JM FINANCIAL

February 25, 2020

Initiating Coverage Report
Arman Financial Services

Arman Financial Services Ltd.

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Arman Financial Services

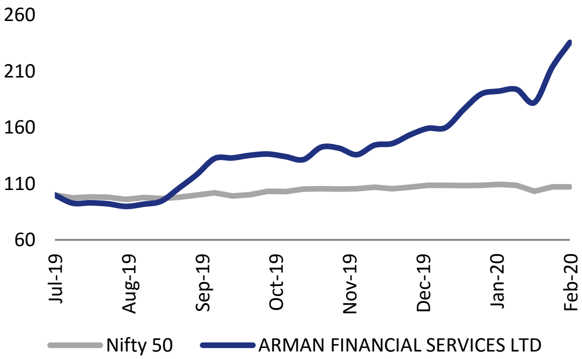
Current Reco :	BUY
CMP :	INR 995
TP:	INR 1220
Upside:	23%

KEY DATA

Shares Outstanding (No. Cr)	0.845
Market Cap. (INR Cr)	840
52- W High/ Low (INR)	1043/326
Major Shareholders	
Promoter	27.7
Public	49.9
Others	22.4
Avg. Daily Turnover (3 months)	
NSE Volume	12,454

Source: Company, JMFS Research

Relative Price Performance



Source: Company, JMFS Research

Financial Summary (Consolidated)

(INR Cr)	FY19	FY20E	FY21E	FY22E
NII	70	124	172	233
PPP	39	82	114	153
PAT	21	55	77	105
EPS	31	65	81	110
ABV	106	204	364	464
P/E	31.7	15.0	12.0	8.8
P/ABV	9.2	4.8	2.7	2.1
RoA	3.6%	6.5%	6.4%	6.2%
RoE	31%	30%	28%	25%

Source: Company, JMFS Research

Arman Financial Services Ltd. - (AFSL) - is a mid-sized NBFC based out of Ahmedabad, Gujarat. It operates across 6 states through ~223 branches and over 70 dealers. Its promoter is Mr. Jayendra Patel (Vice Chairman and MD). It is engaged primarily in the business of microfinance, MSME finance and two-wheeler (2W) finance. Its total AUM is INR 817 crore (~71% is microfinance, 17% is MSME finance and the rest is 2W finance). AFSL has a 100%-owned subsidiary named Namra Finance. While AFSL is engaged in 2W and MSME finance, the subsidiary manages the microfinance business. In the past 5 years, the company has recorded strong AUM traction (50% CAGR over FY14-19) led by the microfinance portfolio (61% CAGR). All 3 segments have relatively high RoAs as they generate higher yields due to the nature of customers (un-served or under-served) and location (largely rural). AFSL has an overall customer base of over 400,000. Return ratios are strong with consolidated RoE of ~34 % and RoA ~6%. We expect the current robust momentum in earnings to continue, with consolidated PAT estimated to post a 38% CAGR over FY20-22E, reaching INR 105 crore. We initiate coverage with a BUY rating. We value the standalone entity at 1.5x FY22E ABV and subsidiary (microfinance) at 2.6x to arrive at a target price of INR 1220 per share.

Presence in diversified, retail & high-growth segments

AFSL has focussed on offering small-ticket retail loans to the largely under-served informal segment in rural and semi-urban geographies, where formal banking channels are absent. This has allowed it to avoid competition with large banks and NBFCs. The clear focus on offering last-mile credit delivery with high-touch and feet on the ground, has allowed AFSL to create a niche for itself. Further, the segments in which it operates are highly growth-oriented owing to under penetration. Thus, we expect consolidated AUM to maintain a strong trajectory and post a 36% CAGR over FY20-22E - reaching INR 1773 crore - led by microfinance (estimated CAGR of 35%) and MSME finance (estimated CAGR of 55%).

High-yielding segments generate superior margins

For AFSL's customers, alternative means of credit (eg. local money lenders) are more expensive than those provided by banks and NBFCs. Thus, its products are high yielding in nature. Microfinance yields are 25-26%, MSME finance yields are 32-35%, 2W finance yields are 21-23% and rural 2W finance yields are 26-28%. Further, for AFSL's customers, flexibility and ease of service matters the most; 5-6% higher yields impact customers' EMIs by a mere ~INR 100.

Asset quality managed well over the years; focus on quality growth

AFSL has managed its asset quality well over the years. Demonetization in Nov'16 was a major blow for the MFI industry. AFSL's MFI business managed this period well with collections of ~95% vs. 60-70% by peers. The company was one of the first to recover after the Demonetization period. Management has always preferred quality over growth.

Robust improvement in financials over the past few years reflects Management quality

AFSL has displayed strong improvement in its financials, with consolidated PAT increasing to INR 21 crore in FY19 vs. INR 6.3 crore in FY17. Its performance strengthened further in 9MFY20 with PAT coming in at INR 37.7 crore. Such numbers, when other NBFCs have struggled, reflect well on Management's quality and ability. Going ahead, we estimate consolidated PAT to post a 38% CAGR over FY20-22E to reach INR 105 crore, with return ratios staying at strong levels (RoE of ~27% and RoA of >6% over FY20-22E).

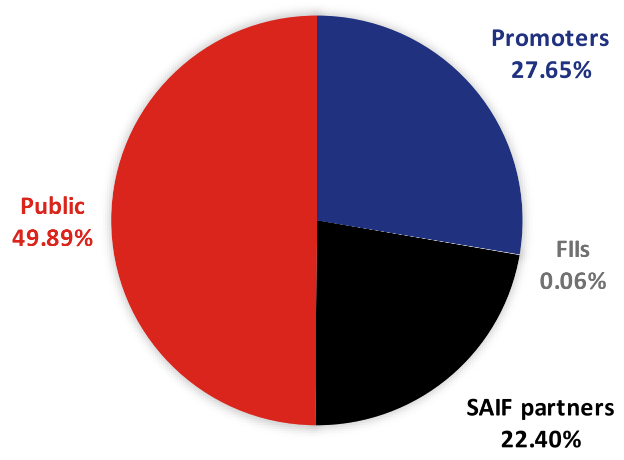
Company Background

Arman Financial Services Ltd. (AFSL) is an Ahmadabad-based Non-Banking Finance Company (NBFC) active in the 2-wheeler, MSME and Microfinance Lending business. It was founded in 1992 by Mr. Jayendra Patel and was listed in 1995. AFSL, which is the parent, is engaged in Asset Finance (2-wheelers and MSMEs), while the Microfinance business is managed by its wholly-owned subsidiary named Namra Finance Limited.

AFSL operates primarily in the unorganised and under-serviced segment of the economy and mostly serves niche rural markets in Gujarat, Madhya Pradesh, Uttar Pradesh, Maharashtra, Uttarakhand and Rajasthan through its network of 223 branches and tie-ups with 70+ two-wheeler dealerships. It has a live base of ~400,000 customers and over 1800 employees. AFSL's consolidated AUMs as of 3QFY20 came in at INR 817 crore and Namra Finance's were INR 583 crore. The key differentiator between AFSL and a Bank or other NBFCs is its last-mile credit delivery system. The company serves areas and clients that banks find hard to reach to provide financial services.

In 2018, the company received an equity infusion of ~INR 50 crore from a SAIF Partners managed fund. The company has a credit rating of BBB+ and short-term rating of A1+. The Group has an A2 rating by CARE Ratings for short-term bank facilities. Namra Finance Limited's grading is 'MFI 2+' (MFI two plus) by CARE, which is one notch below the highest rating in the MFI space.

Exhibit 1: Shareholding Chart



Source: Company, JMFS Research

Presence in diversified, retail & high-growth segments

AFSL's consolidated AUM at 3QFY20 stood at INR 817 crore. The parent is engaged in two-wheeler (AUMs of INR 102 crore) and MSME finance (AUMs of INR 133 crore) with total AUMs of INR 235 crore. The Microfinance business with AUMs of INR 583 crore is operated by AFSL's wholly-owned subsidiary Namra Finance.

