



Press Release
Arman Financial Services Limited
May 19, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE A- Stable Reaffirmed	-
Non Convertible Debentures (NCD)	30.00	ACUITE A- Stable Reaffirmed	-
Non Convertible Debentures (NCD)	45.00	PP-MLD ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	145.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of **'PP-MLD ACUITE A-' (read as Principal Protected Market Linked Debentures ACUITE A minus)** on the Rs. 45.00 Cr. Principal Protected Market Linked Debentures of Arman Financial Services Limited (AFSL). The outlook is **'Stable'**.

Acuite has reaffirmed the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** on the Rs. 30.00 Cr. Non-Convertible Debentures of Arman Financial Services Limited (AFSL). The outlook is **'Stable'**.

Acuite has reaffirmed the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** on the Rs. 70.00 Cr. bank facilities (including proposed facilities) of Arman Financial Services Limited (AFSL). The outlook is **'Stable'**.

Rationale for the rating

The rating continues to factor in the group's established track record of operations in three product segments i.e Micro Finance, Micro Small and Medium Enterprise (MSME) and two wheeler finance supported by experienced management team. The ratings further takes into account the group's healthy resource raising ability, adequate capital structure and healthy liquidity buffers. The group has well diversified funding profile with a lender base of ~30 banks and financial institutions. On account of capital infusion of Rs. 115 Cr. in Q2FY23, the capitalization buffers of AFSL (standalone) improved from an overall Capital adequacy ratio of 29.10 percent (tier I capital of 26.91 percent) as on March 31, 2022 to 48.05 percent (tier I capital of 32.90 percent) as on December 31, 2022. The rating further factors in growth in the scale of operations with significant rise in AUM from Rs. 684.71 Cr. as on March 31, 2019 to Rs.1,233.13 Cr. as on March 31, 2022. AUM as on December 31, 2022 stood at Rs. 1,642.15 Cr. Further, with a view to achieve deeper penetration, the group has in the past four years expanded into newer regions which has resulted in decline in concentration in the state of Gujarat from 57.20 percent in FY18 to 32.76 percent in FY22 (27.59 percent as on December 31, 2022). The rating is however constrained by deterioration in the group's financial profile as a result of rise in gross non-performing assets (owned portfolio) to 4.70 percent as on March 31, 2021 (P.Y : 1.13 percent) and further remained at 4.44 percent as on March 31, 2022 given stress experienced by vehicle and micro finance sectors. However in FY22 and 9MFY23, due

to growth in business environment, the group has been able to reduce its profitability pressure. The group reported a consolidated PAT of Rs. 31.72 Cr. in FY2022 (Rs. 10.62 Cr. in FY2021; Rs. 41.52 Cr. in FY20). The consolidated PAT for 9MFY23 stood at Rs. 57.16 Cr.

Going forward, the ability of the group to timely infuse capital to aid its capital structure and profitably scale up its operations while mitigating asset quality risk would be a key rating

monitorable.

About Arman Financial Services Limited (AFSL)

Incorporated in 1992 and promoted by Mr Jayendra Patel, Arman Financial Services Ltd (together with Namra Finance Ltd referred to as "Arman Group") is a Non-Deposit taking Non-Banking Financial Company registered with RBI. Arman commenced its operations with asset backed finance lending in the state of Gujarat. Following the RBI directive for creating a separate category of NBFC for lending to micro finance sector, the company was the first in India to obtain "NBFC-MFI" license for its wholly owned subsidiary -Namra Finance Ltd (Namra) on February 14, 2013. In March 2017, AFSL also commenced MSME Lending Business.

The Company (Arman and Namra together) is mainly engaged into micro-financing and asset backed financing. The company offers two-wheeler and MSME financing and Joint Liability Group (JLG) financing. AFSL, on a consolidated basis, operates in 8 states i.e Gujarat, Madhya Pradesh, Maharashtra, Uttar Pradesh, Uttarakhand, Rajasthan, Haryana and Bihar spread across 114 districts through a network of 321 branches with Assets Under Management (AUM) at Rs 1,642.15 Cr. as on December 31, 2022. AFSL's equity shares were listed on BSE in 1995. The promoter and promoter group hold 24.6 percent of the equity shareholding in AFSL as on December 31, 2022.

