Arman Financial Services Limited

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Date: June 09, 2023

To, BSE Limited P. J. Tower, Dalal Street, Mumbai–400001	To, National Stock Exchange of India Limited "Exchange Plaza" C-1, Block G, Bandra Kurla Complex, Bandra, Mumbai- 400051
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Dear Sir,

SUB: TRANSCRIPT OF THE INVESTOR CALL HELD ON JUNE 02, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and in continuation of our letter dated May 25, 2023, please find attached herewith the transcript of the conference call held on Friday, June 02, 2023 for Q4 FY 2022-23.

Kindly take it on your record.

Thanking you,

Yours faithfully,

For, Arman Financial Services Limited

Jaimish Govindbhai Patel

Jaimish Patel
Company Secretary
M. No.-A42244

"Arman Financial Services Limited

Q4 FY'23 Earnings Conference Call"

June 02, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 03rd June 2023 will prevail.

MANAGEMENT: **MR. JAYENDRA PATEL – VICE CHAIRMAN AND MANAGING DIRECTOR – ARMAN FINANCIAL SERVICES LIMITED**
MR. AALOK PATEL – JOINT MANAGING DIRECTOR – ARMAN FINANCIAL SERVICES LIMITED
MR. VIVEK MODI – GROUP CHIEF FINANCIAL OFFICER – ARMAN FINANCIAL SERVICES LIMITED

MODERATOR: **MR. AALOK SHAH – MONARCH NETWORTH CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Arman Financial Services Limited Q4 FY '23 Earnings Conference Call hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aalok Shah from Monarch Networth Capital Limited. Thank you, and over to you, sir.

Aalok Shah: Thanks, Evan. Good afternoon to all. I would like to thank the management of Arman Financial Services for giving us an opportunity to host them. We have the entire senior management team of Arman Financial Services, represented by Mr. Jayendra Patel, Vice Chairman and Managing Director, Mr. Aalok Patel, Managing Director, and Mr. Vivek Modi, Group Chief Financial Officer.

Without much ado, I would now like to hand over the call to Mr. Jayendra Patel for his opening remarks, post which we can open the floor for Q&A. Thank you. Over to you, sir.

Jayendra Patel: Thank you, Aalok. On behalf of Arman Financial Services, I extend a warm welcome to all to our Q4 and FY '23 Earnings Conference Call. With me, I have Aalok Patel, Joint Managing Director, Vivek Modi, Group CFO, and representatives from SGA Investor Relations team.

I hope everyone has an opportunity to go through the results, press release and the presentations for the quarter and full year ended 31st March 2023 uploaded on the stock exchanges and on the company website. You must have had a chance to go through it.

The tightening of the financial conditions on account of aggressive monetary policies, the slowdown in global economy, the turmoil within the global banking system and the rising inflation have dampened the global macroeconomics. Despite such challenges and uncertainties, the Indian economy has shown remarkable resilience and the signs of growth. As Reserve Bank of India is taking proactive steps to tame inflation, monetary and credit conditions, a rebounding credit environment has been witnessed in this economy. This bounce-back is accompanied with a notable upswing in momentum in the rural economy, which has led to an emergence of a robust credit demand.

The microfinance sector has encountered several challenges in the past. However, a significant inflection point occurred with the implementation of revised guidelines by Reserve Bank of India for NBFC-MFIs. These new guidelines have played a pivotal role in restoring the growth trajectory. And the impact of these guidelines have installed a renewed sense of confidence and optimism in the microeconomic lenders as well as borrowers.

Overall, the revised RBI guidelines have ushered in a new era of growth and sustainability for microfinance companies. They have addressed the sector's challenges, provided a conducive regulatory environment and have paved the way of continued expansion. As a result, microfinance companies are better equipped to fulfil their mission of extending financial services to the underserved and marginalized sections of the society, contributing to last-mile financial inclusion.

The improved environment of credit has helped the economy record a robust growth in assets under management. AUM for the year ended 31stMarch '23 stood at INR1,943 crores, recording a robust growth of 58% year-on-year. Of this INR1,943 crores AUM, around 84% is from Microfinance business, 13% is from MSME business and 3% is from Two-Wheeler business.

Our new technology and systems are now in place. And this has helped the company better its efficiencies, lower the operational risk and enhance customer experiences. With this resurgent demand and greater emphasis on sourcing, underwriting and technology, the company has demonstrated robust growth across all its businesses.

