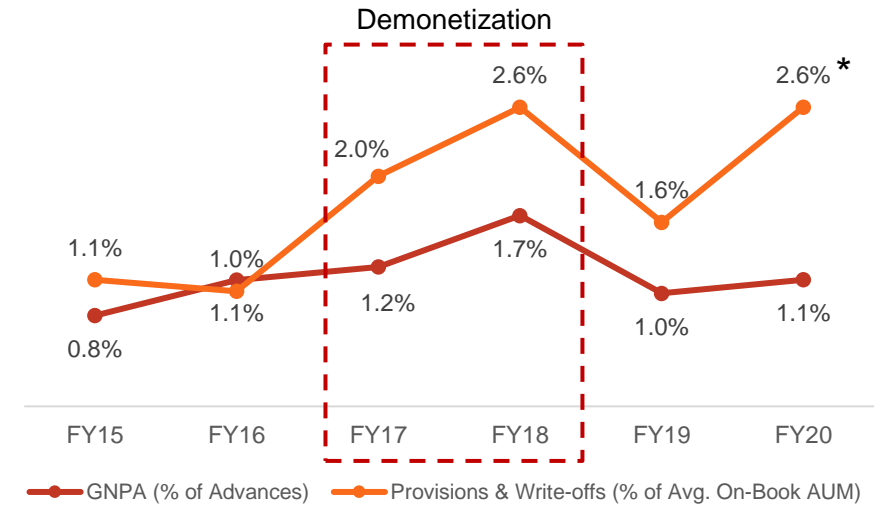
CAGR: 47%



Yield % and NIM %

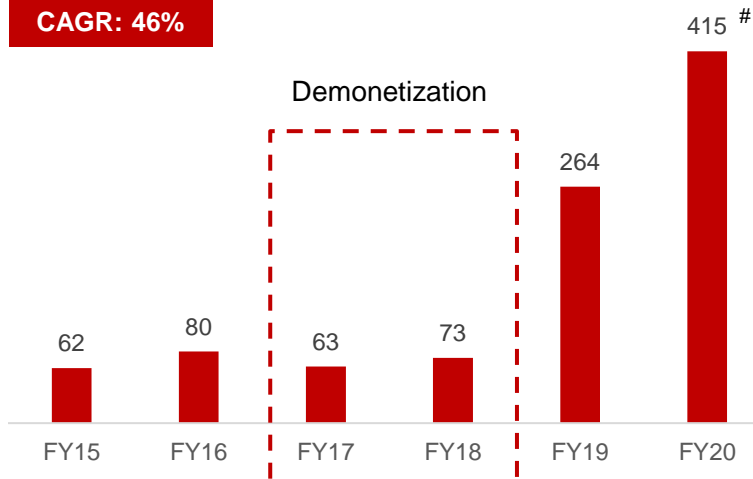


Focus on risk have led to immaculate through-cycle asset quality

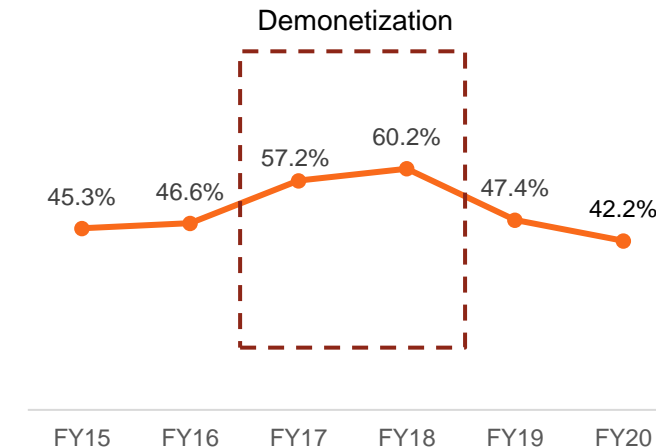


PAT (INR Mn)