All segments in which AFSL is involved are highly growth oriented owing to under penetration. The highlight of AFSL's business model is its focus on rural areas, un-served and under-served customers as well as last-mile delivery, where competition from large banks and NBFCs is negligible.

The company has been engaged in 2W finance since 1996. It entered the micro finance business in 2010. Its consolidated AUM saw strong traction, posting a 50% CAGR over FY14-19 and reaching INR 685 crore. This was largely led by the microfinance segment, which posted a 61% CAGR. The 2W finance book during the same period posted a 17% CAGR while MSME finance AUMs - which began in FY17 - increased to INR 99 crore at end-FY19. The company has indicated that microfinance (which accounts for ~72% of the consolidated AUMs) would continue to remain the key focus area. However, its proportion in overall AUMs over the next few years might decline, owing to the large opportunity in the MSME finance segment, which started in FY17, and would continue to witness higher traction than other segments. On the 2W front, owing to weak growth in overall 2W industry-wide sales, traction would be lowest among all 3 segments.

Going forward, we expect consolidated AUM to post a 36% CAGR over FY20-22E led by the MFI segment (estimated CAGR of 35%) and MSME segment (estimated CAGR of 55%).

Deep dive into AFSL's segments

MICRO FINANCE

- AFSL follows a JLG (Joint Liability Groups) model with small ticket loans (Avg. Ticket Size – INR 26,000) given to women borrowers for income generating activities such as Livestock, Dairy, Agri allied, Kirana Stores. It's a high-touch monthly collections model (via cash collection at centre meeting). The disbursements are 100% cashless.
- The MFI business is done in 6 states with 182 MFI branches having a live customer base of 360,000.
- Rural concentration: 85% of AUM and the remaining 15% is semi-urban portfolio (vs 43% for MFI industry).
- 75 new branches in the last 7 quarters.
- Conservative risk framework - 100% Cashless disbursement, JLG groups formed by customers themselves, loan utilisation checks to ensure loan for income generating purpose
- Gross yields are around 25% to 26%; NIM is around 15%; Tenure: 14-24 months
- GNPA: 0.8%; NNPA: 0.8%, NNPA (excl. ECL adjustment) 0.2%.

MSME Finance

- MSME finance goes towards Individual enterprise/working capital loans for small rural businesses in low competition areas. Examples include larger kirana stores, tyre dealers, scrap dealers, cattle farmers, etc.
- Currently operates across 3 states with 35 branches – Maharashtra (4), Gujarat (23) & MP (8). At present, 7 branches out of 35 are responsible for 50% of the disbursement. So, there is room for growth with current branches
- Dual credit bureau check for both customer and spouse on CRIF (for MFI loans) and CIBIL (for non-MFI loans)
- High-touch monthly door-step cash collection model
- Locally drawn field force with personal knowledge of the market
- In-house teams for pre-lending field investigations and appraisals, with centralised final credit approval
- High rejection rate of 70%
- Highest ROA product at Arman. Yields: ~35%; NNPA: 0.17%

2W Finance

- Hypothecation (secured) loans given to self-employed / cash salaried customer in the informal segment in semi-urban / rural areas for a 2W
- Currently operates only in Gujarat; across 70+ dealerships
- Yield: ~25%; NNPA %: 2.8%
- **Piloting new Rural 2W product (Started in FY2019)**
- Operating in Tier 3-4 & below locations for higher yields; higher ROA business; key growth driver going forward in the 2W portfolio
- At present the rural -wheeler book is INR 7 crores
- The company is trying to combine the best factors in MSME and microfinance

- **Arman 2W & Rural 2W operating model –**
- Focus on quick turnaround time
- Excellent relationships with dealers and OEMs
- In-house feet-on-street model for rigorous collections

Table showing Key details & features of each of the segments

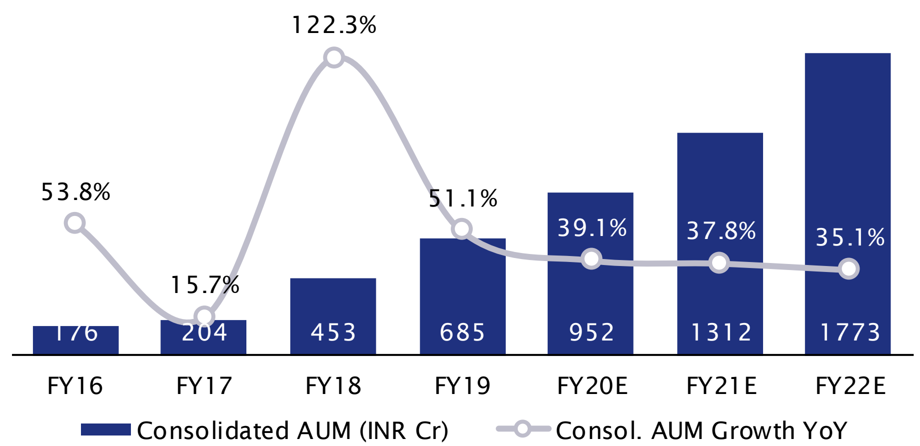
Particulars	Microfinance	MSME Loans	2-Wheeler Loans	Rural 2-Wheeler Loans
% of Total AUM	72%	16%	11%	1% (in Pilot Stage)
LTV	Unsecured	Cash flow & FOIR based	65-85%	60-80%
Ticket size	Cycle 1 & 2 - INR 20-30k Cycle 3+ - INR 20-45k	INR 50-150k	INR 30-55k	INR 40-50k
Average Ticket size	INR 26,000	INR 55,000	INR 42,000	INR 40,000
Tenure	14-24 months	24 months	12-36 months	12-24 months
Yield (%)	24-25% (Spread capped by RBI guidelines)	28-30%	21-23%	26-28%
Disbursement	100% Cashless	100% Cashless	100% Cashless to dealer	100% Cashless to sub-dealer
Credit Check	CRIF / Equifax Score; JLG Model with Training, Home Visit, Life Style Appraisal	CIBIL & CRIF Score; Detailed Cash Flow Assessment; Home & Business Field Investigation	CIBIL / CRIF Score & Field Investigation	CIBIL / CRIF Score; Detailed Cash Flow Assessment; Field Investigation
Collections	Cash collection at centre meeting	Door step cash collection	NACH / Direct Debit	Door step cash collection

Detailed AUM break-up and estimates

(INR Crore)	FY14	FY15	FY16	FY17	FY18	FY19	CAGR (%) - FY14-FY19	Q3FY20	FY20E	FY21E	FY22E	CAGR (%) - FY20-FY22E
MFI AUM	45.4	65.2	120.6	123.9	317.0	483.7	61%	582.6	675	924	1,235	35%
MSME Finance AUM				6.1	46.1	99.2	75%	133.0	161	255	387	55%
2W Finance AUM	45.7	49.3	55.5	73.8	90.0	101.7	17%	101.8	115	132	150	14%
Consolidated AUM	**91**	**115**	**176**	**204**	**453**	**685**	**50%**	**817**	**952**	**1,312**	**1773**	**36%**
Growth YoY (%)		25.7	53.8	15.7	122.3	51.1		41.0	39.1	37.8	35.1	
AUM Mix (%)												
MFI AUM	50%	57%	68%	61%	70%	71%		71%	71%	70%	70%	
MSME Finance AUM	0%	0%	0%	3%	10%	14%		16%	17%	19%	22%	
2W Finance AUM	50%	43%	32%	36%	20%	15%		12%	12%	10%	8%	
Consolidated AUM	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**		**100%**	**100%**	**100%**	**100%**	
No. of loans disbursed												
MFI AUM	62,000	80,000	133,000	74,000	170,000	224,000	29%		268,800	322,560	387,072	20%
MSME Finance AUM	-	-	-	1,054	9,756	16,284	73%		24,426	36,639	54,959	50%
2W Finance AUM	11,114	12,077	13,733	17,589	19,443	20,400	13%		21,420	22,491	24,065	6%
Total No. loans disbursed	**73,114**	**92,077**	**146,733**	**92,643**	**199,199**	**260,684**	**29%**		**314,646**	**381,690**	**466,096**	**22%**
Branches break up												
MFI AUM		39	55	81	107	138	29%	182	186	201	216	8%
MSME Finance AUM		0	0	7	15	25	29%	35	37	37	38	1%
2W Finance AUM		4	5	5	6	6	8%	6	7	7	8	7%
Total Branches		**43**	**60**	**93**	**128**	**169**	**31%**	**223**	**230**	**245**	**262**	**7%**
MFI AUM - Geographic Split %												
Gujarat		92%	82%	72%	44%	31%						
Madhya Pradesh		8%	18%	17%	21%	27%						
Maharashtra		0%	0%	5%	13%	21%						
Uttar Pradesh		0%	0%	6%	21%	20%						
Uttarakhand		0%	0%	0%	2%	1%						
Rajasthan		0%	0%	0%	0%	1%						
Total		**100%**	**100%**	**100%**	**100%**	**100%**						
MSME AUM - Geographic Split %												
Gujarat				76%	87%	86%						
MP				24%	13%	14%						
Total				**100%**	**100%**	**100%**						