In Q4 FY '23, we recorded the highest-ever quarterly disbursement of INR631 crores with a growth of 87% year-on-year and 32.1% sequentially. For FY '23the disbursement grew by 73% to INR1,767 crores from INR1,023 crores. Further, the growth was also supported by our newer states of Bihar and Haryana. Much of our delight, Bihar is doing amazingly well. We are banking on it to continue doing well in the future, too. Additionally, we are exploring opportunities to expand its operations to new geographies and tap into new customer segments and diversify the revenue streams.

During the year, we opened 44 new branches, taking our total branch count to 336. With this, we have a presence in eight states and 120 districts. We remain focused on continuous expansion in existing states with the potential to take our footprint to another two or three states in the medium term.

At Arman, it is our constant endeavor to serve the low-income, underserved people of the nation who have little to no access to the formal banking or financial services system. In accordance with this, we have started a pilot of individual business loans, which accounts for 2.1% of the total AUM. So as rural customers graduate from being long-time MFI customers, there is a strong demand from some of the more advanced customers to break away from the group-based JLG model and move towards individual loans.

Our micro enterprise and IBL segments are well placed to take advantage of this market demand in the long run and offers a long-term potential to scale up our business in other rural loan products. While we are taking a cautious and calibrated approach so that we understand the customers better, the credit cost so far appears to be similar to microfinance products despite not having group guarantees.

There is a higher operating cost involved with individual loans. But the higher margins more than offset it. In the long run, the goal is to reduce operating cost by transitioning to a tech-driven organization. We have made significant progress in our digital improvisation efforts, focusing on enhancing our operations and providing an exceptional customer experience.

Key initiatives include, digitized customer on-boarding at their doorstep, automated underwriting with robust rule engine, enhanced online security measures to protect customer data and safeguard against cyber threats, advanced data analytics and process automation, like facial recognition, OCR verifications and automatic data entry through barcode and QR code scanning.

We have implemented a complete paperless journey from onboarding to disbursal and collection. These efforts demonstrate our commitment to technological advancement and innovate solutions for our customers. We appreciate the dedication of our team, and we'll continue to embrace digital transformation and strive for excellence.

Now coming to the consolidated financial performance. The gross total income for FY '23 stood at INR424 crores, registering a growth of 80% year-on-year on the back of improvement in yields across all segments. During the year, net total income registered a growth of 73% to INR251 crores, as compared to INR146 crores in FY '22 representing cheaper availability of funds. Our net interest margins for FY '23 stood at 15.9%, as compared to 14.2% in FY '22.

In this financial year, the company has recorded the highest-ever profit after tax of INR94 crores with a growth of 196% year-on-year. This was mainly on account of improved interest income, optimization of operational cost, lower provisioning requirements and improved asset quality. Our continuous emphasis on collections and underwriting process helped us improve our asset quality. As of 31stMarch 2023, our gross nonperforming assets stood at 2.7%, representing a year-over-year improvement of 170 basis points from 4.4% and a sequential improvement of 60 basis points from 3.4%.

For FY '23, the company has conservative provisioning policy with the provision for the year standing at INR45 crores. This takes the cumulative provisions to INR67 crores, which is 3.4% of the AUM. Our collection efficiency improved to 98.3% for FY '23, as compared to 91% in FY '22. Collection efficiency for the month of April 2023 for various segments stood at: Microfinance segment we have 98.4%, collection efficiency for MSME- we have 98.5%, and at Two-Wheeler segment, we have 96.9%.

Now coming to the borrowing profile. As on 31, March 2023, company has total borrowing worth INR1,937 crores. This includes the debt component split of OCRPS and CCDs as per IND-AS of INR49 crores. Of the total borrowings, 35.3% is through banks, 31.3% is through NBFCs, 14.7% is through debt and NCDs, 16.6% is through direct assignment of the off-balance sheet liabilities, and the rest is borrowing through DFIs like NABARD, MUDRA and SIDBI.

As on 31, March 2023, the company has healthy liquidity position with INR185 crores in cash/bank balance, liquidity investments and undrawn CC limits. Additionally, the company has INR218 crores undrawn sanctions from existing lenders. The company is well capitalized with capital adequacy ratio for the stand-alone business at 32.61% and Namra is 25.62%.

Lastly, in the fiscal year 2023, our company accomplished several noteworthy milestones that have propelled our growth trajectory, latest one being on -- in January 2023, when Namra Finance Limited was assigned the MFI 1 grading by CARE Ratings Limited. And let me also tell you, MFI 1, there is nothing above MFI 1. So we are proud of that. And another such achievement was the successful fundraising of INR115 crores via allotment of CCDs and

OCRPS on a preferential basis. The infusion of these funds has played a pivotal role in facilitating our target growth objectives.