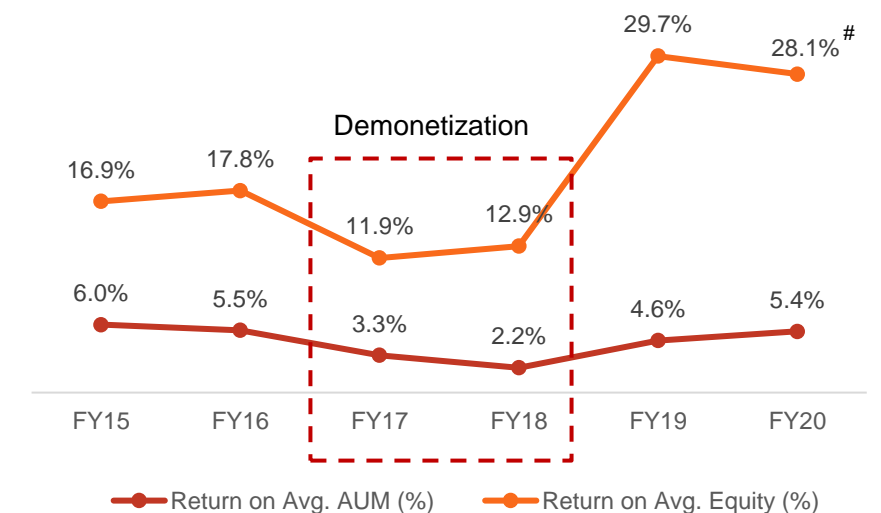
CAGR: 46%



Cost to Income Ratio %



Consistently high through cycle ROA / ROE



Note:

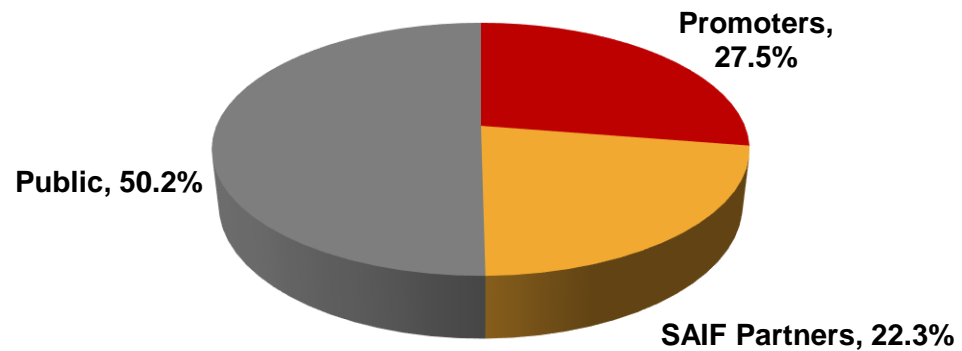
- * Includes Covid specific provisioning of INR 66.8 Mn. [#] Adjusted for the Covid Provisioning of INR 66.8 Mn, PAT would have stood at INR 482 Mn in FY20; and ROE would have been 32.6%
- FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. NIM = NII / Average AUM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



Shareholding Pattern



SHAREHOLDING – 30th September 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)

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

FY20 – Key Metrics (%)

25.8%	14.7%	4.6%
Yield	NIM	ROAA
0.9%	0.01%	26.2%
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 (%)

1,433

AUM (INR Mn)

421

Total Income (INR Mn)

1,362

Disbursement (INR Mn)

70,000

Avg. Ticket Size (INR)

FY20 – Key Metrics (%)

34.7%

Yield

0.5%

GNPA

23.8%

NIM

0.3%

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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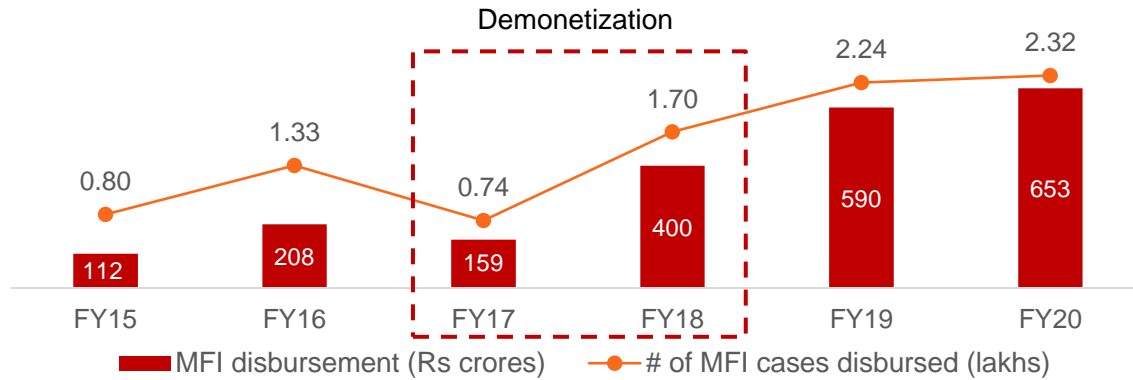
from ACCESS to INCLUSION

