# Arman Financial Services Limited

March 06, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Non-convertible debentures | 39.00 | CARE A-; Stable | Revised from CARE BBB+; Stable |
| Non-convertible debentures | 58.50 | CARE A-; Stable | Revised from CARE BBB+; Stable |
| Non-convertible debentures | - | - | Withdrawn* |

Details of instruments/facilities in Annexure-1.

*CARE Ratings Limited has withdrawn the rating assigned to the Non-convertible debentures with immediate effect, on receipt of No Dues Certificate received from the debenture trustee.

## Rationale and key rating drivers

The revision in the rating for Non-Convertible Debentures (NCDs) of Arman Financial Services Limited (AFSL) factors in the improvement in capitalisation level of the Arman group (AFSL and its wholly owned subsidiary, Namra Finance Limited (NFL), together referred as the Arman group) on account of capital infusion in FY23 and in 9MFY24. The revision in the rating also accounts for steady growth in the asset under management (AUM) with a three-year compounded annual growth rate (CAGR) till FY23 of 31%. The rating also factors in improvement in profitability metrics and asset quality.

However, rating strengths are partially offset by limited track record of operations in new geographies, risks associated with unsecured lending in microfinance and micro, small & medium enterprises (MSME) loans, and its presence in a highly competitive financing industry along with regulatory risks pertaining to the microfinance business.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors- Factors that could, individually or collectively lead to positive rating action/upgrade:**

- Improving profitability profile with return on total assets (RoTA) of more than 4% on a sustained basis.
- Sizeable equity raises leading to improving net worth and improving gearing.
- Sizeable scaling up of operations whilst ensuring lower geographical concentration.

**Negative factors- Factors that could, individually or collectively lead to negative rating action/downgrade:**

- Significantly rising gross non-performing assets (GNPA) % leading to deteriorating profitability profile with reduction in RoTA below 2%.
- Deteriorating capital structure, with the overall gearing exceeding 5x.

## Analytical approach:

Consolidated. The consolidated entities are given separately in Annexure-6.
A consolidated approach has been considered for analysis due to the following:

- NFL is a wholly-owned subsidiary of AFSL.
- Both entities are engaged in the similar line of business.
- Both entities operate under a common management.
- The entities have cash flow fungibility among each other.

**Outlook:** Stable

CARE Ratings Limited (CARE Ratings) expects the sustained growth in AUM while improving the profitability metrics and asset quality.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

**Improving capitalisation position:** In September 2022, the group received funds from non-promoter group to the tune of ₹115 crore in form of Compulsory Convertible Debenture (CCD) of ₹77 crore and Optionally Convertible Redeemable Preference Shares (OCRPS) of ₹38 crore. With this, the consolidated tangible net worth as on March 31, 2023, increased to ₹ 350 crore, from ₹196 crore as on March 31, 2022. Of ₹115 crore, ₹30 crore got converted to equity till December 2023 while balance ₹ 85 crore will be converted by end of FY24. In December 2023, AFSL raised an additional ₹230 crore in form of Qualified Institutions Placement (QIP). With this, the consolidated tangible net worth increased to ₹722 crore as on December 31, 2023.

With the recent rounds of infusions, the gearing levels improved to 2.5x as on December 31, 2023, from 4.6x as on March 31, 2023 and 5.1x as on March 31, 2022.

CARE Ratings expects the consolidated tangible net worth to further improve as on March 31, 2024, owing to conversions of CCD and OCRPS along with internal accruals. The gearing levels are expected to remain below 5x in medium term.

**Steady growth in AUM:** AFSL is the parent entity and NFL is wholly owned by AFSL. AFSL provides financing for SME and two-wheeler (TW) and NFL provides microfinancing loans. The AUM of the Arman group has been on a rising trend over the years, only dipping for a year due to COVID-19. The consolidated AUM has been growing at a three-year CAGR till FY23 of 31% with ₹1,944 crore. The AUM has further risen to ₹2,437 crore as on December 31, 2023, up by 25% YTD.

Microfinance segment continues to be in majority proportion and key product line of the overall AUM with it rising to 84% as on December 31, 2023 up from 83% as on March 31, 2022. Consequently, NFL forms majority portion of the group. The company has been majorly lending under joint liability group (JLG) model, however, it has started lending under individual model since FY22 which forms 2% of MFI AUM as on December 31, 2023. AFSL, offers SME and TW financing which forms minority portion of the group and is on a declining trend. Of products offered by AFSL, SME has been consistent in its share of overall AUM with 13% of overall AUM as on December 31, 2023 (same as on March 31, 2022), while there has been a degrowth in the TW segment with 3% of overall AUM as on December 31, 2023 down from 4% as on March 31, 2022.