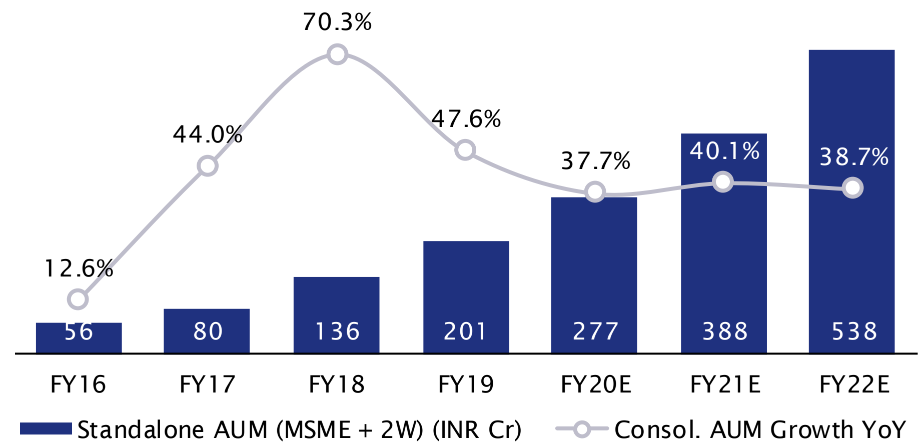
Story in charts

Exhibit 2: Yearly trend in consolidated AUM



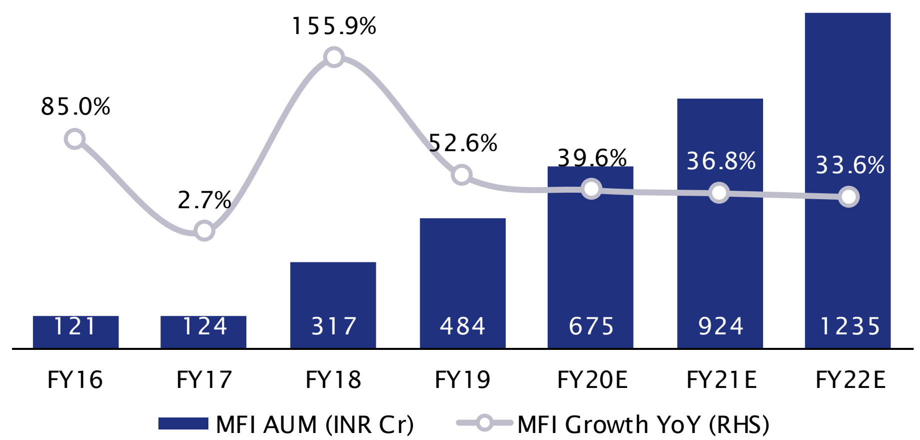
Source: Company, JMFS Research

Exhibit 3: Yearly trend in standalone AUM (MSME & 2W combined)



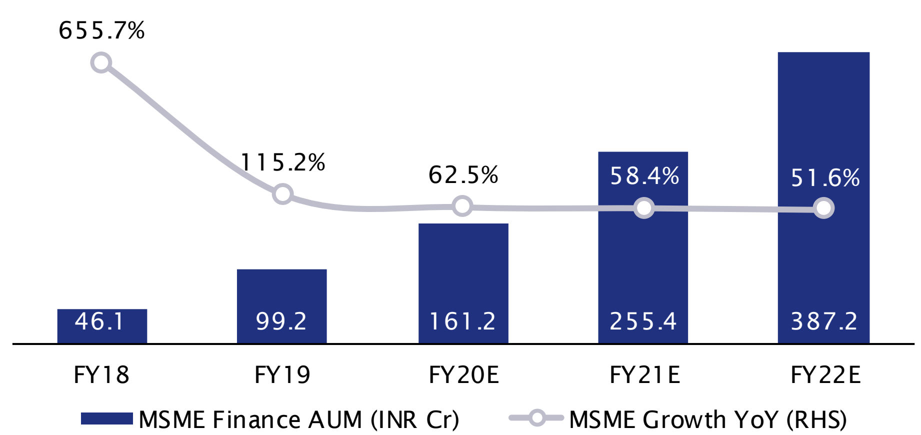
Source: Company, JMFS Research

Exhibit 4: Yearly trend in microfinance AUM



Source: Company, JMFS Research

Exhibit 5: Yearly trend in MSME finance



Source: Company, JMFS Research

Each segment is high-yielding & thus generates superior margins

AFSL's customers are generally un-served or under-served. The company's focus is on small-ticket retail loans to the large under-served informal segment in rural and semi-urban geographies, where formal banking channels are not present. AFSL, owing to its last-mile delivery model with high-touch and feet on the ground model, is able to provide credit access to such customers. The alternative means of credit (i.e via local money lenders) available to these kind of customers are very expensive compared with formal NBFCs.

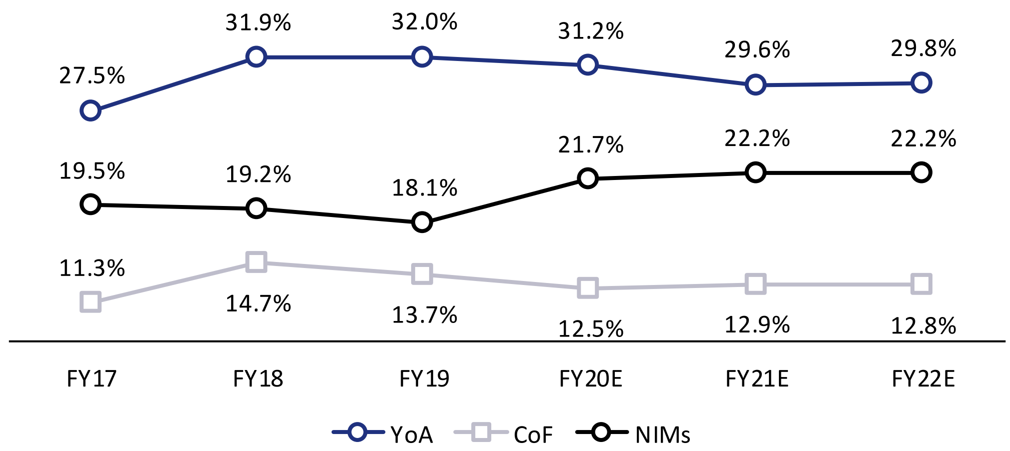
<u>Owing to above factors, the yields in each of the segments are high as stated below:</u>

- Microfinance – Yields are ~25-26%
- MSME finance – Yields are in the range of 32-35%
- 2W finance – Yields are in the range of 21-23%
- Rural 2W finance - Yields are in the range of 26-28%

Such high yields compensate for the high cost and high risk nature of these segments. Another important feature of these lending products is that, 5%-6% difference in yields makes a difference of only INR 100 in monthly instalments, thus for the customer flexibility and ease of service matters the most. Hence, any rise in CoF could be passed on to customers. With overall cost of funds (CoF) for company at ~ 13% levels, the margins are high.