Annexures

Microfinance: 5-Year Performance



Disbursement growth is driven by customer & branch addition

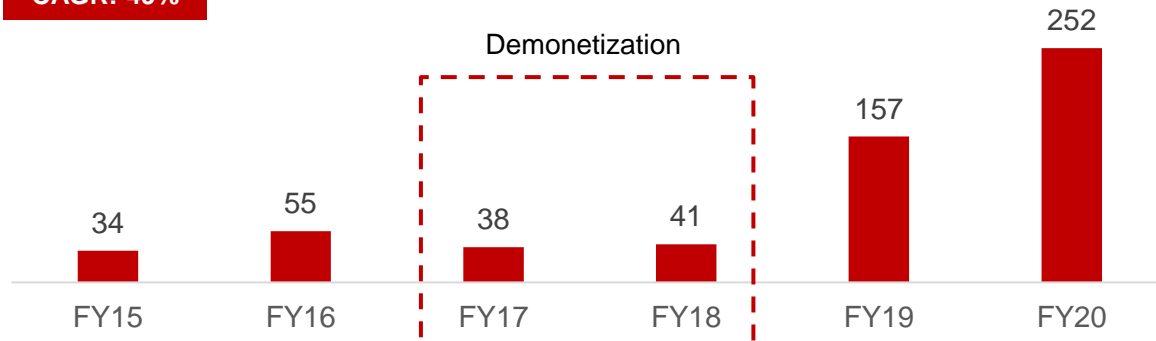


	FY15	FY16	FY17	FY18	FY19	FY20
MFI Branches	39	55	80	107	138	170
Avg. Ticket size (INR)	13,937	15,583	21,477	23,517	26,358	28,133

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

PAT (INR Mn)