About AFSL's wholly owned subsidiary - Namra Finance Limited

Namra Finance Limited (NFL) is a wholly owned subsidiary of AFSL which is a Non-Deposit taking NBFC registered with Reserve Bank of India, promoted by Mr. Jayendra Patel. Prior to May 2013, AFSL was engaged in the business of two-wheeler financing and microfinance lending business through Joint Liability Group (JLG) model. However, NFL got an NBFC – Micro Finance Institution license from RBI on February 14, 2013 and from May 2013, entire new microfinance lending is being carried out by NFL. Microfinance lending is presently the largest business segment of the group contributing ~83 percent of the total Assets under Management (AUM) as on December 31, 2022.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of AFSL and NFL (Hereinafter referred to as 'Arman Group') for arriving at the rating. The consolidation is in view of common promoters and management, integrated businesses, shared brand name, and significant operational and financial linkages between these entities.

Key Rating Drivers

Strength

Established track record of operations with experienced promoters and management

AFSL is engaged in the financing business since 1992 and has demonstrated a long track record of operations through various business cycles. Arman commenced its operations with asset backed finance lending in the state of Gujarat and has built a strong experience of 29 years in the industry. Following the RBI directive for creating a separate category of NBFC for lending to micro finance sector, the company was the first in India to obtain "NBFCMFI" license for its wholly owned subsidiary -Namra Finance Ltd (Namra) on February 14, 2013. Accordingly, all the assets related to micro finance were transferred to Namra Finance Limited (NFL). Further in 2017, company began its MSME loan product segment.

The group has geographical presence in the states of Gujarat, Madhya Pradesh, Uttar Pradesh, Maharashtra, Uttarakhand, Rajasthan, Haryana and Bihar with its network of 321 branches spread across 114 districts as on December 31, 2022. The company is promoted by Mr. Jayendra Patel, Vice Chairman and Managing Director, who has a 25 years of experience of Senior managerial and board level experience in the finance sector. Mr. Patel is

the founder member of Gujarat Finance Companies Association. He is supported by Mr. Aalok Patel, Joint Managing Director, who is also on the Board of the company is having more than 15 years of experience in financial sector. Further, Mr. Alok Prasad is the present Chairman on the Board of AFSL, who is also on the Board of the company and is having 35 years of experience in regulatory, banking and financial services. He has been associated with MFIN as Founder Chief Executive Officer. The Board is well represented by 9 Directors having with adequate and relevant experience in the corporate and finance domain. Acuité believes that established presence of the promoters and management coupled with effective guidance from the directors on the board, will be support to the business risk profile of the company in the near to medium term.

Increased scale of operations

Over the years, the company's scale of operations has grown significantly with rise in AUM from Rs. 684.71 crore as on March 31, 2019 to Rs.1,233.13 crore as on March 31, 2022. AUM as on December 31, 2022 stood at Rs.1,642.15 Cr. Further, with a view to achieve deeper penetration, the group has in the past 4 years has expanded into newer regions. As such, the company's branch size increased from 80 branches as on March 2017 to 292 branches as on March 2022 (321 branches as on December 31, 2022) which has gradually resulted in reduced concentration of AUM in the state of Gujarat. The company added 53 new branches during FY2022 and 28 new branches during FY2021.

The company has three major segments- JLG (Micro-Finance through Namra Finance Limited), MSME and two wheeler loan, whereby JLG contributes ~83 percent of the Total AUM as on December 31, 2022 followed by MSME (13 percent of the total AUM) and Two wheeler loans (~3 percent of the total AUM). Within two wheeler sector, the company is focusing in the rural areas of Gujarat, whereas for MSME financing, AFSL is focusing in the state of Gujarat, Madhya Pradesh and Maharashtra. For Microfinance segment, the company operates in all the states.

Acuité believes that company has demonstrated the resilience to grow across various business cycles coupled with diversification in three segments.