We believe that favorable regulatory environment, coupled with sustained growth momentum witnessed in recent quarters, will continue to support our organization's pursuit of achieving the target assets under management. The supportive measures taken by the RBI have bolstered our confidence and reinforced our belief in the long-term growth potential of the microfinance industry.

With this, I would request the operator to open the floor for any questions-and-answer session. And I thank you all for giving me the time. Thank you.

Moderator: Thank you very much. The first question is from the line of Kunal Thapar from Future Securities. Please go ahead.

Kunal Thapar: Congratulations on a good set of numbers. So I had a couple of questions relating to our branches. So we have opened around 45 branches this year. So are we seeing that same kind of trend next year? And sir, another relating to the branches is that how much time does it take for us to breakeven a branch? And can you give us some branch-specific metrics on that same matter? Thank you.

Aalok Patel: Yes. So as far as our plan this year, we'll probably open somewhere in between 50 to 70 branches for Microfinance and MSME, for which we already on the way to open about 32 of them, the balance of which will probably get opened in the next quarter.

As far as breakeven goes, typically, we reach breakeven when the number of customers gets to about 600 to 800 customers in any particular branch. And that depends, it ranges from anywhere between four months to eight months to get there. So on average, you can say, we can usually breakeven between six and eight months.

Kunal Thapar: And sir, I have another question that what kind of demand are we seeing from the Two-Wheeler and the MSME segment in general? And are there any specific regions that we are seeing a greater demand from? Thank you.

Aalok Patel: Yes. So I think as far as MSME goes, I think there is a consistent demand. It's a different product than Microfinance. So it requires a lot of work to find the right kind of customer to assess them in the correct way, to figure out these cash flows in the correct way and to disburse the loan. So typically speaking, our rejection rates have averaged around 70% in the MSME segment. And demand has been quite strong at least until March to April. In the last couple of months, it has gone down a little bit as far as the demand goes. But otherwise, last year, it was quite strong.

In the Two-Wheeler, the demand, unfortunately, has not picked up to pre-COVID levels or even 2019 levels. I think the latest statistics that I have, overall, if you compare 2018 or 2019 Two-Wheeler sales versus what it was last year, it has gone down significantly, almost 40% or so. And it has not recovered. So overall, Two-Wheeler demand is not as strong, unfortunately, in the market, although it has been improving slowly quarter-over-quarter. And what was the other part of your question?

Kunal Thapar: Are we seeing any specific demand from any region for the MSME and Two-Wheeler, a greater demand?

Aalok Patel: See, so for Two-Wheeler, we are operational only in Gujarat. So I could not comment on that. For the MSME side, I mean if I had to rank it, I would say Gujarat is probably having a higher demand than Maharashtra or MP. But it's not a huge difference. Overall, there is a strong demand in multiple states in the MSME. In MSME also, we have started operations into Telangana. So we have opened up our first branch, I think, just a couple of weeks back. And that was for numerous strategic reasons, which I can get to later on if you like.

Moderator: Thank you. The next question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V: Congratulations on the fantastic set of numbers. First, wanted to understand the gain on assignment of financial assets of INR12crores. So how should we look at this particular line item is it to be seen as a slightly more one-time in nature, or is this a more recurring line item?

And want to find out that in like calculation of yields, the 36.9% in our MFI, would this INR12 crores kind of be factored into that calculation, what would be the yield at which we are getting incremental disbursement in Microfinance? Probably if you could help me out a little bit.

Aalok Patel: Yes. So I mean, I think the accounting side of the DA, I think Vivek can explain a little better than I can. But that being said, as per Ind AS, if you're doing a direct assignment transaction, which means it's not a PTC type of transaction or it does not have DA transaction, which has no kind of recourse, so by accounting standards, we have to upfront recognize the profits. Because essentially, you have sold assets, right? You have maintained the servicing rights. But you have sold the assets completely without any recourse. So it's like selling any other assets, so you have to recognize the profit of it upfront because you have sold it.

Now whether that is challenged in terms of looking at this as a one-time thing or whether it will create a future impact in the P&L in terms of apples-to-apples comparison, yes and no. The thing is, as you grow larger, the DA transactions happen more in a consistent basis. So you might be doing more or less every quarter. But you'll be doing something on other every quarter is what our expectation is. So by that way, this is something that you should be seeing more regular of.

