Arman Financial Services Limited

October 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	39.00	**CARE BBB; Stable [Triple B; Outlook: Stable]**	Reaffirmed
Total Facilities	**39.00 (Rupees Thirty Nine crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the rating, CARE has taken a consolidated view of Arman Financial Services Limited (AFSL) and its wholly owned subsidiary, Namra Finance Limited (NFL), as both the companies operate on a common management & operational platform. Also, the existing debt and proposed debt of NFL is guaranteed / proposed to be guaranteed by AFSL.

The rating assigned to AFSL continues to derive strength from established track record of operations of AFSL & NFL along-with experienced and professional management and diversified operations in asset backed finance & microfinance along with initiation of micro enterprise lending during FY17. The rating further derives strength from AFSL's and NFL's comfortable capital adequacy as on Mar. 31, 2017, moderate ROTA on consolidated basis albeit deterioration in the same during FY17, improvement in resource base and gradual geographical diversification of its operations with onset of operations in Maharashtra and Uttar Pradesh.

The rating, however, continues to be constrained by AFSL's modest scale of operations on consolidated basis, modest growth in loan portfolio during FY17 due to impact of demonetization and high regional concentration of operations in Gujarat. The rating is further constrained on account of moderate seasoning of loan portfolio with moderate asset quality, risks associated with unsecured lending in microfinance business under NFL and regulatory risk pertaining to microfinance business.

AFSL's ability to increase its scale of operations through greater geographical diversification in all three segments, scaling up of operations of micro-enterprise lending, improvement in asset quality and profitability indicators along with timely tie-up of envisaged funding from banks and financial institutions to grow its business would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations along-with experienced and professional management: AFSL is headed by an industry veteran, Mr. Chinubhai Shah, who has managerial & board level work experience of more than 30 years. AFSL is in the finance business since 1992 and has demonstrated a long track record of operations through various business cycles.

Diversified operations across three segments coupled with gradual geographical diversification: AFSL, through NFL, operates in the microfinance segment whereas AFSL undertakes two-wheeler financing. Further, during FY17, AFSL has also commenced rural micro-enterprise lending. AFSL also expanded its operations across 4 states with addition of Maharashtra and Uttar Pradesh during FY17.

Comfortable capital adequacy ratio (CAR) with moderate ROTA: CAR of AFSL continued to be comfortable at 38.49% as on March 31, 2017. CAR of NFL also stood comfortable at 27.65% as on March 31, 2017. Further, despite decline in ROTA due to lower PAT, it remained moderate at 3.08% during FY17 on a consolidated basis.

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

Key Rating Weaknesses

Modest scale of operations with moderate asset quality: AFSL continued to operate on a modest scale with total outstanding loan portfolio on consolidated basis being Rs.180.96 crore as on Mar. 31, 2017. Furthermore, on consolidated basis, asset quality moderated during FY17 on account of impact of demonetization leading to lower collection efficiency and change in NPA norms for asset financing to 120 days or more from 150 days or more during FY16.

Modest growth in loan portfolio during FY17; high regional concentration persists: During FY17, loan portfolio witnessed modest growth on the back of demonetization leading to lower disbursement in microfinance segment. Also, around 81% of outstanding loan portfolio of AFSL was concentrated in Gujarat during FY17.

Analytical approach: Consolidated. NFL is a wholly owned subsidiary of AFSL with common management and operational platform.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Non Banking Financial Companies
Financial Ratios-Financial Sector

About the Company
Promoted by Mr Jayendra Patel, 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 two-wheeler financing and Joint Liability Group (JLG) microfinance lending. Further, AFSL commenced rural micro enterprise lending in August 2016.
In compliance with RBI directions, AFSL promoted NFL as its wholly owned subsidiary to carry on Micro finance business. NFL got NBFC - Micro Finance Institution (MFI) license from RBI on February 14, 2013 and from May 2013, entire new microfinance lending was carried out by NFL. AFSL (on a consolidated basis) operates in the state of Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh with a network 116 branches as on June 30, 2017. Out of these, 98 branches cater to microfinance business, 6 branches cater to two-wheeler financing and 12 branches cater to micro-enterprise lending.

Brief Financials^ (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	40.69	53.59
PAT	8.00	6.32
Interest coverage (times)	1.79	1.44
Total Assets	195.10	215.08
Net NPA (%)	1.07	1.31
ROTA (%)	4.81	3.08

A: Audited; ^Consolidated financials of AFSL

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (aRs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	39.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	39.00	CARE BBB; Stable	-	1)CARE BBB (29-Aug-16)	1)CARE BBB- (18-Sep-15)	1)CARE BBB- (14-Aug-14)

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