

AUGUST 29, 2016

CARE REVISES THE RATING ASSIGNED TO THE BANK FACILITIES OF ARMAN FINANCIAL SERVICES LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term bank facilities	39.00	CARE BBB [Triple B]	Revised from CARE BBB- [Triple B Minus]
Total Facilities	39.00 (Rs. Thirty nine crore only)		

Rating Rationale

For arriving at the ratings, CARE has taken a consolidated view of Arman Financial Services Ltd. (AFSL) and its subsidiary viz. Namra Finance Ltd. (NFL) as both the companies operate on a common management & operational platform with entire equity capital of NFL being held by AFSL. Also, the existing debt and proposed debt of NFL is guaranteed / proposed to be guaranteed by AFSL.

The revision in the rating assigned to the bank facilities of AFSL takes into account growth in the consolidated loan portfolio of AFSL during FY16 (FY refers to the period from April 1 to March 31) largely due to growth in its microfinance business along with comfortable profitability & liquidity, improvement in resource base and gradual geographical diversification of its operations.

The rating further continues to derive strength from established track record of operations of AFSL & NFL along-with experienced and professional management, diversified operations in two segments viz. asset backed finance & microfinance and comfortable capital adequacy.

The rating is, however, constrained by AFSL's modest scale of operations even on a consolidated basis, very low growth in asset backed financing portfolio, high regional concentration of operations, moderate seasoning of loan portfolio, moderation in asset quality, risks associated with unsecured lending to microfinance business under NFL and regulatory risk pertaining to microfinance business.

AFSL's ability to significantly increase its scale of operations through greater geographical diversification of its business in both segments (Asset backed financing & Microfinance) while improving its asset quality and maintaining its profitability, along with timely tie-up of envisaged funding from banks and financial institutions to grow its business would be the key rating sensitivities.

Background

Promoted by Mr. Jayendra Patel, Arman Financial Services Limited (AFSL) is a (Non-Deposit taking) Non-Banking Financial Company (NBFC) registered with Reserve Bank of India (RBI). AFSL is engaged in the business of financing two-wheelers & three-wheelers and entered into Joint Liability Group (JLG) microfinance business in 2009.

In compliance with RBI directions, AFSL promoted NFL as its wholly owned subsidiary, to carry on Micro finance business, which got NBFC-MFI license from RBI on February 14, 2013 and from May 2013, entire new microfinance lending is being done by NFL. AFSL (on a consolidated basis) has spread its operations in the state of Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh with 66 branches as on July 31, 2016 out of which 61 branches cater to microfinance business and 5 branches cater to two-wheeler/three-wheeler financing business.

During FY16 (Aud.) (refers to the period April 1 to March 31), AFSL (on a consolidated basis) reported a total operating income of Rs.40.69 crore (FY15: Rs.29.61 crore) with a PAT of Rs.8.00 crore (FY15: PAT of Rs.6.16 crore). AFSL (on a consolidated basis) had total outstanding loan portfolio of Rs.171.96 crore and standalone Capital Adequacy Ratio (CAR) of 48.59 % as on March 31, 2016.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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