Adequate capital structure with strong resource raising ability

The group's net worth stood at Rs. 212.68 Cr. as on March 31, 2022 (Rs. 186.76 Cr. as on March 31, 2021). On account of capital infusion of Rs. 115 Cr. in Q2FY23, the networth stood at Rs. 331.55 Cr. as on December 31, 2022. AFSL has adequate capitalization level with Capital Adequacy Ratio of 29.10 percent (standalone) as on March 31, 2022 (48.80 percent as on March 31, 2021). As on December 31, 2022, the Capital Adequacy Ratio for AFSL stood at 48.05 percent. The group's consolidated gearing levels increased to 4.65 times as on March 31, 2022 from 3.86 times as on March 31, 2021 due to increase in debt profile. As on December 31, 2022, the consolidated gearing stood at 4.94 times. The group has established relationships with ~30 lenders; public and private sector bank and financial institutions.

Acuité expects the group to continue to benefit from diversified funding mix and the group's ability to timely raise equity capital remains a key rating monitorable.

Weakness

Moderate asset quality

The outbreak of the COVID and the intermittent lockdowns had significantly impacted the credit profile of most of the borrowers thereby impacting the asset quality. Given the challenges and stress experienced by vehicle and micro finance sector, company reported GNPA (on-book; consolidated) at 4.44 percent as on March 31, 2022 as against 4.70 percent as on March 31, 2021 (1.13 percent as on March 31, 2020). However, on account of improved collections and write-offs, the GNPA as on December 31, 2022 stood at 3.42 percent. The on-time portfolio (AUM basis) as on March 31, 2022 stood at 89.74 percent vis-à-vis 96.17 percent as on March 31, 2020. (94.01 percent as on December 31, 2022). The provisioning on GNPA remained healthy at 95.3 percent as on December 31, 2022 (83.54 percent as on March 31, 2022).

Profitability pressure due to higher credit costs; albeit improving

Significant decline in disbursements, asset quality stress and the resultant rise in credit provisioning had altogether impacted the profitability. The group's credit costs increased

from Rs 20.01 Cr for FY2020 to Rs 54.59 Cr for FY2021. This resulted decline in AFSL's PAT (consolidated) to Rs 10.62 Cr for FY2021 as against Rs 41.52 Cr for FY2020. In FY2022, the credit costs stood at ~60 Cr. However, with improvement in operating environment, the group saw an uptick in disbursement levels during FY22, the group has been able to mitigate the existing profitability pressure to certain extent. AFSL's consolidated PAT stood at Rs. 31.72 Cr. in FY2022 (Rs. 15.71 Cr. in Q1FY23). Consequently, this has resulted in recovery in the Return on Average Assets (ROAA) which stood at 2.95 for FY2022 as against 1.17 percent for FY2021 (5.06 percent for FY2020). Further, the consolidated PAT for 9MFY23 stood at Rs. 57.61 Cr. with an annualized ROAA of 4.76 percent.

Acuité believes that, the group's ability to contain asset quality pressures while maintaining its profitability parameters is a key rating monitorable.

ESG Factors Relevant for Rating

Arman Financial Services Limited (AFSL) belongs to the NBFC sector which complements bank lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. AFSL focuses towards overcoming the financial inclusion gap through vehicle finance and microfinance in semi-rural and rural areas. The entity has corporate governance policies on whistle-blower programme and vigil mechanism. The NBFC outlines the policies related to diversity, sexual harassment, and ethical business practices in its code of conduct and also has a high transparency in terms of disclosures related to board and management compensation. AFSL's CSR policy focuses on development of marginalized communities and initiatives such as Hygiene Awareness programmes among rural women in Gujarat. As part of the 'green initiative', the company has switched to electronic mode to send annual reports or Notice of AGM to the shareholders and depository participants.

Rating Sensitivity

- Timely infusion of capital
- Movement in leverage
- Movement in asset quality and collection efficiency
- Movement in capitalization and liquidity buffers
- Movement in profitability metrics

Material Covenants

AFSL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, debt to equity ratio among others.

Liquidity Position

Adequate

AFSL has adequately matched asset liability profile as on December 31, 2022 with a cumulative surplus in all maturity buckets. The group has adequate liquidity buffers by way of sufficient cash and cash equivalents of Rs. 157.32 Cr. as on December 31, 2022.

