



Arman Financial Services Ltd.

Arman Financial Services Limited: COVID-19 Business Update

Ahmedabad, India, 13 April 2020:

Arman Financial Services Ltd (Arman) would like to formally provide a brief business update amid the COVID-19 outbreak to various stakeholders. Below is a gist of how things are shaping up on the ground and what measures we are taking to deal with the situation

Key Business Metrics as on 31st March 2020

- FY20 Consolidated AUM stood at ₹ 862 Crore – higher by 26% over FY19 and 6% over Q3 FY20
 - COVID related disruption led to a lower booking in AUM of around Rs 75 Crore. Excluding this, the AUM would have seen a growth of 35-40% YoY (AUM in Feb-20 was ₹ 890 Crore – compared to ₹ 650 Crore in Feb-19)
- Segment-wise AUM Breakdown
 - Microfinance AUM: ₹ 624 Crore (+29% YoY)
 - MSME AUM: ₹ 145 Crore (+46% YoY)
 - Two-Wheeler AUM: ₹ 93 Crore (-8% YoY)
- Consolidated disbursements for FY20 stood at ₹ 871 Crore (higher by 11% over FY19)
- Adequately Capitalized – Consolidated debt-to-equity ratio stood at 4.05x (excludes direct assignment)

'Business as Usual' till 20th March 2020

- Collections:
 - For the 'Microfinance' and the 'MSME' segments, 'collections are carried out on a cash basis' (via 'center collections in Microfinance' and 'door-step collections in MSME'). In the case of '2-wheeler loans', collections are received via 'NACH / Direct Debit.'
 - MFI and MSME:
 - On-time center meetings and door-step collections continued till 20th March
 - Collection efficiency in the first 2 months of Q4 FY20 (Jan'20 – Feb'20) stood at 98.7% (marginally better than Q3 FY20)
 - Bulk of the collections are completed within the first 12 days of every month (>85%). **Hence, even for March, we were able to collect ~95% of the amount due** (despite the announcement of nation-wide lockdown)
 - Two-wheelers:
 - Collections for Q4FY20 were in-line with the previous quarter (average bounce rate of 19.6% versus 21.5% in Q3FY20).
 - Overdue recovery in all the segments was hampered - but the amount is negligible
- Disbursements:
 - Consolidated disbursements grew by 33% YoY for the first 2 months of Q4FY20 (Jan'20 – Feb'20)





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In March, most of our disbursement pipeline could not be completed as majority of the disbursements occur in the last week of the month. Therefore, disbursements were only 20% of targeted volumes for march. This resulted in a minor 3% decline in AUM during the month.

Business Continuity

- We had anticipated the possibility of disruption in operations due to COVID, and accordingly, were ready with our '*Business Continuity Plan (BCP)*' two weeks before the shutdown. 'We are now executing it the best we can'
- Following the government advisory, **we have temporarily closed all our Branches and the Head Office** awaiting further notice. **Centre meetings and door-step collections have been suspended**
- Branch managers (BMs) and field officers (FOs) have been asked to return to their homes till lockdown ends
- **Salaries for March have been paid, no plans to lay-off any of the staff or cut salaries at present.** Pleased to say that all our employees are safe. We have made arrangements for staff that could not return home.
- **Working from Home:** All our employees are '*working from home*' the best they can. IT systems have been set-up to facilitate seamless remote operations. Our LOS/LMS systems are cloud-based and easily accessible remotely or via smart-phones. Critical on-site services, such as treasury was also made accessible remotely via VPN as a part of our BCP. However, it is worth noting that our 'high-touch' business model is not conducive to work-from-home operations, and disbursements and collections for all practical purposes will be shut-down for the duration of the lock-down.
- **Maintaining Constant Customer Connect:** Field officers are in regular touch with the customers (*via phone calls*) – 'to enquire about their safety, understanding of the situation on the ground, and assessing the income impact. The data collected is being relayed to the management team.' Multiple SMSes are also being sent to the customers.
 - We have **received an encouraging response far** – as majority of our customers have not been impacted much on the income side and have indicated their ability to repay post the lockdown.
- The Management team is completely hands-on and making necessary decisions while closely monitoring the evolving situation (*based on the data collected from FOs, RBI announcements, Government announcements*)

Resilient Customer Base in Microfinance & MSME

- Majority of our customer base in the 'Microfinance' and the 'MSME' division is based **in rural areas (comprising >80% of the AUM)**. Fortunately, the impact of COVID has been **limited in Rural India so far**
- Moreover, the recently announced food security and economic relief measures by the government will hopefully aid in augmenting the repayment ability of borrowers in Rural India
- Customers engaged in **essential activities** (such as dairy activities, grocery retailing, etc.) **form the bulk of our portfolio**, and for initial data available to us, they have not witnessed any major disruptions in their supply chains yet.