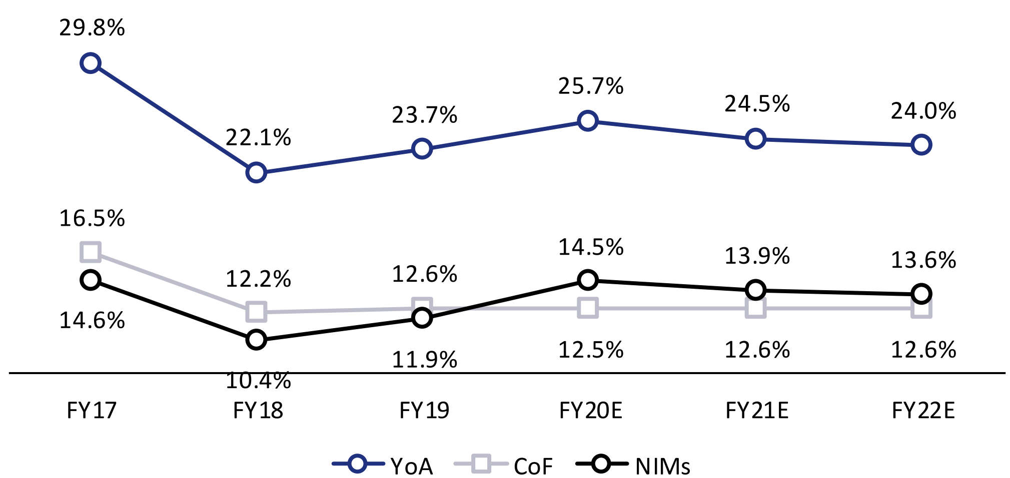
Going forward, we expect the company to maintain its strong margins (calculated) of ~12.6% in the MFI segment and ~20% in the standalone book (i.e MSME & 2W combined)

Exhibit 6: Trend in calculated Yields, Cost & NIMs of standalone entity (MSME & 2W)



Source: Company, JMFS Research

Exhibit 7: Trend in calculated Yields, Cost & NIMs of Namra (microfinance)



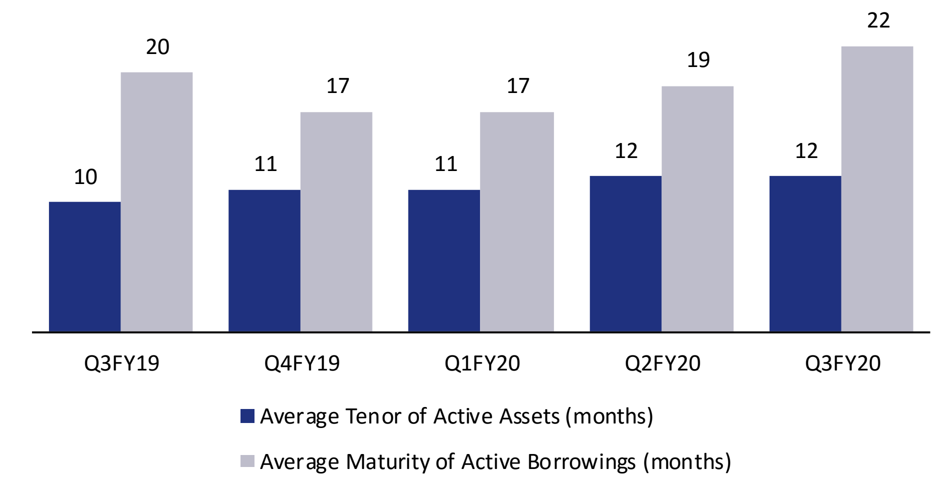
Source: Company, JMFS Research

Efficient liability management

The company has managed its liabilities well. Borrowings are well diversified into Banks and SFBs: 37%, NBFCs: 33%, NCD: 16%, NABARD: 3%, Securitisation: 9%, Subordinate Debt: 2%. In the past few years, the company has successfully increased its share of NCDs, Sub-debt, NABARD and Securitisation from Nil in FY15 to 30% in Q3FY20.

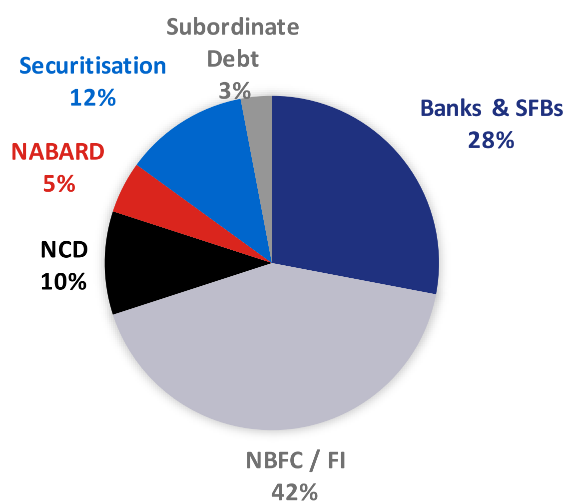
The company has naturally positive ALM, which has ensured a comfortable liquidity position. Average tenor of active assets is 12 Months while the average tenor of active liabilities is 19 Months. Credit Rating moved up 1 notch in the last year to BBB+ (CARE Ratings). Constant rating upgrades have helped lower cost of funds in recent years. We believe, as the company gains scale and size over next few years, the credit ratings would improve further. This would ensure meaningful reduction in CoF.

Exhibit 8: Naturally Positive ALM ensure comfortable liquidity position



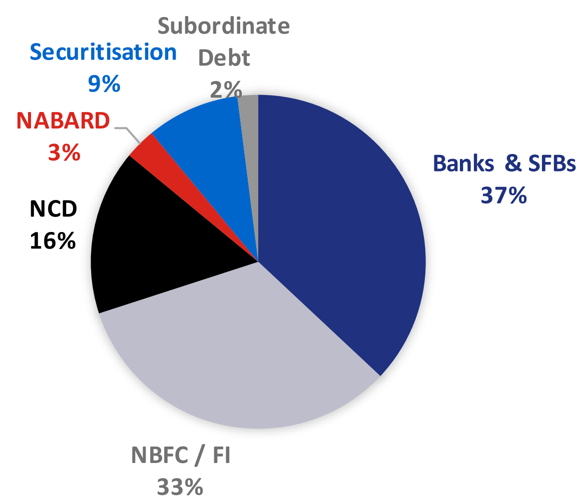
Source: Company, JMFS Research

Exhibit 9: Borrowing mix % - FY19



Source: Company, JMFS Research

Exhibit 10: Borrowing mix% - Q3FY20



Source: Company, JMFS Research

Asset quality managed well over the years – Focus on quality of the growth

The company has managed asset quality well over the years. This has been one of the major factors for earnings traction in last few years. This has also been one of the major factors which has attracted investor interest in the company. Demonetization in November 2016 was one of the major blows for the MFI industry as bulk of their operations happened in cash. AFSL's MFI business managed this period well with collections at ~95% vs. ~60-70% collections by peer companies. This led to Arman being one of the first to recover after the Demonetization period.

Following factors have contributed to healthy asset quality

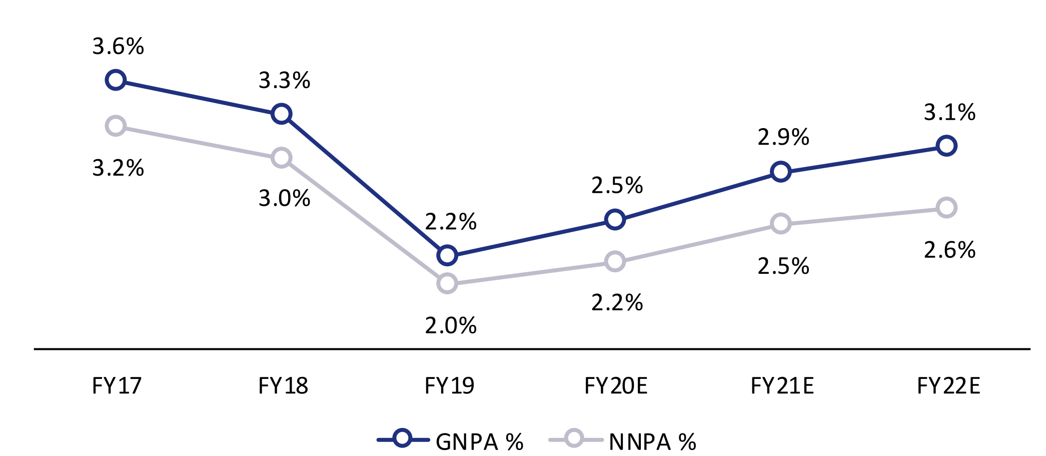
- ❖ Conservative risk framework, 100% cashless disbursement, door step delivery & collections
- ❖ Focus on quality compared to growth, as reflected during and immediately after Demonetization
- ❖ JLG groups formed by customers themselves
- ❖ Completely in-house operations with bottoms up driven credit appraisal models and rigorous collections practices – tailored for the areas of operations
- ❖ Loan utilisation checks to ensure loan for income generating purpose

In the MFI business, the GNPA has improved from 2.9% levels in FY18 to 0.9% levels as on Q3FY20. Similarly, in 2W finance segment, GNPA improved from ~4% levels in FY18 to 2.5% levels. The GNPA for other major 2W players remain high in the range of 5% to 9%.