But also more DA transactions will happen in the fourth quarter versus the first quarter. That's just the nature of the business. Overall, it's a very lucrative thing for us because not only do we get added margins for it, but also we offload some of the assets from the balance sheet. So it allows us to improve our capital adequacy ratio. I don't know, Vivek, if you want to add.

Vivek Modi: Srinath, just to kind of connect the dots. In Q3, we saw about INR100 crores of DA transaction. In quarter 4, we almost doubled that. So there is a good possibility. And overall, the market is kind of seeing a lot of DA transaction for the crop sector. So hopefully, things should be fine. But yes, this can have the quarter-on-quarter operation.

Yes, I mean, to your second question that you had regarding the yield, the upfront profits have been taken into account the quarter 4 yield calculation. In terms of our general yield or the lending rates to MFI borrowers, they are anywhere between 24% to 27% is the usual product price.

Srinath V: Got it. And on these yields, how will the yields kind of play out? Because now with the deregulated pricing and, of course, there's a back book, which should still be in the previous regime, so where do you see yields kind of moving? Let's assume that RBI is a status quo for the next 12 months and so on. So how do you see yields trending? Do you see yields at book level trending towards 27%, 28% over the next, say, six to eight months or one year broadly to understand the mix change between the old book and new book?

Aalok Patel: No. I think, largely speaking, there is not a lot of old book because we have grown. And these are very short-term kind of loans. So we increased our rates in April of 2022. And from that, the book size has also increased. So I would say that overall, weighted will be probably less than 30%.

Vivek Modi: 70-30 is the new to old ratio.

Aalok Patel: So it will not have a very, very large impact. And so while you might see a marginal increase in the yields, it will not be very large, unless we decide to increase the rates to the customers, which we have no plans to do so now as of this moment.

Srinath V: Got it. A quick one. So in this INR1,943 crores of assets under management, what would be under the direct assignment or what part of the AUM would be, or that's not part of this number itself since we sold it off our book? How does it work?

Vivek Modi: It's part of the AUM. As part of the AUM, the amount would be INR311 crores.

Srinath V: So so in Q1, the INR311 crores will not accrue any interest income in our book, right, fair understanding?

Vivek Modi: Yes, fair understanding.

Srinath V: Okay, perfect. And one last question, Aalok, just wanted to find out on our new product innovation, where are we a couple of products that I remember would be one would be on durable financing for the slightly more premium customers within your deep rural circle. Other product will be rural two-wheeler and the third one would be secured, I'm using secured more loosely, meaning I'm not saying half a ticket but you're taking a property document and probably looking at a INR3 lakh to INR5 lakh kind of ticket size product? And if I missed any product, if you could broadly help us understand from the product side where -- how will things look about 12 months to 18 months or 2 years later?

Aalok Patel: Yes. So I think, we have made some strong headwind to the IBL product, that is the Individual Business Loan product, which is basically an individual microfinance loan that is striving to be cashless, which means that, all loans we disburse cashless. But the collection also is cashless. And we are trying to target the more, I don't want to say affluent, but people who have graduated from microfinance and are somewhere in between mainstream and micro, so to speak.

So that is about, I think, 2% to 3% of the portfolio now. And that is doing quite okay. And realistically speaking, that is the future area. If you look down the next two to five years, our prediction is that microfinance will continue to move away from the group-based lending and kind of evolve into a more individual lending. So that is basically making sure that we are ready for that.

In terms of consumer durables and other kind of products, I mean, we were doing LAP loans and other kinds of products, insurance products and stuff. Not a lot of headway in the consumer durable side just because initially speaking, when the rates were restricted by RBI and the margins were capped, it made a lot of sense to do these kinds of products. Today, in a situation where it's a matter of supply and demand and competition that sets the rates, the consumer durables are kind of a little hard to sell to the customers.

In terms of the LAP loan, we have something on paper. We are working on the pilot. We still have to make headway into it. It's kind of a difficult segment to break into, especially if you are trying to do in the rural areas, which we kind of learned the hard way that the documentation is quite shabby. And we unfortunately not been very successful to break into that in the rural areas.

Srinath V: But from what I came to understand in talking to these guys, nobody actually ever triggers a collateral, right? So it almost seems like a threat that I have your paper with me. So given that as a broader context, don't you feel that an extremely robust legal system may not be the most important part of this particular product because nobody seems to be repossessing any of these collaterals in the industry?