Outlook: Stable

Acuité believes that AFSL will maintain a 'Stable' outlook over the near to medium term owing to its established presence in the key operating segment (i.e. MSME, MFI) and adequate capitalization buffers. The outlook may be revised to 'Positive' in case of significant and sustainable growth in AUM while maintaining asset quality and improved profitability. Conversely, the outlook may be revised to 'Negative' in case of significantly higher than expected asset quality pressures or profitability margins.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	322.75	282.61
Total Income*	Rs. Cr.	48.11	43.15
PAT	Rs. Cr.	16.24	8.00
Net Worth	Rs. Cr.	140.95	127.83
Return on Average Assets (RoAA)	(%)	5.37	2.76
Return on Average Net Worth (RoNW)	(%)	12.08	6.43
Debt/Equity	Times	1.26	1.20
Gross NPA (Owned portfolio)	(%)	7.78	6.78
Net NPA (Owned portfolio)	(%)	1.68	1.08

*Total income equals Net Interest Income plus other income.

Key Financials (Consolidated)

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	1224.79	926.71
Total Income*	Rs. Cr.	145.15	115.11
PAT	Rs. Cr.	31.72	10.62
Net Worth	Rs. Cr.	212.68	186.76
Return on Average Assets (RoAA)	(%)	2.95	1.17
Return on Average Net Worth (RoNW)	(%)	15.88	5.91
Debt/Equity	Times	4.65	3.86
Gross NPA (Owned portfolio)	(%)	4.44	4.70
Net NPA (Owned portfolio)	(%)	0.78	0.77

*Total income equals Net Interest Income plus other income.

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any Other Information

Not applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-ratingcriteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels

of risk. For more details, please refer Rating Criteria “Complexity Level Of Financial Instruments” on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Jan 2023	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	0.56	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	4.29	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	17.30	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Proposed Principal Protected Market Linked Debentures	Long Term	25.00	ACUITE PP-MLD A- Stable (Assigned)
	Term Loan	Long Term	3.06	ACUITE A- Stable (Reaffirmed)
	Principal Protected Market Linked Debentures	Long Term	20.00	ACUITE PP-MLD A- Stable (Reaffirmed)
	Term Loan	Long Term	0.29	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	27.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
30 Sep 2022	Term Loan	Long Term	6.86	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	13.60	ACUITE A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	0.56	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	3.06	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	1.42	ACUITE A- Stable (Reaffirmed)
	Proposed Principal Protected Market Linked Debentures	Long Term	20.00	ACUITE PP-MLD A- Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	27.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	6.86	ACUITE A- Stable (Reaffirmed)
		Long		ACUITE A- Stable

11 Apr 2022	Term Loan	Term	0.56	(Reaffirmed)
	Term Loan	Long Term	1.67	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	3.06	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	27.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE A- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	30.00	ACUITE A- Stable (Assigned)
	Proposed Bank Facility	Long Term	11.93	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	1.42	ACUITE A- Stable (Reaffirmed)
08 Nov 2021	Cash Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	27.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	3.06	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	0.50	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	1.67	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	6.86	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	11.93	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	0.56	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	1.42	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	10.50	Not Applicable	Simple	5.00	ACUITE A- Stable Reaffirmed
A U Small Finance Bank	Not Applicable	Cash Credit	Not Applicable	11.00	Not Applicable	Simple	10.00	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A- Stable Reaffirmed
Not Applicable	INE109C07030	Non-Convertible Debentures (NCD)	31 Mar 2022	11.80	31 Dec 2024	Simple	30.00	ACUITE A- Stable Reaffirmed
Not Applicable	INE109C07055	Principal protected market linked debentures	04 Oct 2022	Not Applicable	04 Apr 2024	Complex	20.00	PP-MLD ACUITE A- Stable Reaffirmed
Not Applicable	INE109C07063	Principal protected market linked debentures	24 Jan 2023	Not Applicable	24 Jul 2024	Complex	25.00	PP-MLD ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	31.97	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.33	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	08 Mar 2022	11.00	08 Mar 2024	Simple	4.29	ACUITE A- Stable Reaffirmed
A U Small Finance Bank	Not Applicable	Term Loan	15 Oct 2018	11.00	15 Oct 2021	Simple	0.56	ACUITE A- Stable Reaffirmed
A U Small Finance Bank	Not Applicable	Term Loan	31 Jul 2019	11.00	31 Jul 2022	Simple	3.06	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	22 Dec 2020	11.00	22 Dec 2022	Simple	0.29	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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