The MSME finance segment which was started in FY17, has asset quality largely under control with GNPA ratio as on Q3FY20 at ~0.31%. We expect NPAs in MSME book might increase as the book is not seasoned. However, it would still be at manageable levels.

Overall we expect asset quality to stay under control going forward.

Exhibit 11: Trend in Standalone entity's (MSME &2W combined) asset quality



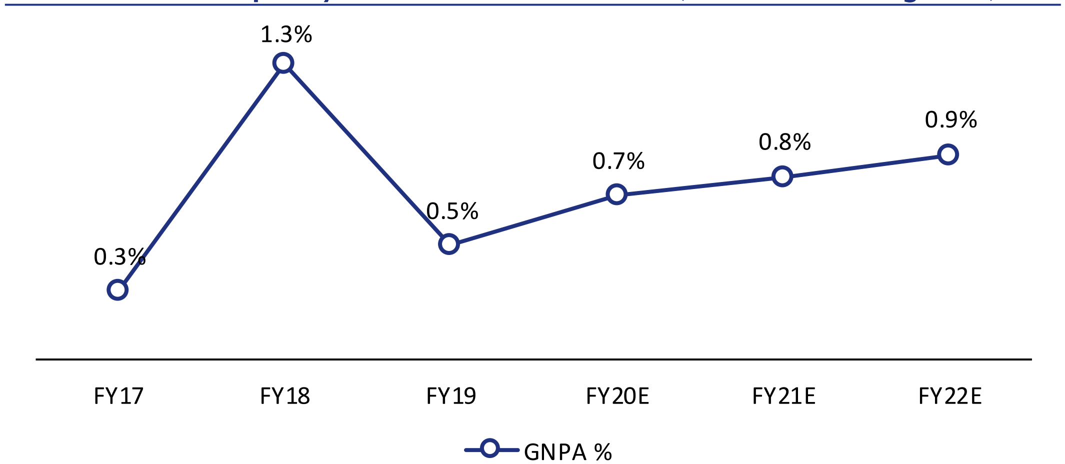
Source: Company, JMFS Research

Exhibit 12: Asset quality trends in 2W and MSME seperately

	FY17	FY18	FY19	Q1FY20	Q2FY20	Q3FY20
Arman 2W GNPA%	2.8%	3.9%	4.0%	4.1%	2.8%	2.5%
MSME GNPA %			0.13%	0.07%	0.17%	0.31%

Source: Company, JMFS Research

Exhibit 13: Asset quality trend in Namra Finance (microfinance segment)



Source: Company, JMFS Research

Robust improvement in financials over the past few years reflects Management quality

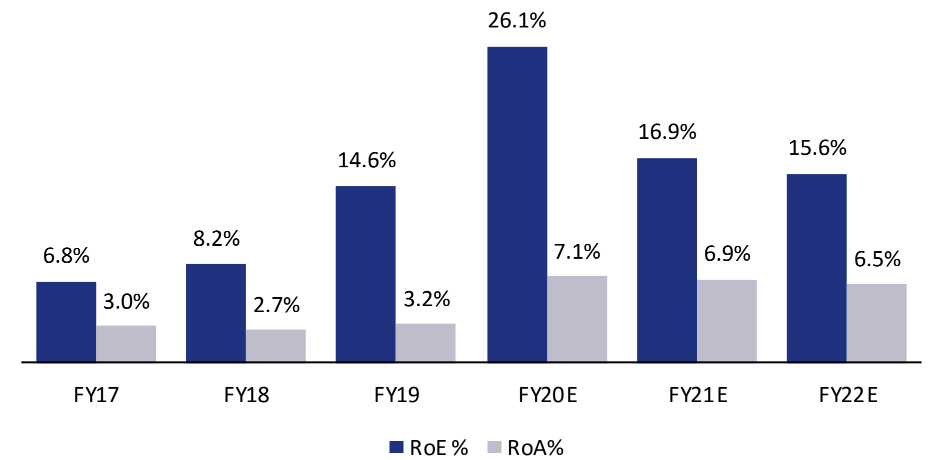
The company has displayed sharp improvement in financials in the past few years. In FY17, the year of Demonetization, its growth and earnings were impacted. Consolidated PAT stood at INR 6.3 crore in FY17 vs. INR 8 crore in FY16, owing to impact on growth and enhanced NPA pressure. The focus of the company then was on collections and recovery. While FY18 did witness improvement in growth, the impact of Demonetization still persisted with PAT at INR 7.3 crore.

By FY19, much of the pain was a thing of the past and the company started to deliver strong all round performance. Accordingly, the consolidated PAT witnessed 3-fold rise to INR 21 crore. Further, in the past 3 quarters, the performance has improved further with 9MFY20 PAT at INR 37.7 crore already.

Return ratios have strengthened with consolidated RoEs & RoA as on 9MFY20 being at 34.5% while RoA at 6.7%. Such strong performance in the last 3 years, when other NBFCs have struggled, reflects well on the quality and ability of Management.

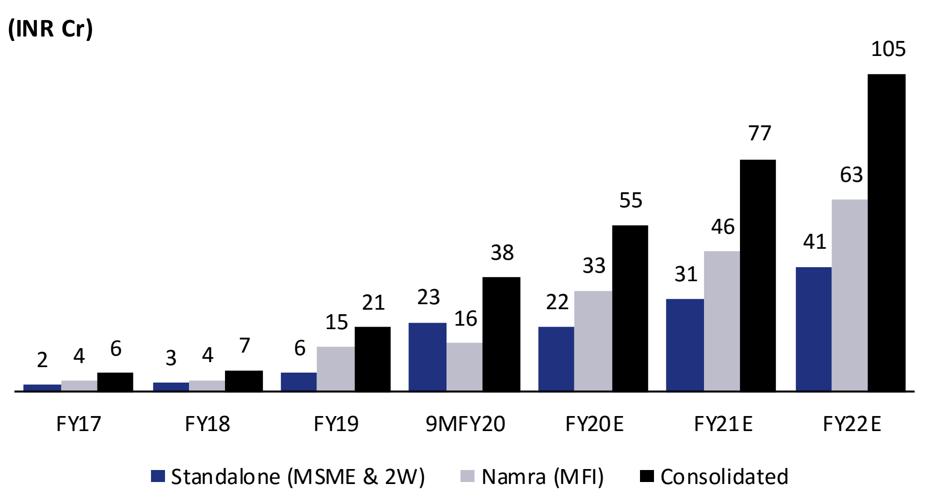
Going forward, we expect strong earnings trajectory to continue with PAT in the MFI segment to post a 38% CAGR and reach INR 63 crore by FY22E. In the standalone company (i.e MSME & 2W combined), we expect a 39% CAGR to INR 41 crore by FY22E.