Aalok Patel: No, you are correct. You are correct. And I guess, this is the debate of a different forum. But our conservative nature is kind of sometimes gets the best of us, but I think that's probably a debate at another time that would you want to be about the documentation? So where do you draw the line, right? I mean, that is the question. And I think that is an excellent question, something we'll have to ponder more seriously down the road.

Moderator: Thank you, Mr. Srinath, may we request that you return to the question queue for follow-up questions. The next question is from the line of Savi Jain from 2Point2 Capital Advisors. Please go ahead.

Savi Jain: You mentioned you were not seeing a lot of traction in the individual business loan, the secured loan, is that what you mentioned?

Aalok Patel: No. But the individual business loan is different. That is non-secured. We are seeing traction there. I think what Srinath was asking was the kind of pilot that we're trying to start on the micro LAP side. So that's how we're seeing that. It's not a question of traction. It's a question of the paper work that we are getting from the customers, especially in the rural areas. And again, I don't want to spend too much time on discussing that on this forum. But I think a lot of our competitors also are facing issues in the rural. There has been headway that people have made in the urban, semi-urban kind of places.

In the rural, the documentation for the properties remain kind of shabby. And that is again where you draw the line. If you're just going to accept the documents at face value, then you might as well do an unsecured loan. Or on the flip side of the coin, it is just a scare tactic, right, that we're never going to actually try and repossess, which, of course, even in the best of documentation, that is not the intention is to repossess the collateral or repossess the property, and that is the challenge. But I think this is quite a long discussion. And I don't think this is the right forum to discuss it.

Savi Jain: Yes. Maybe in the southern states, where there are a lot of scaled players in this space, is it maybe that the properties there have much better paperwork compared to, say, some of the states like Gujarat. Maybe that could be another reason why there are…

Aalok Patel: As far as my knowledge is concerned, in Gujarat specifically, there are no players in a large way that are operating in the rural segment in the INR3 lakh to INR5 lakh kind of ticket sizes in the LAP side. And so people are facing similar challenges to us. So it's just a matter of cracking those challenges.

Savi Jain: And in terms of asset quality, what are you seeing? I have read somewhere that Maharashtra is facing a lot of issue. And if I look at your credit costs, also it has been higher than what it has been pre COVID. So what is the credit cost that you are looking at from a business point of view next year, FY '24, is it going to be around 3%? And what is the early signs, any stress that you're seeing in any geography?

Aalok Patel: So your first question was about Maharashtra. So Maharashtra has been badly impacted during COVID. And throughout COVID, it was probably one of the worst impacted states that we operate in. And on a pan-India level, also it was one of the worst states. It's not the top 1 but at least in the top 3. So that has been gradually improving. But I mean, there was a lot of room to improve.

So even in today's scenario, I think if you look at the overall stress levels, they will be highest in Maharashtra. But we are still a lot better than we were a year ago or even two years before that. So it has been improving consistently. But if you do a comparison state-to-state level, obviously Maharashtra is probably still has the lowest in terms of asset quality goes.

In terms of credit cost, see, I think I've been very open in sharing in all of these con calls and other kinds of discussions that we are not going to see the pre-COVID level loan losses. And that industry is over. That is not going to come back. So if you are going to compare, even on the best years, compare loan losses that we had in 2017 or '18 versus in '23 or '24, it's not going to be comparable.

The days of 1% loan losses are behind us. And I think, we just have to accept that. And that is fine. I think as an industry, we can absorb higher losses than that, especially in today's scenario, with the RBI new circulars and everything coming out. It will be difficult for me to say what to expect. But 2%- 2.5% ballpark figure would be something that you would have to be prepared for the long run.

Savi Jain: And do you have any business plan drawn up for FY '24 in terms of AUM target? What are you looking at?

Aalok Patel: I think, typically, we don't give that. But I think I'll say what we always say is that our CAGR has been about 35% to 40% since the last 10-12 years. And that is the growth that we try to achieve on a year-on-year basis, so somewhere in that 35% to 40%.

Moderator: Thank you. The next question is from the line of Riya Soni from Soni Investments. Please go ahead.

Riya Soni: I have two questions. So firstly, Gujarat still accounts for 30% of the total AUM. So do we have any plans to de-risk this portfolio going ahead?

Aalok Patel: What is -- I'm sorry, what is the question? What is 30%?

Riya Soni: Gujarat still accounts for 30% of the total AUM. So do we have any plans to de-risk the portfolio?