Healthy Liquidity Position and Liability Profile

- Raised ₹ 160 Crore of debt capital in Q4 2020 and ₹ 104 Crore in the month of March 2020.





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- **Considering our existing cash reserves and the debt capital raised recently, we have enough liquidity to cover the : (1) Necessary operational expenses for the next 6 months, and (2) Other immediate liabilities**
- We have requested our lending partners for a moratorium on repayments to maintain our cash liquidity. Many of them have responded positively.
 - As there is some confusion on the applicability of the RBI announced Moratorium on 'intermediaries' such as NBFCs, most NBFCs and industry associations such as MFIN are requesting the RBI to provide clarity on the eligibility of NBFC's to avail moratorium on its loan repayments to its lending partners till 31st May 2020.
- **De-risking Balance Sheet: 'Direct Assignment' and 'Securitization' transactions comprise 14% of the AUM (₹122 Crore) as on 31st March 2020**
 - **'Direct Assignment' constitutes 8.3% of the consolidated AUM (₹ 71 Crore) as on 31st March 2020.** In these transactions, the underlying portfolio risk lies with the assignee
 - We will increasingly focus on executing more assignment transactions going forward
- Credit Rating has remained stable at BBB+ (CARE Ratings)

Action Plan – Post the end of Lockdown

- Once the lockdown period is over, our field officers and branch managers will be determined to restore operational normalcy on the ground at the earliest possible with the highest focus on collections. As it seems today, the lockdown will be extended for many of the Districts/States that we operate.
- Collection Plan
 - We would avoid providing a blanket moratorium and will start our collection process after the lockdown ends as most of our customers have indicated their ability to repay
 - If a customer requests for a moratorium, we will educate them about the additional interest burden, and if they agree to pay additional interest, we will provide the moratorium along with the revised repayment schedule with extended tenor.
- Disbursements
 - Will resume disbursements in a particular geography, only once the repayment rate stabilizes in that region.
 - Many of our customers will also need incremental loans. We will support them without compromising on our credit discipline (protecting the asset quality of our book has always been and will remain our top priority)
- **Preserving Resources & Liquidity is the Need of the Hour:** We have implemented hiring freeze till conditions settle and put all expansion plans on hold. Disbursement have also been put on hold until repayments are on track. Going forward, we will maintain a strict vigil on our 'operating expenses' and look to implement steps to improve operational efficiency. Collections will remain our top priority for the next 2 quarters.
- Given the current dynamic environment, the company will closely track the on-ground developments and regulatory announcements, and pro-actively take appropriate steps to protect its asset quality going forward.





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To conclude, sure, these are unprecedented times, and it is difficult to estimate what kind of impact this crisis will have on the microfinance space, the broader NBFC sector, the economy, and the world as a whole. There are no blueprints for dealing with such crisis but is something businesses have to face from time-to-time. However, this is not the first crisis that our industry has faced, and companies with strong and sustainable business models have not only been able to survive but thrive in the aftermath of multiple such crises in the past.

Arman is no stranger to crises, and we have successfully navigated our way through each one of them in our 28-year history. During the demonetization period as well, our collection efficiency was much better compared to the rest of the industry and we were able to grow strongly and profitably once the situation normalized.

We firmly believe that we have the necessary resources (both personnel & financial) along with the managerial experience to steer our company through these tough times and emerge stronger on the other side of this crisis.

On that optimistic note, please take care of yourselves and your families. Stay Safe and Thank You for Your Support!

About Arman Financial Service Limited

Arman Financial Services Ltd (BSE: 531179) is a category 'A' Non-Banking Finance Company (NBFC) active in the 2-Wheeler, MSME, and Microfinance Lending business. The Microfinance division is operated through its wholly-owned subsidiary, Namra Finance Ltd, an NBFC-MFI. The group operates mostly in unorganized and underserved segment of the economy and mostly serves niche rural markets in Gujarat, Madhya Pradesh, Uttar Pradesh, Maharashtra, Uttarakhand, and Rajasthan through its network of 223 branches and 55 dealer touchpoints.

Arman's big differentiator from a Bank and other NBFCs is the last mile credit delivery system. They serve areas and clients where it is simply not possible for banks to provide financial services under the current market scenario. For more information, please visit our web site www.armanindia.com.

For more information, contact



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