Exhibit 14: Trend in Standalone entity's return ratios



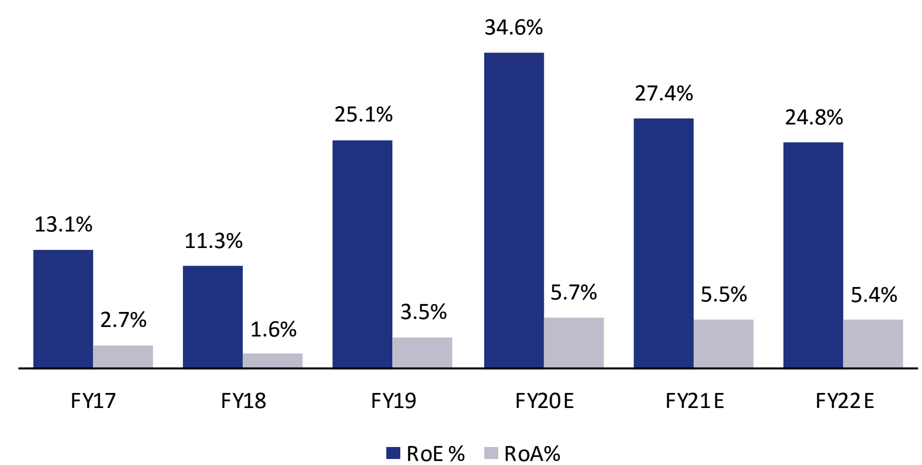
Source: Company, JMFS Research

Exhibit 15: Profit after Tax (PAT) to witness strong traction ahead



Source: Company, JMFS Research

Exhibit 16: Trend in Namra (microfinance) return ratios

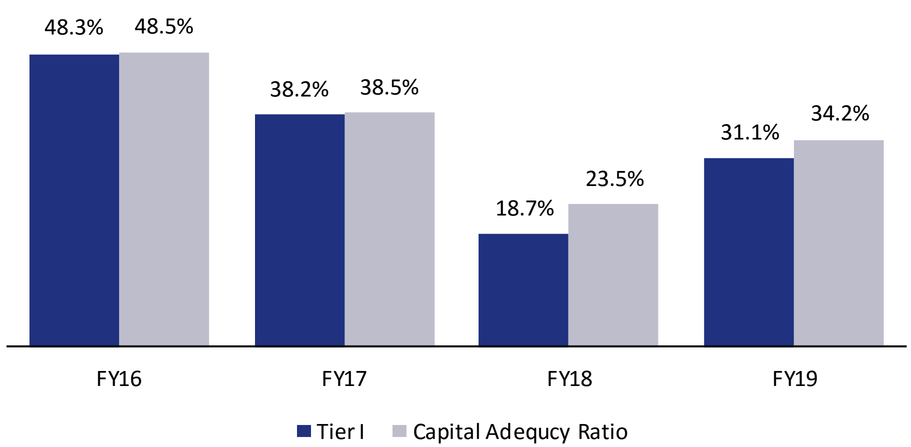


Source: Company, JMFS Research

Strong capital adequacy

Despite strong traction in the last few years, capital adequacy has been healthy with the standalone company's capital adequacy ratio at 34.22% and Tier I at 31.14%. As the company is clocking >30% RoEs, it can easily grow at ~30% ahead without the need to raise external capital. However, owing to its higher growth ahead, the company has indicated that it would opt for fund raising via QIP by Q1FY21E. We have factored in equity fund raising of ~INR 100 crore in our estimates for FY21E.

Exhibit 17: Trend in capital adequacy levels



Source: Company, JMFS Research

Valuation and peer comparison

AFSL is an emerging mid-sized NBFC. Its Management has displayed ability to grow rapidly while achieving strong margins and healthy asset quality along with generating superior returns ratios with RoE >30% and RoA >5%. We believe the company would continue to deliver such strong performance with AUM estimated to post a 36% CAGR over FY20-22E, while consolidated earnings are estimated to clock a 38% CAGR, reaching INR 105 crore. Returns ratios would continue to stay at strong levels over the next two years.

The key areas to watch out for are how management strengthens internal systems to manage the expanding business presence and how rapidly volumes can grow. In this regard, the company recently invested in an organisation-wide new ERP system to streamline operations, make processes more accurate (by eliminating human intervention), and provide a host of data at the click of a button for faster and more informed decisions. We believe such investment considering its overall size reflects clear vision and focus of the management.

We believe the company would continue to attract investor interest and would get re-rated further. The MFI business currently trades at multiple of 2.4x FY22E ABV while the stand alone trades at 1x FY22E ABV. The consolidated entity trades at 2.1x FY22E ABV. The net worth for MFI would increase at 59% CAGR to INR 287 crore by FY22E. The same for standalone (after adj. for investment in Namra) would increase at 60% CAGR to INR 176 crore by FY22E.

We value MFI business at 2.6x FY22E ABV and 12x FY22E EPS. Its peers with similar growth trajectory but lower RoEs & RoAs are trading at average multiples of ~2.6xFY22E ABV and ~14xFY22E EPS. We value standalone business at 1.5x FY22E ABV and 6.2x FY22E EPS.

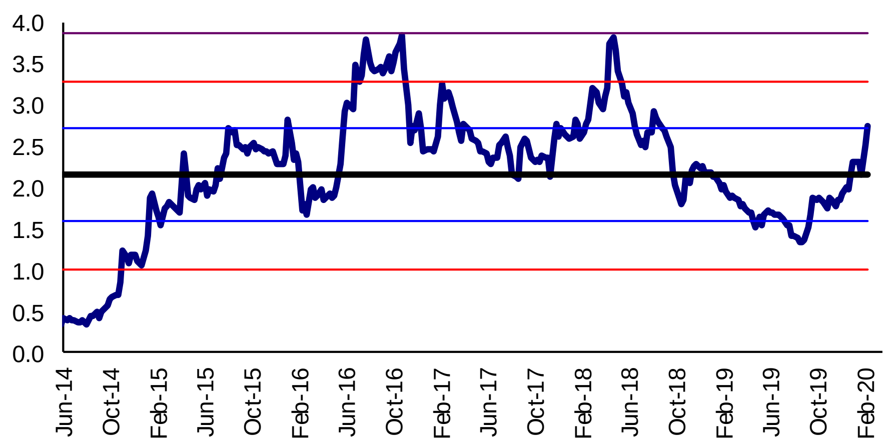
We initiate coverage with a BUY rating on the stock. Our SoTP based Target Price is INR 1220 per share (Target Mcap is INR 1028 crore).

Exhibit 26: Valuation on SoTP basis

	Holding (%)	Valuation Methodology	Target Mcap (INR crore)	Contribution to TP (%)
Arman Finance Standalone (i.e 2W & MSME segment)	100%	1.5x FY22E fully adj BV (after adj invest in subsidiary)	271	26.4
NAMRA Finance (MFI subsidiary)	100%	2.6x FY22E ABV	757	73.6
Target Market Cap.			**1,028**	**100.0**

