



Arman Financial Services Limited

Ahmedabad, India, 06 February, 2015: Arman Financial Services Ltd (Arman), a leading Gujarat based non-banking financial company (NBFC), with interests in microfinance and two wheelers loans, announced its financial results for the third quarter ended 30th December, 2014.

Commenting on the Company's performance for Q3 FY2015, **Mr. Jayendra Patel, Vice Chairman & Managing Director, Arman Financial Services** said, *"After a phase of consolidation over the past few quarters, we are accelerating our growth in the Microfinance segment. The Assets Under Management (AUM) has increased to Rs. 57.73 Cr compared to Rs 42.65 Cr year-on-year, a growth of 35.6%, in the Microfinance segment. Overall all, our consolidated AUM has crossed Rs. 110.58 Cr, up from Rs. 89.34 Cr the same quarter last year.*

Our expansion into Madhya Pradesh is showing promising results. The new branches out there have started disbursing loans and gradually achieving scale. As we expand into new locations, we have to bear the higher costs of the new branches which are yet to break even. This impacts our profitability in the short term but will start paying dividends in the quarters to come.

As of now there are 39 branches operational (32 in Gujarat and 7 in Madhya Pradesh). Overall branch strength including both microfinance and two wheeler business is 43.

The 2-Wheeler finance industry is facing some stagnation, with the general slowdown in two-wheeler sales in the Company's area of operations and increased competition from banks and other financial institutions. It is expected that growth in the industry will accelerate in the near future and the Company expects to see improved performance in this segment.

Consolidated Business Review

Financial Highlights

Q3 FY2015 (Oct– Dec 2014) v/s. Q3 FY2014 (Oct – Dec 2013)

- Net Revenues increased by 10.54% to Rs. 7.34 cr from Rs. 6.64 cr
- Employee costs increased by 6.50% to Rs. 1.31 cr from Rs. 1.23 cr
- Interest costs increased by 14.17% to Rs. 2.90 cr from Rs. 2.54 cr
- Net Profit after Tax was up by 10.94% to Rs. 1.42 cr from Rs. 1.28 cr.
- Earnings Per Share increased 11% to Rs. 2.05 from Rs. 1.85



Operational Highlights

Q3 FY2015 (Oct– Dec 2014) v/s. Q3 FY2014 (Oct – Dec 2013)

- The company now has 7 branches operational in Madhya Pradesh for the Microfinance business. The disbursements have started in 5 of them, and we expect substantial contribution from this in the year to come.
- The average Monthly disbursement was Rs 10.01 Cr in Microfinance Business
- The average Monthly disbursement was Rs 5.52 Cr in 2 wheelers & others finance business of Arman Financial Services Ltd
- In the current period, the cost of financing went up marginally, as the company had to borrow higher cost funds for sustaining the growth in the disbursement rates. We expect the interest costs to gradually decrease as we capture the gain from the investment grade rating and replace the higher cost borrowings with lower cost borrowings. Other low cost funding avenues will also open once portfolio in Microfinance reaches Rs. 100 Crores plus, such as portfolio sale/securitization.

Business Mix (Consolidated)

	Q3 (Oct – Dec)	Q3 (Oct – Dec)	YOY	9 Months (Apr – Dec)	9 Months (Apr – Dec)	YOY
Revenues (Rs. Cr.)	2014	2013	Change (%)	2014	2013	Change (%)
Namra Finance	3.68	1.90	93.68%	10.08	3.54	184.75%
Arman Financial Services	3.66	4.74	-22.78%	10.78	14.29	-24.56%
Total	7.34	6.64	10.54%	20.86	17.83	16.99%

In FY2013-14, the microfinance business was being demerged from Arman Financial Services to Namra Finance, as per the RBI guidelines. As a result, Arman's revenues show a negative growth in this quarter, which was due to the residual portfolio of Microfinance loans that were maturing in Arman, while all incremental loans were disbursed by Namra Finance Ltd. As on date, the entire loan portfolio of Namra is microfinance and the loan portfolio of Arman Financial Services is largely Asset Loans (2 & 3 Wheeler loans).





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Expenditure Analysis (Consolidated)

	Q3 (Oct – Dec)	Q3 (Oct – Dec)	YOY	9 Months (Apr – Dec)	9 Months (Apr – Dec)	YOY
Revenues (Rs. Cr.)	2014	2013	Change (%)	2014	2013	Change (%)
Employee Costs	1.31	1.23	6.50%	3.58	3.24	10.49%
Other Expenses	1.03	0.98	5.10%	2.89	2.4	20.42%
Interest Costs	2.9	2.54	14.17%	7.44	6.56	13.41%
Total Costs	5.24	4.75	10.32%	13.91	12.2	14.02%

The employee costs have been kept under control for the quarter as the company starts taking advantage of economies-of-scale and streamlines its operations.

The interest costs have been higher due to higher cost borrowings to support increased disbursement in the microfinance business. A small decrease in bank funding cost is expected in the next quarter as RBI has marginally reduced interest rates.