Aalok Patel: No, I mean, it has significantly been de-risked. I think if you look at the Gujarat portfolio in, let's say, FY '17 or in 2017, it was almost 80% of the book right after demonetization. So we had already looked to de-risk it. And we are continuing to de-risk it. Overall, concentration risk on a state-to-state level has been falling consistently. So that is part of our plan overall. And I think if you look at branch openings also, Gujarat has seen, much lesser in terms of branch openings than we are doing in the other states. So it would be difficult for me to give you a percentage of what the targets are. But overall, geographical base de-risking is a consistent endeavor for us.

Riya Soni: Okay. And secondly, you mentioned that the states of Bihar and Haryana are doing well. So what will be comfortable AUM levels for these states? And how much will they contribute going forward?

Aalok Patel: What is the AUM of Bihar right now? Is that what you're asking?

Riya Soni: Yes. Going ahead, what would be the comfortable AUM level that we target?

Vivek Modi: If I get your question right, if we look at the states that we operate in, I think look at some of these states as the larger states, which could be Gujarat and MP, UP and Bihar probably comes into that line. So over a period of time, Bihar's AUM will consistently keep on increasing. Right now, Bihar probably is bundled up in the 9% others, which is right now less than 5% of the total AUM. But overall, in terms of the branches that we've already started in Bihar is about 27 branches. So we're expecting it to keep on growing steadily. But kind of giving out a specific figure as to what percentage it would eventually have is a very dynamic situation because all other states also are important.

Aalok Patel: Yes. All other states are also increasing to that extent. So I think Bihar right now will be somewhere in the neighborhood of 6% to 7% of the portfolio. This year, maybe we can expect it to reach somewhere around 12% to 13% neighborhood, roughly speaking.

Riya Soni: And what about Haryana?

Aalok Patel: Haryana is a lot slower. We don't have that many branches there. So Haryana will be only about 3-odd percent at this moment. But it's only about 15 branches that we have right now. And the scope of opening further branches in Haryana is limited, being slightly smaller state and also being slightly more-wealthier state, where the target market is a lot smaller. So it's picking up fairly well, given the fact that we have 15 branches. But I don't think that it's going to be a very meaningful part of the portfolio, definitely not 10%-plus in the coming few quarters.

Moderator: Thank you. The next question is from the line of Karan Mehra from Mehta Investments.

Karan Mehra: Just a couple of questions on my end. First is like, we have been investing in technology recently. So I wanted to understand that what was the quantum for the same? And what kind of cost efficiencies will kick in? And where do we see our opex to ATA come down?

Aalok Patel: Mostly in terms of technology, most of our technology, we are working on a SaaS model, Software as a Service. So there is not a lot of upfront investment, might be INR50 lakhs to INR60 lakhs in total. But largely, we pay on either a per customer level or a per disbursement level or on a portfolio level. So that amounts to, somewhere in the neighborhood of INR2.5 crores to INR3 crores a year is what we are paying for our LOS/LMS system, probably not this year.

Vivek Modi: It's kind of linked to the overall portfolio and number of branches and the users. But again, in the larger scheme of things, yes, it kind of give the optimization. It kind of starts seeing the optimization to kind of keep on growing the portfolio.

Karan Mehra: Okay. So sir, do we see more room to increase our ticket prices, or will that growth come from the client addition?

Aalok Patel: We have no plans currently to increase the ticket sizes. If it does happen, it might be in the third or fourth quarter. So largely, for most of this year, the plan is to add more customers and add more branches. There might be some marginal increases in ticket size, but nothing too crazy, maybe 7% to 10% here or there, but nothing that meaningful.

Moderator: Thank you. The next question is from the line of Hemant Dhingra, an individual investor. Please go ahead.

Hemant Dhingra: Yes, in the microfinancing, when you are giving these small ticket size loans, what are the people using it for? what is the money used for the capital?

Aalok Patel: Well, I mean, so in the microfinance space, the overall goal is to increase household income. So you are giving the loan for some kind of income-generating activity. Now what that income-generating activity is a vast variety. For example, the largest use of our funds goes towards cattle. So they get a loan, buy a cattle from it, generate milk, sell the milk, generate cash flows. And in two years, the loan is done and their cattle is theirs. So that is the largest one.

But otherwise, it's something diverse that, including stuff like there are big kirana stores or street side vendors or small ticket-type garment makers I mean, there's a very variety of different -- there will be hundreds, if not thousands of different kinds of activities that the rural people are engaged in.

Vivek Modi: Agri-based product, food processing units, smaller cottage industry for that. But largely about 60% to 70% of the portfolio is covered through the animal husbandry kind of...

Aalok Patel: Yes, I would say 40% is covered by through allied agriculture. 60% will be others.