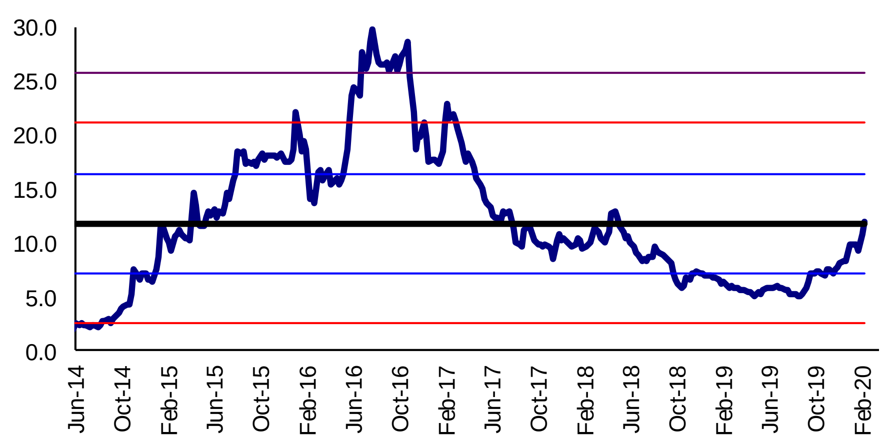
Source: Company, JMFS Research

Exhibit 18: One year Forward P/ABV



Source: Company, Bloomberg, JMFS Research

Exhibit 19: One year Forward P/E



Source: Company, Bloomberg, JMFS Research

Peer Comparison Table

Exhibit 20: Peer comparison

	CMP (INR)	Mcap (INR Crore)	RoA (%)			RoE (%)			ABV			P/ABV			P/E		
			FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Arman Finance	**973**	**822**	**6.5%**	**6.4%**	**6.2%**	**30.1%**	**28.3%**	**25.4%**	**203.7**	**363.9**	**463.6**	**4.8**	**2.7**	**2.1**	**15.0**	**12.0**	**8.8**
MFIs																	
Spandana Sphoorty	1,048	6,735	7.5%	9.8%	9.4%	17.7%	23.2%	24.9%	405	488	596.0	2.6	2.1	1.8	16.9	10.1	7.8
Credit Access Gramin	987	14,207	5.1%	5.1%	5.2%	16.9%	18.8%	20.0%	195	244	300.0	5.1	4.0	3.3	31.8	24.1	17.3
Ujjivan Small Finance	53	9,150	2.1%	2.5%	2.4%	17.0%	17.7%	18.2%	17	20	24.1	3.2	2.7	2.2	25.2	18.9	13.2
Equitas	113	3,853	1.5%	1.8%	1.9%	10.8%	13.4%	16.3%	77	86	106.0	1.5	1.3	1.1	14.0	9.3	7.1
Gold Finance NBFCs																	
Muthoot Finance	884	35,385	6.9%	6.3%	6.2%	27.3%	24.2%	23.2%	284	352	426.3	3.1	2.5	2.1	11.8	10.9	9.4
Manappuram	175	14,736	5.6%	5.7%	5.5%	24.2%	24.8%	23.4%	53	66	82.4	3.3	2.6	2.1	12.6	10.0	8.7
HFCs																	
HDFC Ltd.	2,361	408,350	3.6%	2.2%	2.2%	21.1%	12.9%	13.7%	522	562	610.0	4.5	4.2	3.9	23.1	33.7	29.5
LIC HF	365	18,470	1.2%	1.2%	1.3%	14.8%	14.9%	15.7%	363	410	466.0	1.0	0.9	0.8	7.2	6.3	5.3
Can Fin	510	6,785	1.8%	1.8%	2.0%	19.9%	19.9%	19.0%	159	189	228.0	3.2	2.7	2.2	17.6	14.6	12.8
Other NBFCs																	
Mahindra Finance	379	23,407	1.8%	2.1%	2.1%	11.4%	13.7%	14.7%	192	212	236.0	2.0	1.8	1.6	18.0	13.7	11.5
Muthoot Capital	575	946	4.0%	4.0%	3.9%	19.0%	19.7%	19.0%	306	379	435.0	1.9	1.5	1.3	9.5	7.5	6.4
Bajaj Finance	4,853	292,030	4.2%	4.2%	4.3%	23.1%	21.6%	22.9%	564	685	843.0	8.6	7.1	5.8	47.1	36.0	27.7

Source: Company, Bloomberg, JMFS Research

Key risks and concerns

- **Geographic concentration**

  The company currently operates in 6 states with most of its operations still in Gujarat. Being concentrated in a handful of states could restrict business growth and may impact overall operations if any untoward incidence occur in these locations.

- **High dependence on microfinance segment**

  The Company depends primarily on the microfinance segment (72% of consolidated AUM) for its overall business growth and sustainability. Any major populists announcements in these states could severely impact cash collection in the short-term and business growth over the medium-term. Though, it would continue to be a key focus area over next few years, the company has indicated that it would explore newer products which would lead to share of microfinance decline a bit.

- **Risk of higher asset quality pressure in newer segments like MSME Finance**

  The company is growing its MSME finance segments rapidly. This segment is new for the company and the book is not much seasoned. Thus, a relatively weak understanding of new segments compared to its core business could impair overall earnings performance.

- **Adverse regulatory changes**

  Though adequate regulations have been put in place, any future change in the regulatory environment can affect the microfinance industry. In the face of adverse regulations, industry players may find the business less profitable, which may affect their sustainability.

Financials (Standalone)

Profit and loss statement

(INR Crore)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	16	27	47	71	94	128
Interest Expended	5	11	20	22	23	33
NII	**12**	**16**	**26**	**49**	**70**	**95**
Growth (%)	14.6	40.0	60.5	87.8	42.3	36.1
Non Interest Income	0.1	0.1	0.4	1.9	2.1	2.3
Net Income	12	16	27	51	72	98
Employee cost	4	6	10	14	20	28
Other Operating Exp.	3	4	5	6	8	11
Operating Income	**5**	**6**	**12**	**32**	**45**	**59**
Provisions	1	1	3	3	4	4
PBT	**4**	**4**	**9**	**28**	**41**	**55**
Taxes	1	1	3	7	10	14
Net Profit	**2**	**3**	**6**	**22**	**31**	**41**
Growth (%)	0.0	28.3	99.8	235.9	42.7	34.8
EPS (Rs)	**3.6**	**4.6**	**9.2**	**25.5**	**32.4**	**43.7**

Source: Company, JMFS Research

Balance sheet

(INR Crore)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	7	7	7	8	9	9
Resesrves & Surplus	31	33	41	109	236	275
Total Net worth	**38**	**40**	**48**	**117**	**246**	**284**
Borrowings	47	101	194	151	212	297
Other Liabilities & Prov.	3	5	12	81	78	153
Total Liabilities	**88**	**146**	**254**	**350**	**536**	**735**
Fixed Assets	1	1	1	1	1	1
Investments	15	22	48	48	108	108
Advances	64	107	184	271	361	500
Other assets	7	12	9	17	52	110
Cash & Bank Balance	0	3	12	13	14	15
Total Assets	**88**	**146**	**254**	**350**	**536**	**735**

Source: Company, JMFS Research

Key Ratios

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Valuation						
No.of shares (crore)	0.69	0.69	0.70	0.85	0.95	0.95
EPS (INR)	3.6	4.6	9.2	25.5	32.4	43.7
DPS (INR)	0.0	1.0	1.0	1.7	2.3	2.3
BV (INR)	55	58	68	139	259	300
ABV (INR)*	52	53	63	75	135	172
P/E	67.5	52.6	26.3	7.8	5.5	4.1
P/BV	4.4	4.2	3.5	2.4	1.2	1.0
P/ABV	4.7	4.6	3.8	2.7	1.3	1.0
Yields & Margins (%)						
Net Interest Margins	19.5	19.2	18.1	21.7	22.2	22.2
Yield on assets	27.5	31.9	32.0	31.2	29.6	29.8
Avg. cost on funds	11.3	14.7	13.7	12.5	12.9	12.8
Quality and Efficiency (%)						
Cost to income ratio	59.3	64.7	54.3	38.4	38.1	39.2
GNPA	3.6	3.3	2.2	2.5	2.9	3.1
NNPA	3.2	3.0	2.0	2.2	2.5	2.6
ROE	6.8	8.2	14.6	26.1	16.9	15.6
ROA	3.0	2.7	3.2	7.1	6.9	6.5

Source: Company, JMFS Research; * ABV calculated after adjusted for investment in subsidiaries

Growth ratios

Growt YoY (%)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total assets	15.8	65.4	73.6	38.1	52.9	37.2
Advances	12.7	68.1	72.0	47.3	33.0	38.7
Borrowings	22.6	117.1	91.6	-22.0	40.0	40.0
Total Income	4.1	64.8	71.8	55.2	31.3	36.2
Net interest income	14.6	40.0	60.5	87.8	42.3	36.1
Operating expenses	19.0	52.7	35.8	35.6	40.2	39.1
Operating profit	9.6	21.1	109.9	158.6	41.7	33.1
Net profit	0.0	28.3	99.8	235.9	42.7	34.8
Net worth	7.0	5.3	18.3	146.8	109.1	15.8
EPS	0.0	28.3	99.0	176.3	27.3	34.8

Source: Company, JMFS Research

Financials (NAMRA Finance – Wholly owned subsidiary engaged in micro-finance)