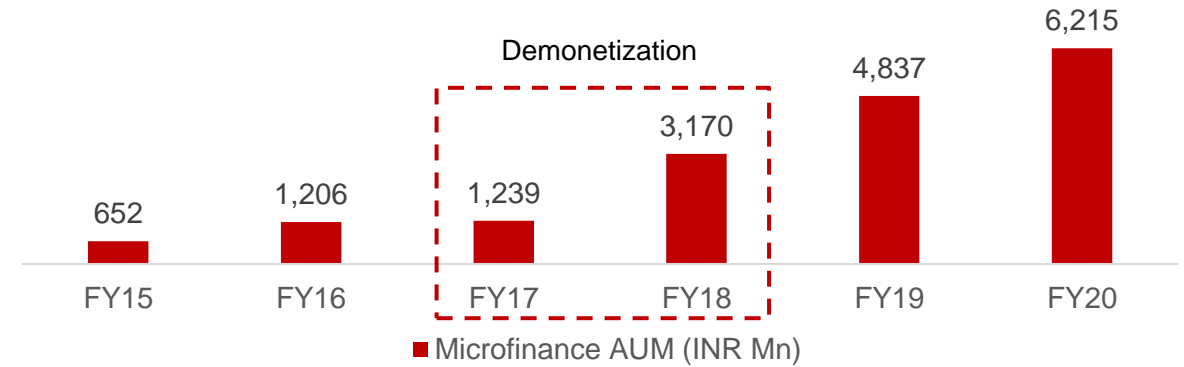
CAGR: 49%



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

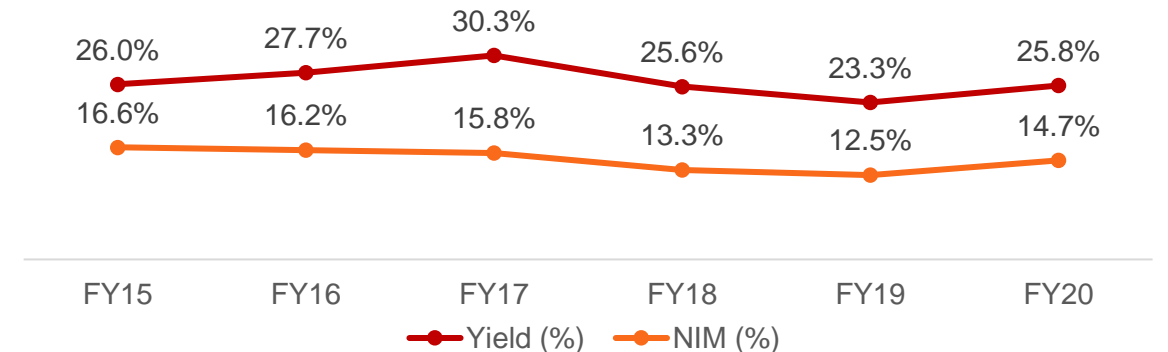
CAGR: 57%



	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

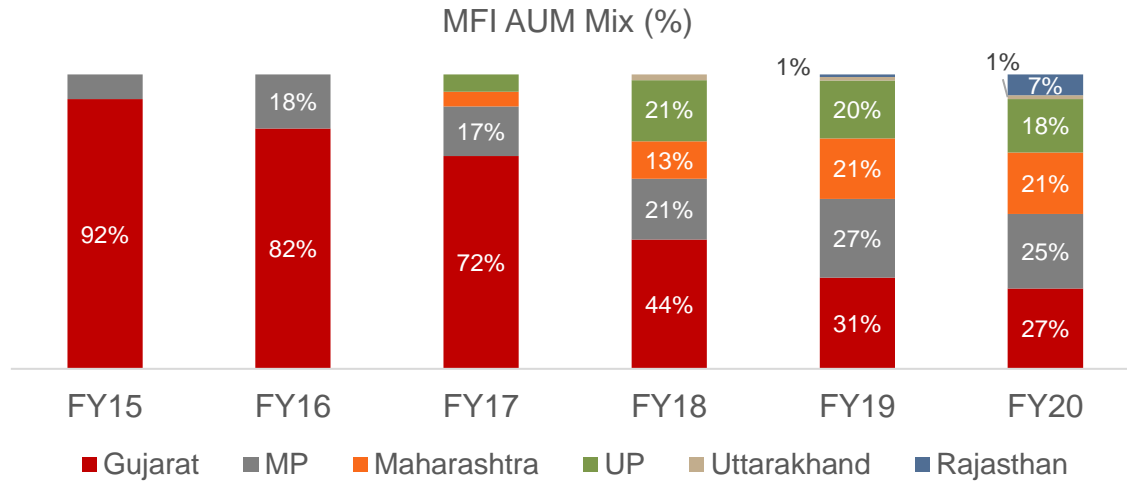
Yields (%) & NIM (%) Trend