CARE Ratings expects the group to sustain the growth in AUM with the impetus from recent rounds of capital infusion.

**Improving profitability:** The yields for the Arman group have increased in FY23 and 9MFY24, owing to the company increasing its lending rate with the removal of interest rate cap by the Reserve Bank of India (RBI) for MFIs. This, coupled with high-yielding non- MFI products has led to rising yields. The current lending rate for SME is 36%, TW is 28% and MFI is 27-28%. The cost of fund had increased in FY23 with the interest rate cycle although, in 9MFY24, the cost of funds remained at 12-13%. With the rise in yields, the net interest margin increased to 15% in 9MFY24 from 14% in FY23 and 12% inFY22. As majority of the MFI loan book is at revised lending rate, CARE Ratings expects normalisation of the net interest margin (NIM) going forward.

With increasing margins, reduced operating expenses ratio and credit costs ratio, the RoTA increased in 9MFY24 to 7% from 6% in FY23 and 3% in FY22.

**Improving asset quality:** As on March 31, 2023, both the entities on standalone basis made recoveries and significant write offs, leading to reduction in consolidated GNPA ratio in the fiscal to 2% from 4% as on March 31, 2022. With rise in provision coverage ratio to 94% as on March 31, 2023 from 84% as on March 31, 2022, the net NPA ratio reduced to 0.16% as on March 31, 2023 from 0.82% as on March 31, 2022. With the restructured portfolio reducing to ₹5 crore (0.3% of gross loan) as on March 31, 2023 and nil as on September 30, 2023 from ₹47 crore (4% of gross loan) as on March 31, 2022, the stress from the restructured assets is no more present.

### Key weaknesses

**Concentrated resource profile, although, vast lender base:** The consolidated borrowing profile is concentrated at banks with 49% followed by non-banking finance companies (NBFCs)/financial institutions (Fis) with 31% and capital market with 21% as on December 31, 2023. The borrowing mix was at similar level in FY23 with banks having 46%, followed by NBFCs/FIs with 36% and capital market with 17% as on March 31, 2023.

**Limited track record of operations in new geographies:** As on on December 31, 2023, the Arman group operates in 10 states. The group was previously concentrated in its home state, Gujarat, with 43% as on March 31, 2020, however, it has been able to diversify its presence in other states while reducing its concentration in Gujarat with 30% as on March 31, 2023 and further down to 28% as on December 31, 2023.

In FY23, the group increased its penetration in Bihar with 6% of AUM as against negligible a year ago. In 9MFY24, along with entering to new states, Jharkhand and Telangana, the group has furthered its presence in Bihar with 9% of AUM.

**Regulatory and inherent risks associated with unsecured lending:** The group operates in a business segment that is unsecured in nature, exposing itself to credit risk. However, with strong underwriting mechanism, the NNPA% has remained under control. The company is also exposed to regulatory risks associated with any adverse changes in the regulations guiding such NBFCs, along with event-based risks associated with microfinancing.

**Liquidity**: Adequate
As per asset liability management (ALM) statement as on September 30, 2023, for AFSL and NFL, there are positive cumulative mismatches for all time buckets. AFSL has cash and bank balance of ₹104 crore with unutilised bank lines of ₹6 crore. NFL has cash and bank balance of ₹153 crore with unutilised bank lines of ₹119 crore and securitisation lines of ₹120 crore.

## Environment, social, and governance (ESG) risks

Given that AFSL is engaged in the lending business, it is exposed to the environmental risks indirectly through their portfolio of assets. If the customers of AFSL face environmental risk or the sectors it operates in faces regulatory risk, it could translate into credit risks for AFSL.

## Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Withdrawal Policy
Non Banking Financial Companies
Consolidation

## About the company and industry

## Industry classification

| Macro-economicIndicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Financial services | Financial services | Finance | NBFC |

Incorporated on November 26, 1992, AFSL is promoted by Jayendra Patel by the name of Arman Lease and Finance Limited. The group started its operations with TW financing and microfinance lending. On receiving licence for operations by NFL, in May 2013, the microfinance segment was carried by NFL. In March 2017, AFSL commenced lending under SME segment. AFSL caters to the low-income customers by providing lending services for TW financing, financing for MSME and to microfinance segment. AFSL is registered as a non- deposit taking NBFC and NFL is registered as a Non- Deposit taking Systemically Important Micro Finance Institution (NBFC-MFI-ND-SI) with RBI. The group operates with 394 branches in 140 districts of 10 states catering to around eight lakh customers as on December 31, 2023.

