Arman Financial Services Limited

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	39.00	CARE A-; Stable	Reaffirmed
Non-convertible debentures	58.50	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings for non-convertible debentures (NCDs) of Arman Financial Services Limited (AFSL) factor in the comfortable capitalisation level of the Arman Group (referred to AFSL and its wholly owned subsidiary, Namra Finance Limited (NFL) together) owing to the capital infusion in December 2023 and lesser incremental debt availment post that. Ratings also consider healthy growth in the assets under management (AUM) with a three-year compounded annual growth rate (CAGR) till FY24 of 48%, although, growth slowed down in H1FY25 owing to headwinds in the microfinance sector. Ratings consider adequate liquidity in the group with cash and bank balances making 20% of total assets as on September 30, 2024.

However, rating strengths are partially offset by moderate profitability and asset quality, which were impacted with the stress in the microfinance sector. These are further constrained by limited track record of operations in new geographies, risks associated with unsecured lending in microfinance and micro, small and medium enterprises (MSME) loans, and its presence in a highly competitive financing industry and regulatory risks pertaining to the microfinance business.

CARE Ratings Limited (CARE Ratings) notes that the microfinance industry is currently experiencing significant stress, primarily due to increasing borrower indebtedness, as larger ticket sizes and multiple loans taken by low-income individuals have led to over-leverage and difficulties in repayment. Compounding this issue is weakening joint liability group (JLG) model, with declining center attendance, high attrition rates among field staff, rise of systematic frauds, and natural calamities that have significantly affected collection efficiency of microfinance institutions (MFIs).

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 over 4% on a sustained basis.
- Sizeable equity raises leading to improving net worth and improving gearing.
- Sizeable scaling of operations while 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) ratio leading to deterioration in profitability profile with reduction in RoTA below 2%.
- Deteriorating capital structure, with overall gearing exceeding 5x.

Analytical approach:

Consolidated, with wholly owned subsidiary- NFL

Entities consolidated are listed under Annexure-6.

Outlook: Stable

CARE Ratings expects adequate capitalisation underpinned by low gearing will act as a cushion in the ongoing stress of the microfinance sector for the Arman Group. CARE Ratings expects the group's profitability will be supported by non-microfinance segments in the medium term.

Detailed description of key rating drivers:

Key strengths

Improved capitalisation position

With the last round of capital infusion of ₹230 crore in December 2023 in AFSL, the group's tangible net worth (TNW) increased to ₹793 crore as on March 31, 2024, from ₹350 crore as on March 31, 2023, and with internal accruals, TNW increased by 6%

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

year-to-date (YTD) with ₹840 crore as on September 30, 2024. As capital was infused in NFL for ₹80 crore in Q4FY24, its TNW increased to ₹539 crore as on March 31, 2024, from ₹314 crore as on March 31, 2023, and the second tranche of capital infusion was made in H1FY25 of ₹119 crore, leading to further rise in TNW to ₹633 crore as on September 30, 2024.

With the capital raised, the group's debt requirement reduced, translating to reduced gearing level 2.2x as on March 31, 2024, from 4.6x as on March 31, 2023, and with slower incremental disbursement in H1FY25, borrowings increased slowly, therefore, gearing level further reduced to 1.7x as on September 30, 2024. Similar trend followed in NFL with 1.8x as on September 30, 2024, from 2.7x as on March 31, 2024, and 4.1x as on March 31, 2023.

CARE Ratings expects comfortable capitalisation will provide the cushion to the group in current times of stress in the microfinance sector.

Steady growth in AUM
AFSL caters to low-income customers by providing lending services for two-wheeler (TW) financing, financing for MSME and loan against property (LAP) and NFL provides microfinance loans. The group's AUM has been on a rising trend over the years, reaching AUM of ₹2,639 crore as on March 31, 2024, up by 36% y-o-y. Owing to ongoing stress in the microfinance sector, NFL slowed down its disbursements in H1FY25 and focused more on the collections. Resultantly, the group's AUM reduced to ₹2,465 crore (-7% YTD), despite a 6% YTD rise in the AUM of AFSL. This is due to NFL making majority share in the group's AUM with 81% as on September 30, 2024.