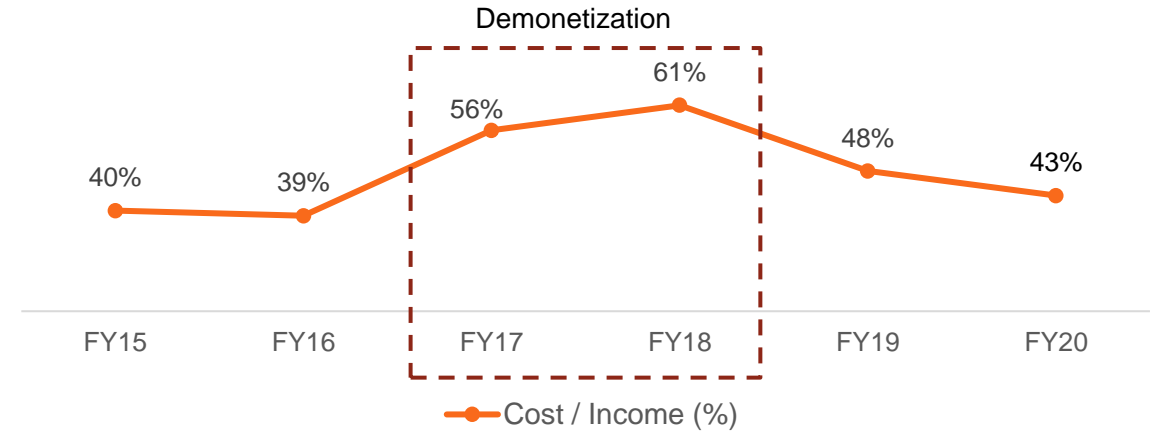
Microfinance: 5-Year Performance



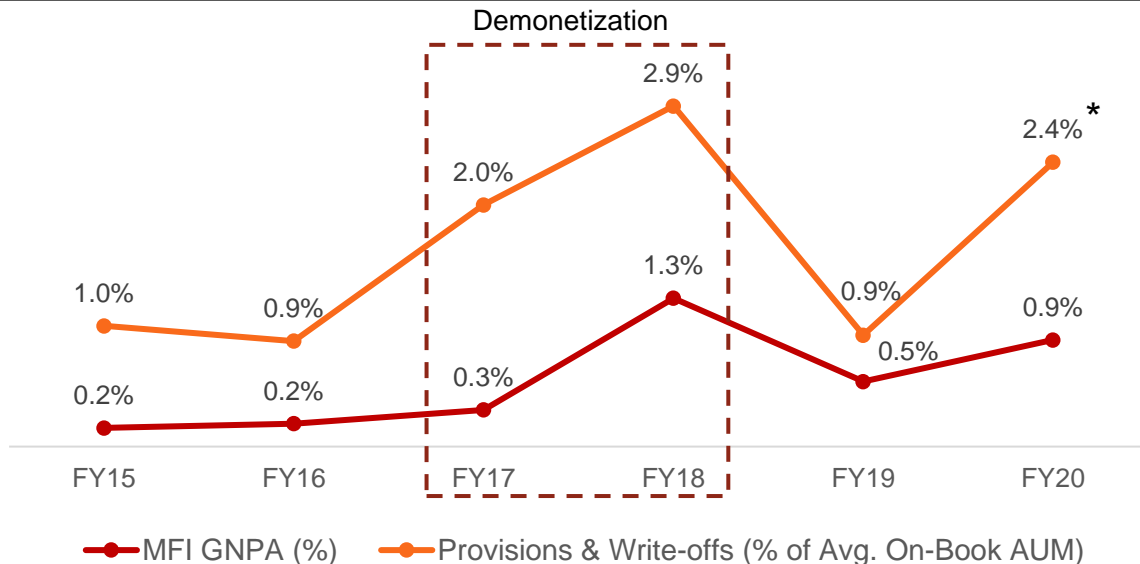
Well diversified across geographies



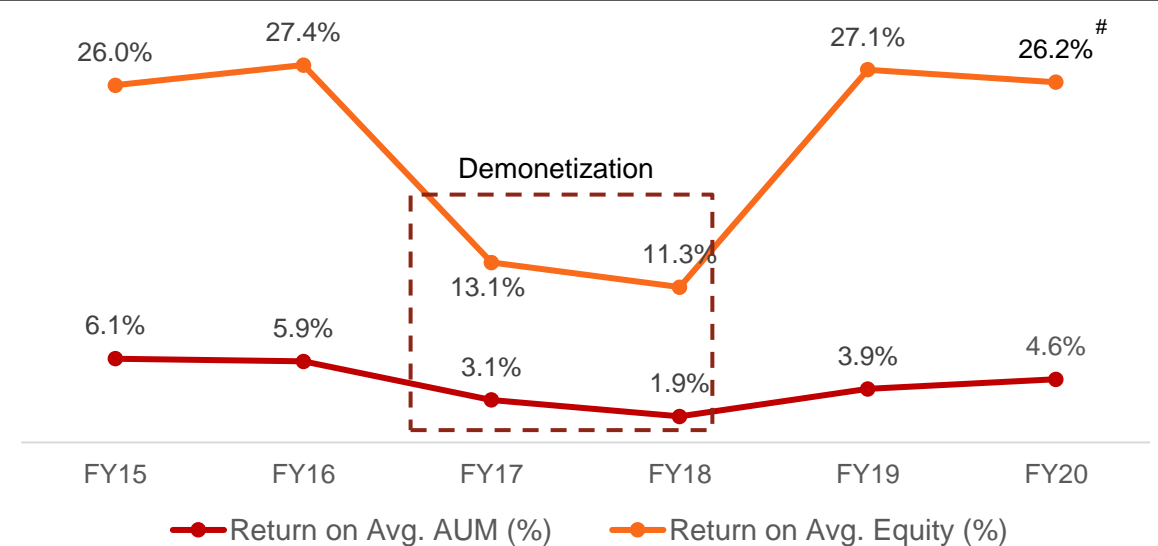
Maintaining high operational efficiency



Through cycle asset quality under control



Sustaining strong ROA (%) & ROE (%)