Hemant Dhingra: So what I'm saying is that we've been hearing that there is going to be some growth in the dairy farming, agri farming on the same lines of using the loan to buy cattle and then using the milk and selling it in Uttar Pradesh, UP. So is there any plans to intensify that sector?

Aalok Patel: So UP is actually one of the largest states that we operate in, in terms of microfinance. So Gujarat might be on an overall basis, I guess. But from a perspective of only microfinance, about 30% of our book is in UP, I believe. And Gujarat will be about 24%. So in fact, the plan is to kind of reduce our overall dependence on UP.

But let me tell you that UP has been, since COVID, even during COVID and post COVID, has been one of our best-performing states. And perhaps it's because of the reason that you are saying, amongst multiple other reasons. But we are extremely happy with UP's performance. And touch wood, hopefully, that continues to remain solid.

Moderator: Thank you. The next question is from the line of Amit Jeswani from Stallion Asset. Please go ahead.

Amit Jeswani: First of all, congratulations on your journey. It has been spectacular for the last seven, eight, nine years. Aalok, my first question is on how do we recognize when we sell an asset? You sold INR300 crores of assets, is that right, this year?

Aalok Patel: INR300 crores of direct assignment. So I mean, we sell assets all the time with PTCs and stuff. Specifically for direct assignment, it was approximately INR300 crores.

Amit Jeswani: Got it. So these assets never come to our books. Is that -- like can you just explain how does the entire thing work for you? Sorry?

Aalok Patel: Yes. I can definitely explain to you. Or maybe Vivek, you can explain better

Vivek Modi: So Amit, what happens is that you created assets in your regular cost of business. Then especially for the PSL, priority sector lending requirements, banks and lenders are the typical clients who would want to buy such portfolio. Because this portfolio gets kind of derecognized from my loan book. And it's kind of recognizing their own assets. So it kind of adds to their number of client service and all that kind of stuff.

So essentially, you create the book first, handhold it for about at least, there's an RBI guidelines based on which you can sell off these assets, they need to be seasoned for at least a period of three to six months and so on and so forth. There's the matrix for that. And post that, you're kind of selling it off. So you're handholding those customers. And post these sales, you keep on servicing these loans. That means you keep on doing the collection on these loans and kind of keep on making the payouts to the investor or the buyer for this product.

Aalok Patel: It's not a very simple process. Because there will be a lot of scrubbing that is being done by the bank. I mean, we have to sign a servicer agreement. But customer will not know the difference, to be honest. The customer will not know that asset has been sold. Because we are servicing. We are actually collecting. But whatever we collect, we are sending it to the bank. And in return, the bank is giving us servicer fees for servicing those loans.

Vivek Modi: And essentially, the other thing that might come to mind is these customers keep on coming back to us for their next loan. So it's not that it has been sold to Bank A, the Bank A will have access to these customers. No, the access to the customer retains with us.

Aalok Patel: If they did have access to the customers, they won't buy portfolio.

Vivek Modi: I'll explain to him Aalok, whatever is coming in the next two years, it is being collected today

Aalok Patel: No. I mean, yes, so the recognition of the income from the sale of these assets has to be recognized through Ind-AS based on a certain formula. So that's why you see that on the balance sheet. I don't know if that answers your question.

Amit Jeswani: Yes, I got that point. My more important point was assuming we have INR300 crores of assets that we have done direct assignments, okay, assuming the interest rate is 24%. I'm just taking it as a -- in a year, we were expected to make INR72 crores as net interest income, right? Yes, 24%, INR300 crores. Now if we -- example, if we sell this asset at, let's say, do we sell it at less a 27% yield, or how does it work? Like that entry, I'm trying to understand.

Aalok Patel: So we'll sell it at, let's say, 12%, right? So instead of having INR72 crores, it will be half of that, right? So it will be INR36 crores that the bank will gain from that. And it's off-balance sheet debt, right? This is

Vivek Modi: The balance of INR36 crores. As an example, the balance of INR36 crores is the income that you will, over a period of time, be able to collect from customers and it's for you to keep, kind of thing.

Amit Jeswani: Got it. If our cost of capital is 12% and we sell the loan at 24%, that 12% gains that we make gets recognized upfront on the 12% cost. Got it. Thank you so much. That's about it. Thank you so much. I have one more question. Just one question on the fundraising path. We are now at 4x debt-to-equity. In the past con call, you've said that 5x is the cap. Is that the right metric to go forward with?