In AFSL, MSME contributes the majority to its AUM with 82%, followed by TW with 15% and LAP with 2% as on September 30, 2024. In Q4FY24, AFSL introduced the LAP segment with an average ticket size of ₹4,10,000, with a tenure ranging from 36 to 84 months.

CARE Ratings expect the AUM growth to be subdued for FY25, given the stress in the microfinance sector.

Healthy profitability, although, impacted in H1FY25
The group reported an 85% y-o-y rise in profit after tax (PAT) in FY25 with ₹174 crore, underpinned by strong growth in loans. In H1FY25, the group reported PAT of ₹47 crore.

AUM driven by the microfinance segment, which carried a rate of interest of 23.8% in FY24, and followed by MSME segment, which carried rate of interest of 35.4% in FY24, the group's yield increased to 27.6% in FY24 from 26.0% in FY23. This coupled with low gearing, the group's net interest margin (NIM) increased to 14.1% in FY24 from 13.2% in FY23. With slowed operations, yield remained at similar level in H1FY25, although, the NIM increased to 15.9% in H1FY25 due to reduction in cost of funds and low gearing.

The group's credit costs ratio remained controlled with 2.8% in FY24 and FY23, however, with deteriorating asset quality, credit costs ratio increased significantly to 8.0% in H1FY25.

The group's RoTA improved to 7.5% in FY24 with increased NIM, however, with a significant credit costs ratio in H1FY25, the RoTA moderated to 3.7% in H1FY25.

NFL's profitability followed similar trends in FY24 and H1FY25. The company reported peak RoTA in FY24 with 7.4% driven by risen NIM (13.4% against 11.6% in FY23), and controlled credit costs ratio (3.1% against 3.2%). However, RoTA moderated in H1FY25 to 2.6% due to significantly high credit costs of 8.9%, despite increased NIM 14.9%.

CARE Ratings expect profitability to remain subdued in the medium term.

Moderate asset quality
In line with the stress in the microfinance industry, NFL's asset quality weakened with an increase in the GNPA ratio to 4.03% as on September 30, 2024, from 2.96% as on March 31, 2024. Although, AFSL's asset quality remained similar with a slight rise in the GNPA ratio to 2.9% as on September 30, 2024, from 2.6% as on March 31, 2024. CARE Ratings notes that 1+ days past due (dpd) and 30+ dpd of NFL's AUM increased significantly to 10% and 6%, respectively as on September 30, 2024, from 6% and 4%, respectively as on March 31, 2024, reflecting further stress in the near term.

In terms of customer vintage, there has been a reduction in the share of customers with less than one year association with NFL to 39% in FY24 and further reduced to 32% in H1FY24, although, it remains highest. Share of loans with NFL+0 lenders rose with 33% as on September 30, 2024, from 23% as on March 31, 2024, while the share of loans with NFL+4 lenders as reduced significantly to 9% as on September 30, 2024, from 20% as on March 31, 2024.

Owing to new stricter guardrails by MFI Network (MFIN) limiting number of lenders per borrower with a maximum of three microfinance lenders including NFL (effective from April 01, 2025), headwinds for the asset quality are expected to continue in the near term from such overleveraged borrowers due to restricted availability of incremental microfinance loans. Going forward, the company's ability to maintain its asset quality, while growing its loan book, remains a key rating monitorable.

Key weaknesses

Concentrated resource profile

Entities in the Arman Group borrow on standalone basis. Lenders' profile for both companies are different, where AFSL borrowed majorly from capital market in FY24 with 58%, however, in H1FY25, its majority borrowings were in form of term loan with 53%. In FY24, the company's borrowing from related parties stood nil against ₹10 crore as on March 31, 2023, however, it again borrowed from directors, their relatives and inter corporate deposits to the tune of ₹38 crore as on September 30, 2024.

NFL majorly borrows in form of term loan with 81% and balance in form of NCD with 19% as on September 30, 2024. The share of NCDs has grown significantly in H1FY25 from 9% in FY24. Ratio of banks and NBFC in term loan has been 70:30 as on March 31, 2024, and September 30, 2024.

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 net NPA (NNPA) ratio remained controlled. The company is also exposed to regulatory risks associated with adverse changes in the regulations guiding such NBFCs, and event-based risks associated with microfinancing.