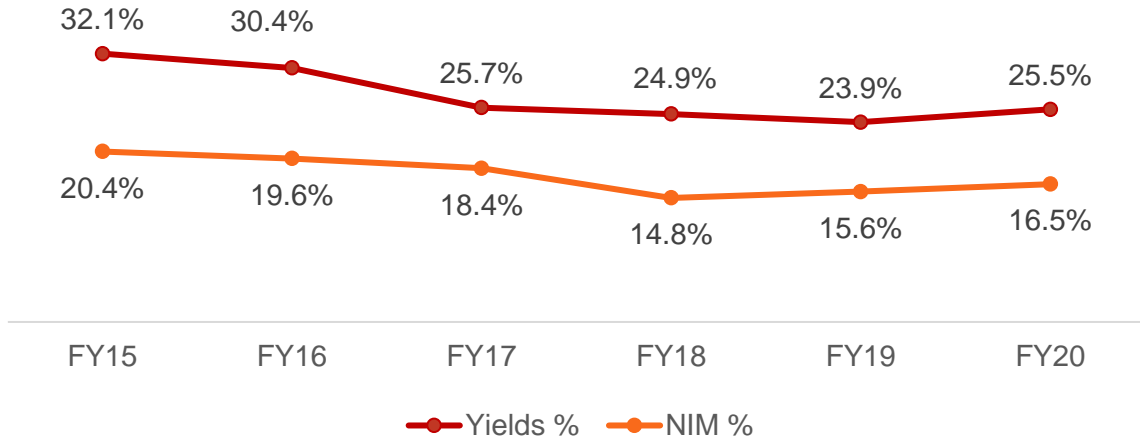


Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP. * Includes Covid specific provisioning of INR 45.3 Mn. # Adjusted for Covid Provisioning, ROE stood at 30.9% in FY20