| Consolidated Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | 9MFY24 (UA) |
|---|---:|---:|---:|
| Total income | 235.0 | 423.9 | 478.6 |
| PAT | 31.72 | 93.81 | 122.8 |
| Interest coverage (times) | 1.52 | 1.80 | 1.98 |
| Total Assets | 1,224.79 | 2,022.36 | 2634.1 |
| Net NPA (%) | 0.82 | 0.16 | 0.33 |
| ROTA (%) | 2.95 | 5.78 | 7.03 |

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:**
Not Applicable

**Any other information:**
Not Applicable

**Rating history for last three years:** Please refer to Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated**: Please refer to Annexure-4

**Lender details**: Please refer to Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-Convertible Debentures | INE109C07022* | 03-Mar-2020 | 13.15% | March 03, 2025 | 0.00 | Withdrawn |
| Non-Convertible Debentures | INE109C07048 | June 14, 2022 | 11.30% | June 16, 2027 | 28.67 | CARE A-; Stable |
| Non-Convertible Debentures | INE109C07071 | April 11, 2023 | 12.20% | April 11, 2028 | 49.73 | CARE A-; Stable |
| Non-Convertible Debentures-Proposed | - | - | - | - | 19.10 | CARE A-; Stable |

*CARE Ratings Limited has withdrawn the rating assigned to the Non-convertible debentures with immediate effect, on receipt of No Dues Certificate received from the debenture trustee.

## Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Fund-based - LT-Cash Credit | LT | - | - | - | 1)CARE BBB+; Stable (19-Sep-22)<br><br>2)Withdrawn (19-Sep-22)<br><br>3)CARE BBB+; Stable (01-Jun-22) | 1)CARE BBB+; Stable (03-Jan-22)<br><br>2)CARE BBB+; Stable (22-Nov-21) | 1)CARE BBB+; Stable (07-Oct-20) |
| 2 | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (01-Jun-22) | 1)CARE BBB+; Stable (03-Jan-22)<br><br>2)CARE BBB+; Stable | 1)CARE BBB+; Stable (07-Oct-20) |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| | | | | | | | (22-Nov-21) | |
| 3 | Fund-based - LT-Term Loan | LT | - | - | - | 1)CARE BBB+; Stable (01-Jun-22)<br><br>2)Withdrawn (01-Jun-22) | 1)CARE BBB+; Stable (03-Jan-22)<br><br>2)CARE BBB+; Stable (22-Nov-21) | 1)CARE BBB+; Stable (07-Oct-20) |
| 4 | Fund-based - ST-Others | ST | - | - | - | - | 1)Withdrawn (03-Jan-22)<br><br>2)CARE A2 (22-Nov-21) | 1)CARE A2 (07-Oct-20) |
| 5 | Debentures-Non Convertible Debentures | LT | - | - | 1)CARE BBB+; Stable (05-Apr-23) | 1)CARE BBB+; Stable (03-Jan-23)<br><br>2)CARE BBB+; Stable (19-Sep-22)<br><br>3)CARE BBB+; Stable (01-Jun-22) | 1)CARE BBB+; Stable (03-Jan-22)<br><br>2)CARE BBB+; Stable (22-Nov-21) | 1)CARE BBB+; Stable (07-Oct-20) |
| 6 | Debentures-Non Convertible Debentures | LT | 39.00 | CARE A-; Stable | 1)CARE BBB+; Stable (05-Apr-23) | 1)CARE BBB+; Stable (03-Jan-23)<br><br>2)CARE BBB+; Stable (19-Sep-22)<br><br>3)CARE BBB+; Stable (01-Jun-22) | - | - |
| 7 | Debentures-Non Convertible Debentures | LT | 58.50 | CARE A-; Stable | 1)CARE BBB+; Stable (05-Apr-23) | - | - | - |

LT: Long term.

### Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

### Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Debentures-Non Convertible Debentures | Simple |

### Annexure-5: Lender details

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| To view the lender-wise details of bank facilities please click here |

### Annexure-6: List of all the entities consolidated as on December 31, 2023

| Sr No | Name of the entity | Extent of consolidation | Rationale for consolidation |
|---|---|---|---|
| 1 | Namra Finance Limited | Full consolidation | Wholly owned Subsidiary |

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

| Media Contact | Analytical Contacts |
|---|---|
| Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3596<br>E-mail: mradul.mishra@careedge.in<br><br>**Relationship Contact**<br><br>Pradeep Kumar<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: 044-28490876<br>E-mail: pradeep.kumar@careedge.in | Gaurav Dixit<br>Director<br>**CARE Ratings Limited**<br>Phone: 91-120-4452002<br>E-mail: gaurav.dixit@careedge.in<br><br>Neha Kadiyan<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: 91-120-4452022<br>E-mail: Neha.Kadiyan@careedge.in<br><br>Deepshi Panda<br>Lead Analyst<br>**CARE Ratings Limited**<br>E-mail: deepshi.panda@careedge.in |

**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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