Liquidity: Adequate

Per asset liability management (ALM) statement of AFSL on standalone basis, as on September 30, 2024, there are positive cumulative mismatches across all time buckets. On a consolidated basis, AFSL has a cash and bank balance of ₹464 crore as on September 30, 2024, which made 20% of the total assets. Per ALM statement as on September 30, 2024, of NFL, there are positive cumulative mismatches across all time buckets. Per ALM statement, NFL has a cash balance of ₹391 crore as on September 30, 2024.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

Incorporated on November 26, 1992, AFSL caters to low-income customers by providing lending services for TW financing, financing for SME and LAP. In May 2013, a wholly owned subsidiary of AFSL, NFL started its operations by providing microfinance loan. AFSL is registered as a non-deposit taking NBFC is registered as a non-deposit taking NBFC-MFI with RBI. AFSL, formerly known as Arman Lease and Finance Limited, is promoted by Jayendra Patel. AFSL and NFL, together known as the Arman Group, started operations with microfinance lending through NFL in 2013 and SME financing through AFSL in 2017.

Consolidated Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	408.41	614.07	334.84
PAT	93.81	173.57	46.57
Interest coverage (times)	1.80	2.05	1.64
Total Assets	2022.36	2615.61	2368.45
Net NPA (%)	NA	NA	NA
ROTA (%)	5.78	7.48	3.74

A: Audited UA: Unaudited NA: Not applicable; Note: these are latest available financial results

AFSL - Standalone Brief Financials (₹ crore)	31-03-2023	31-03-2024	H1FY25 (UA)
	A	A	
Total income	94.59	132.98	82.85
PAT	28.36	37.90	20.51
Interest coverage (times)	1.78	1.88	2.48
Total assets	563.80	843.94	912.48
Net NPA (%)	0.63	0.89	0.64
ROTA (%)	6.40	5.38	4.67

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: 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 and Rating Outlook
Debentures-Non-Convertible Debentures - Proposed	-	-	-	-	18.89	CARE A-; Stable
Debentures-Non-Convertible Debentures	INE109C07048	14-Jun-2022	11.30%	14-Jun-2027	28.88	CARE A-; Stable
Debentures-Non-Convertible Debentures	INE109C07071	11-Apr-2023	12.2%	11-Apr-2028	49.73	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)CARE BBB+; Stable (19-Sep-22) 2)Withdrawn (19-Sep-22) 3)CARE BBB+; Stable (01-Jun-22)	1)CARE BBB+; Stable (03-Jan-22) 2)CARE BBB+; Stable (22-Nov-21)
2	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (01-Jun-22)	1)CARE BBB+; Stable (03-Jan-22) 2)CARE BBB+; Stable (22-Nov-21)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (01-Jun-22) 2)CARE BBB+; Stable (01-Jun-22)	1)CARE BBB+; Stable (03-Jan-22) 2)CARE BBB+; Stable (22-Nov-21)
4	Fund-based - ST-Others	ST	-	-	-	-	-	1)Withdrawn (03-Jan-22) 2)CARE A2 (22-Nov-21)
5	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (06-Mar-24) 2)CARE BBB+; Stable (05-Apr-23)	1)CARE BBB+; Stable (03-Jan-23) 2)CARE BBB+; Stable (19-Sep-22)	1)CARE BBB+; Stable (03-Jan-22) 2)CARE BBB+; Stable (22-Nov-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
							3)CARE BBB+; Stable (01-Jun-22)	
6	Debentures-Non-convertible debentures	LT	39.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Mar-24) 2)CARE BBB+; Stable (05-Apr-23)	1)CARE BBB+; Stable (03-Jan-23) 2)CARE BBB+; Stable (19-Sep-22) 3)CARE BBB+; Stable (01-Jun-22)	-
7	Debentures-Non-convertible debentures	LT	58.50	CARE A-; Stable	-	1)CARE A-; Stable (06-Mar-24) 2)CARE BBB+; Stable (05-Apr-23)	-	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	NFL	Full	Wholly owned subsidiary

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

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sanjay Kumar Agarwal Senior Director **CARE Ratings Limited** Phone: 912267543582 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Neha Kadiyan Director **CARE Ratings Limited** Phone: 91-120-4452022 E-mail: Neha.Kadiyan@careedge.in Deepshi Panda Lead Analyst **CARE Ratings Limited** 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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