2W Loans: 5-Year Performance

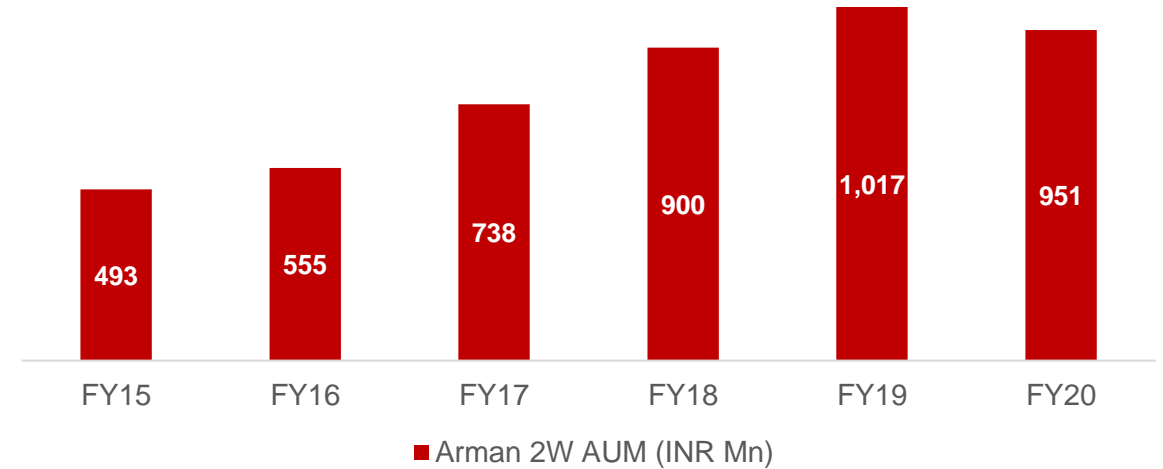


Yields (%) & NIM (%) Trend

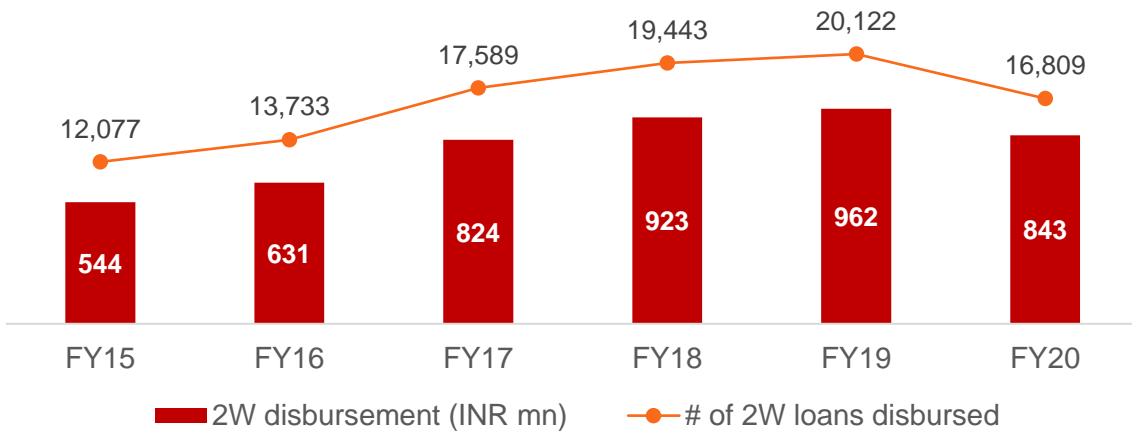


Arman 2W AUM/ has seen steady growth over FY15-20

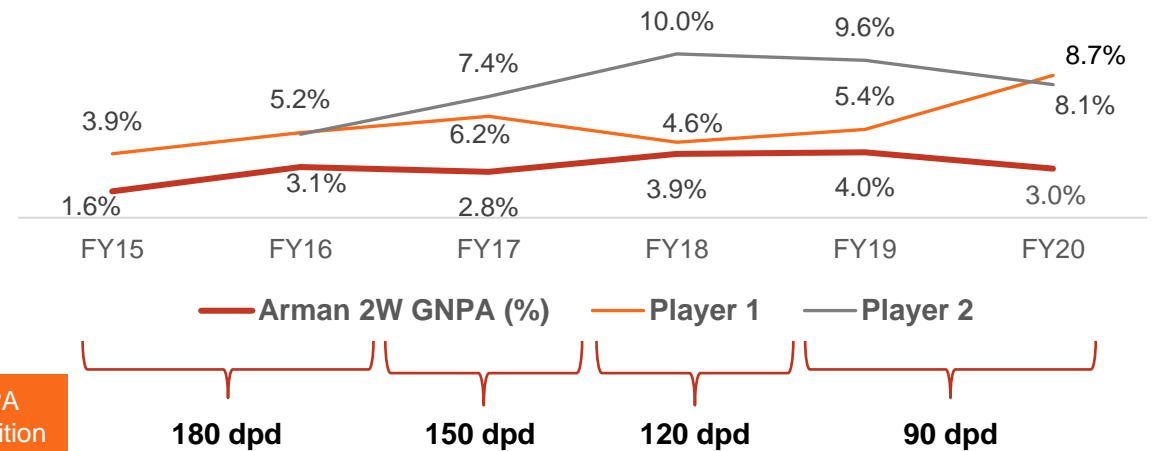
CAGR: 14%



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



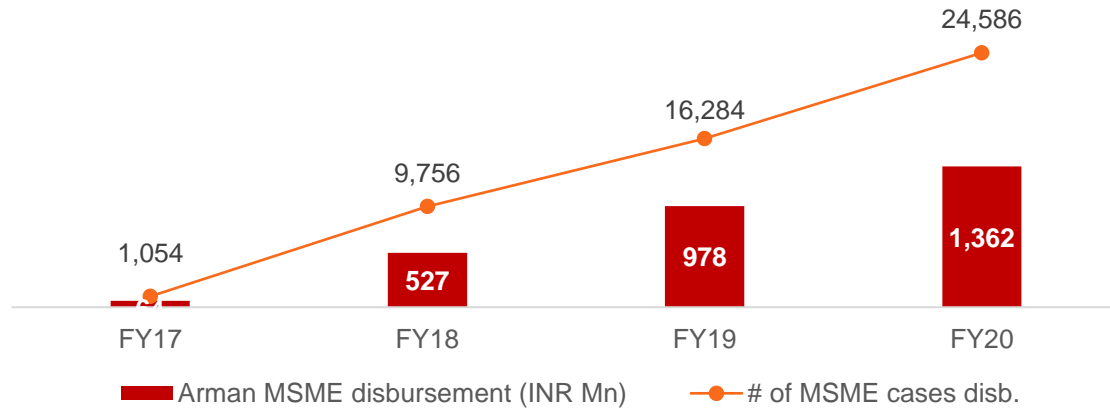
Note: FY20 & FY19 figures are as per IND-AS, all the figures prior to FY19 are as per I-GAAP.