Profitability Mix (Consolidated)

	Q3 (Oct – Dec)	Q3 (Oct – Dec)	YOY	9 Months (Apr – Dec)	9 Months (Apr – Dec)	YOY
Particulars (Rs. Cr.)	2014	2013	Change (%)	2014	2013	Change (%)
EBIT	4.94	4.40	12.27%	14.22	12.11	17.42%
PAT	1.42	1.28	10.94%	4.60	3.81	20.73%
EPS (Rs Per Share)	2.05	1.85	10.94%	6.64	5.50	20.73%
Book Value (Per Share)	55.24	50.50	9.38%	59.83	54.15	10.48%

The profitability of the business has been slightly constrained due to a large number of new branches that have been opened in the last 6 months. While new branches fuel the company's future growth, they incur heavy costs initially until they begin doing substantial business and reach break-even point.



Historically, a new branch takes 9-12 months to break even and therefore, we expect the investment to start contributing to the profits in the next financial year.

The 2-Wheeler business is also facing some headwinds due to stagnating industry and increased competition from banks and financial institutions. We expect such pressure as this business starts to grow.

Business Tracker (Microfinance)

	Q3	Q4	Q1	Q2	Q3
	(Oct – Dec)	(Jan – Mar)	(Apr – Jun)	(Jul – Sep)	(Oct – Dec)
Particulars (Rs. Cr.)	2013	2014	2014	2014	2014
AUM	42.65	45.37	46.85	51.62	57.73
Disbursement for the Qtr	20.05	23.42	22.15	27.55	30.04
Interest Income	3.29	3.35	3.38	3.64	4.20

Disbursement has increased by 50% YOY, and the interest income has increased by 28%. While we have increased the pace of disbursements in the last 2 quarters the benefit of the same will start showing in the next financial year.

Currently all the microfinance loans have a maturity of less than 1 year. We are evaluating the merits of starting 2 year loans. We will have a better view on this in next financial year.

NPA Analysis (Microfinance)

	Q3	Q4	Q1	Q2	Q3
	(Oct – Dec)	(Jan – Mar)	(Apr – Jun)	(Jul – Sep)	(Oct – Dec)
Microfinance (Rs. Cr.)	2013	2014	2014	2014	2014
Gross NPA	0.07	0.09	0.04	0.02	0.07
Provisions	0.01	0.01	-	-	-
Net NPA	0.06	0.08	0.04	0.02	0.07
Net NPA Percentage	0.15%	0.19%	0.09%	0.05%	0.12%





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The NPAs in the microfinance business are 0.12% and among the lowest in the industry. Since the RBI has asked MFIs to have a provision the higher of the NPA provision, or 1% of the standard assets. Since our NPA levels are much lower than 1%, we have a provision equal to 1% of standard assets.

The Net NPAs have also shown a declining trend over the last year

Business Tracker (2 Wheeler Finance)

	Q3	Q4	Q1	Q2	Q3
	(Oct – Dec)	(Jan – Mar)	(Apr – Jun)	(Jul – Sep)	(Oct – Dec)
Particulars (Rs. Cr.)	2013	2014	2014	2014	2014
AUM	46.70	45.74	44.53	45.73	52.85
Disbursement for the Qtr	16.18	10.38	11.20	13.43	16.57
Interest Income	3.14	3.05	3.09	2.93	2.84

The 2 Wheeler business interest income has not grown as per expectations. This is largely due to the stagnant industry, low consumer confidence, and increased competition from banks and other financial institutions.

The 2-Wheeler finance business very seasonal with the disbursements being the highest in the December quarter. The increased disbursement help the profitability of the next quarter, as the costs related to sanctioning and disbursement is booked in the current quarter, the interest income will start accruing with a time lag.

NPA Analysis (2 Wheeler Finance)

	Q3	Q4	Q1	Q2	Q3
	(Oct – Dec)	(Jan – Mar)	(Apr – Jun)	(Jul – Sep)	(Oct – Dec)
2 Wheeler Finance (Rs. Cr.)	2013	2014	2014	2014	2014
Gross NPA	0.71	0.57	0.55	0.70	0.79
Provisions	0.07	0.06	0.06	0.07	0.09
Net NPA	0.64	0.51	0.49	0.63	0.70
Net NPA Percentage	0.92%	0.88%	0.89%	1.23%	1.09%

The NPAs have largely been constant around 1%.





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Note - On February 14, 2013, Namra Finance Ltd. became the first company in India to receive the long awaited "NBFC-MFI" (Non-Banking Finance Company - Microfinance Institution) License. This special category of NBFC was created by the RBI based on the Malegam Committee recommendations to serve the underserved and the poor segment of India by providing Microfinance, or small income-generating loans at reasonable interest rate, collateral-free.





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About Arman Financial Services Ltd

Arman Financial Services Ltd (BSE: 531179) is a category 'A' Non-Banking Finance Company (NBFC) active in the 2-wheeler finance business. Arman also operates a wholly-owned subsidiary, Namra Finance Ltd, exclusively for its Microfinance operations. It operates mostly in unorganized and underserved segment of the economy and mostly serve niche markets in Gujarat. The company has recently forayed into Madhya Pradesh for its microfinance operations.

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.

If you have any questions or require further information, please feel free to contact

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For, Arman Financial Services Limited



Director