Aalok Patel: Cap is a little harsh word. There have been times we have gone below or above as well. But we have sufficient capital right now to raise about INR2,500 crores without doing any DAs. If you do direct assignments, obviously a portion of those assets go off-book and your debt/equity ratio improves. So if you can, let's say, if you do another INR300 crores or INR400 crores, we can push the AUM to about INR2,800 crores, INR2,900 crores. But that said, we'll probably not wait that long. And at around INR2,500 crores, we'll likely raise more equity. At least that is the plan. But let's see. The best laid plans are always subject to a lot of other factors. So let's see how that works out.

Amit Jeswani: I'll say ROE is already 31%. So even if you grow at 35%, 40%, your debt-to-equity won't move a lot, unless you plan to grow at 60%, 70%. So I would be happy with that also.

Moderator: Thank you. The next question is from the line of Shubham Ajmera from SOIC Ventures. Please go ahead.

Shubham Ajmera: Sir, our journey over the last few years has been highly successful. Like with us, we have achieved INR2,000 crores of AUM this quarter, which is an outstanding performance. I would like to hear your thoughts on the recent departure of our key personnel. So in order to ensure continued growth in the future as well, so what kind of highly qualified professionals with a strong background we are taking as it is also important for us to professionalize the Board for the next level growth from here onwards?

Aalok Patel: So I think you are talking about the departure about the Chief Operating Officer?

Shubham Ajmera: Yes. Chief Risk Officer, I think.

Aalok Patel: So Chief Risk Officer has not spent a long time at Arman. He came from a banking background. He retired from a bank. And many NBFCs of my size or even much larger sizes than me, don't actually have a CRO function. For us, having a CRO or something, just a part of our culture that initially the Promoters and the Directors only were handling the risk function. But we thought it was necessary to formalize it, document everything and have a permanent CRO function.

Now the current CRO, he has certain obligations in his own town, which is family obligations in Hyderabad. Excuse me, Chennai, I forgot. And so he has to move back to Chennai. Now that is unfortunate. But he has been helpful to at least create the risk framework or made a good headway in the risk framework for us. And we are interviewing other people for the position. He's still on notice period, has been on notice period for the last few months. And we are parting on absolute good terms. There is no problem here.

Jayendra Patel: He promised me yesterday evening only that if his family matters is settled, he will be happy to come back to Ahmedabad.

Aalok Patel: Yes, absolutely. Now in terms of the HR itself, I couldn't agree with you more that when you are running such a large operation with 6.5 lakh, 7 lakh customers, 3,000-plus employees, really this business is more about managing HR than managing loans. So finding the right people, retaining the right people remains one of our key strategies and also remains one of our key jobs rather, if you want to put it that way. And so we do take measures to do that. Obviously, we don't run a kind of a boiler pot kind of a culture. We have a very employee-focused culture that we have created. And we try to do the best that we can.

Our employees are very loyal to us. I think, I mean, I'll just give you a few examples, right? So we had a very successful ESOP program. We are going to redo that. So I think you'll see that coming out in the next couple of days of creating a new ESOP tool, the last one being very, very successful. Other factors also helped quite a bit for loyalty. Such as during COVID, for example, we did not layoff a single employee. We didn't cut a single employee salary, whether upper management or lower or field executives.

All of the companies, all of our peers were doing just that. They were laying off staff. But that was not part of our culture. And we knew once the things improve, we are going to need the people to go and collect the money. And so that helped us quite a bit. And I think if you look at our overall asset quality in comparison to our peers, not the only reason, of course, but one of the key reasons that we did better than our peers was because of our HR.

Jayendra Patel: Just to give an example, Aalok, that all the state heads are with us from the inception of the company. They have started as a simple field officers or a credit officers and now they are state heads. So we have a policy of promoting people from within the organization, which has helped us a lot.

Aalok Patel: Right. That's absolutely correct what he said that. There are many such factors like this, such as internal promotions. But of course, it's a constant endeavor to keep people focused and motivated and retained and everything.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

Aalok Patel: Thank you very much, everybody, for joining us, and hope you have a pleasant day.

Jayendra Patel: If they have questions, they can call.

Aalok Patel: Yes. If you have any questions, you can always reach out to our Investor Relations team at SGA, and hope you all have a pleasant evening. Thank you.

Vivek Modi: Thank you.

Jayendra Patel: Thank you.

Moderator: Ladies and gentlemen, on behalf of Monarch Networth Capital Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

Aalok Shah: Yes, thank you, Arman team.

Aalok Patel: Thank you.

Jayendra Patel: Thank you.

Moderator: Thank you.