MSME Loans: 3-Year Performance



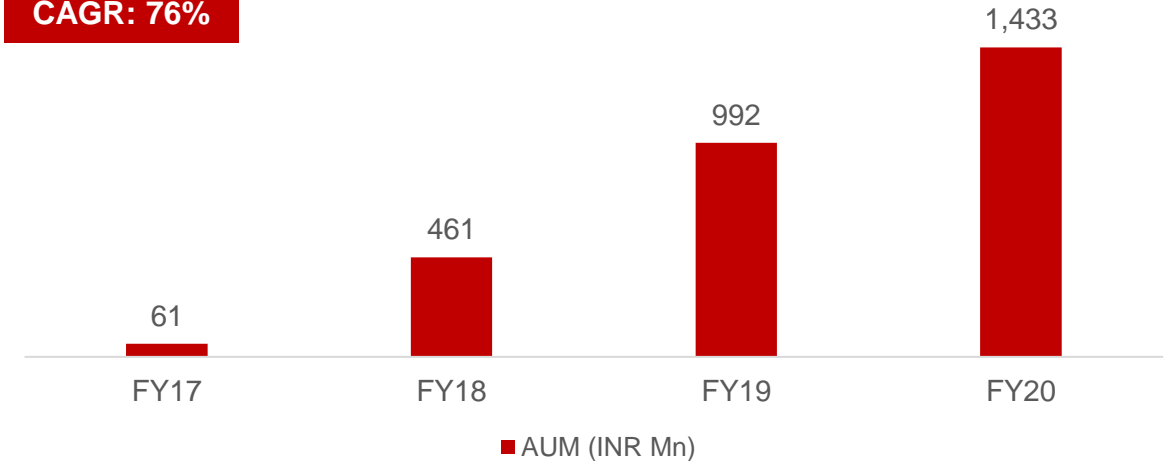
Disbursement Growth

CAGR: 61%

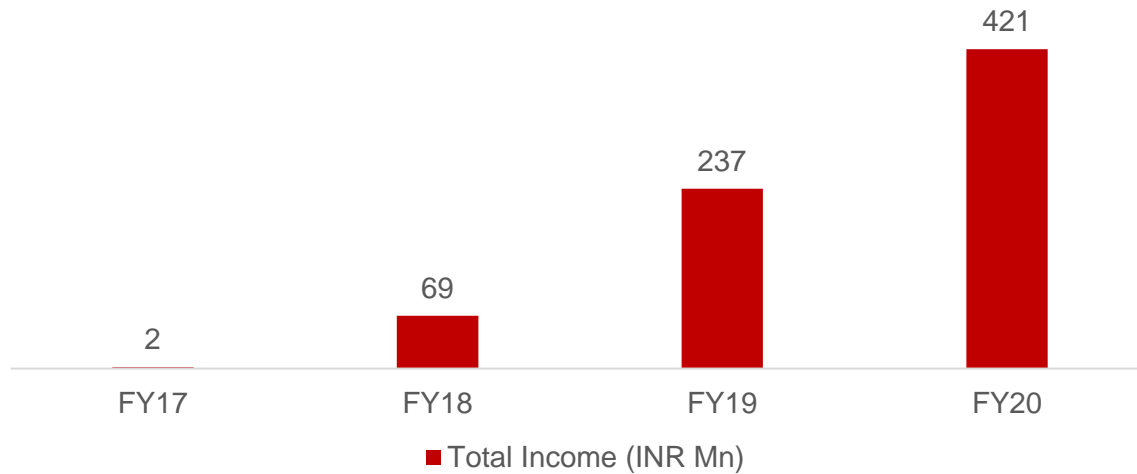


AUM Growth

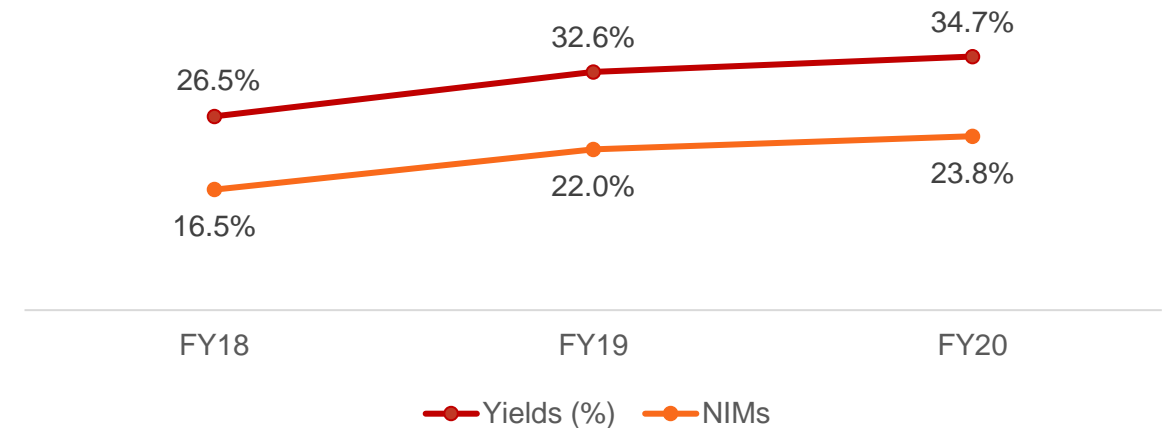
CAGR: 76%



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)