Profit and loss statement

(INR Crore)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	34.7	48.0	87.5	132.9	180.9	243.5
Interest Expended	17.7	25.4	43.7	58.2	78.5	105.8
NII	**17.0**	**22.5**	**43.7**	**74.7**	**102.3**	**137.7**
Growth (%)	32.5	32.4	94.0	70.9	36.9	34.6
Non Interest Income	2.3	4.8	7.8	9.7	11.9	15.1
Net Income	19.3	27.3	51.6	84.4	114.2	152.9
Employee cost	6.5	10.1	16.6	23.7	32.7	43.1
Other operating Exp.	4.3	5.6	8.1	9.9	12.5	16.5
Operating Income	**8.5**	**11.6**	**26.8**	**50.8**	**69.1**	**93.2**
Provisions	2.4	6.3	5.6	6.2	7.4	8.9
PBT	**6.1**	**5.3**	**21.2**	**44.6**	**61.6**	**84.3**
Taxes	2.3	1.2	6.3	11.1	15.4	21.1
Net Profit	**3.8**	**4.1**	**15.0**	**33.4**	**46.2**	**63.2**
Growth (%)	-30.4	6.9	265.3	123.6	38.2	36.8
EPS (Rs)	**2.2**	**2.7**	**6.2**	**13.8**	**17.4**	**23.8**

Source: Company, JMFS Research

Balance sheet

(INR Crore)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	17	15	24	24	27	27
Resesrves & Surplus	16	24	56	89	197	260
Total Net worth	**33**	**39**	**80**	**113**	**224**	**287**
Borrowings	115	300	395	533	719	967
Other Liabilities & Prov.	5	9	20	37	58	92
Total Liabilities	**153**	**348**	**495**	**683**	**1000**	**1346**
Fixed Assets	1	1	3	3	3	3
Investments	2	3	3	3	4	4
Advances	120	313	425	608	869	1161
Other assets	9	16	25	26	78	126
Cash & Bank Balance	21	15	39	43	47	52
Total Assets	**153**	**348**	**495**	**683**	**1000**	**1346**

Source: Company, JMFS Research

Key Ratios

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Valuation						
No.of shares (crore)	1.74	1.52	2.42	2.42	2.65	2.65
EPS (INR)	2.2	2.7	6.2	13.8	17.4	23.8
BV (INR)	19	26	33	47	84	108
ABV (INR)	18.9	23.1	32.2	45.1	81.6	104.2
P/E	170	160	44	20	14	10
P/BV	19.6	16.7	8.2	5.8	2.9	2.3
P/ABV	19.9	18.6	8.4	6.0	3.0	2.4
Yields & Margins (%)						
Net Interest Margins	14.6	10.4	11.9	14.5	13.9	13.6
Yield on assets	29.8	22.1	23.7	25.7	24.5	24.0
Avg. cost on funds	16.5	12.2	12.6	12.5	12.6	12.6
Quality and Efficiency (%)						
Cost to income ratio	56.0	57.5	47.9	39.8	39.5	39.0
GNPA	0.3	1.3	0.5	0.7	0.8	0.9
NNPA	0.3	1.3	0.5	0.7	0.8	0.9
ROE	13.1	11.3	25.1	34.6	27.4	24.8
ROA	2.7	1.6	3.5	5.7	5.5	5.4

Source: Company, JMFS Research

Growth ratios

Growt YoY (%)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total assets	18.0	126.7	42.3	38.0	46.5	34.5
Advances	7.0	159.7	35.8	43.1	42.9	33.6
Borrowings	15.1	160.8	31.5	35.0	35.0	34.5
Total Income	43.8	42.4	80.8	49.6	35.2	34.2
Net interest income	32.5	32.4	94.0	70.9	36.9	34.6
Operating expenses	82.2	45.4	57.5	36.0	34.3	32.1
Operating profit	-7.0	36.6	131.2	89.2	36.0	35.0
Net profit	-30.4	6.9	265.3	123.6	38.2	36.8
Net worth	31.9	17.6	104.2	41.9	97.3	28.3
EPS	-38.4	22.3	129.3	123.6	26.0	36.8

Source: Company, JMFS Research

Financials (Consolidated)

Profit and loss statement

(INR Crore)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	51.2	75.2	134.0	203.9	274.5	371.5
Interest Expended	22.5	36.3	64.0	79.8	102.0	138.4
NII	**28.7**	**38.9**	**70.0**	**124.0**	**172.5**	**233.2**
Growth (%)		35.5	79.9	77.2	39.0	35.2
Non Interest Income	2.4	4.9	8.3	11.5	14.0	17.4
Net Income	31.1	43.8	78.2	135.6	186.4	250.6
Employee cost	10.2	16.4	26.3	37.5	52.4	70.9
Other Operating Exp.	7.6	10.0	12.9	15.8	20.3	27.0
Operating Income	**13.3**	**17.4**	**39.0**	**82.3**	**113.7**	**152.7**
Provisions	3.4	7.6	8.4	9.4	10.9	12.9
PBT	**9.9**	**9.8**	**30.7**	**72.9**	**102.8**	**139.8**
Taxes	3.5	2.5	9.3	17.9	25.9	35.2
Net Profit	**6.3**	**7.3**	**21.4**	**55.0**	**76.9**	**104.6**
Growth (%)		15.3	192.6	157.3	40.0	36.0
EPS (Rs)	**9.1**	**10.5**	**30.7**	**65.0**	**81.2**	**110.4**

Source: Company, JMFS Research

Key Ratios

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Valuation						
No.of shares (crore)	0.69	0.69	0.70	0.85	0.95	0.95
EPS (INR)	9.1	10.5	30.7	65.0	81.2	110.4
BV (INR)	81	82	114	216	381	488
ABV (INR)*	77	72	106	204	364	464
P/E	106.5	92.4	31.7	15.0	12.0	8.8
P/BV	12.0	11.9	8.5	4.5	2.6	2.0
P/ABV	12.6	13.6	9.2	4.8	2.7	2.1
Quality and Efficiency (%)						
Cost to income ratio	57%	60%	50%	39%	39%	39%
ROE		13%	31%	30%	28%	25%
ROA		2.1%	3.6%	6.5%	6.4%	6.2%

Source: Company, JMFS Research; * ABV calculated after adjusted for investment in subsidiaries

Balance sheet

(INR Crore)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	6.9	6.9	7.0	8.5	9.5	9.5
Resesrves & Surplus	49.1	50.0	72.3	174.0	351.4	453.5
Total Net worth	**56.0**	**56.9**	**79.2**	**182.5**	**360.9**	**462.9**
Borrowings	161.7	401.2	588.7	684.0	931.0	1263.9
Other Liabilities & Prov.	8.6	13.2	32.2	118.1	135.9	245.3
Total Liabilities	**226**	**471**	**700**	**985**	**1428**	**1972**
Fixed Assets	2.5	2.8	3.5	3.6	3.7	3.8
Investments	2.4	2.7	2.7	3.1	3.6	4.1
Advances	184.0	419.7	608.8	878.9	1229.1	1660.9
Other assets	15.9	27.3	34.5	43.3	130.0	235.8
Cash & Bank Balance	21.4	18.8	50.6	55.7	61.3	67.4
Total Assets	**226**	**471**	**700**	**985**	**1428**	**1972**

Source: Company, JMFS Research

Annexure: Key Management Executives

Key Management Team		
Name	**Designation**	**Experience & Qualifications**
Mr. Jayendra Patel	Vice Chairman & MD	Founded Arman in 1992 and has spearheaded its growth journey since then. Founder member & Secretary of Gujarat Finance Companies Association.
Mr. Aalok Patel	Executive Director	Joined Arman in 2010. Responsible for leading product and geographic diversification. Prior to Arman, he worked with KPMG and John Deere Credit in US
Mrs. Vivek Modi	Chief Financial Officer	20+ years of experience in Corporate Finance. Prior to joining Arman, he worked at ICICI Prudential, Kotak Mahindra Bank, Max Life and Tata Steel
Mr. Chandramouli Akkiraju	COO & Head - MFI	20+ years of experience in Corporate Finance. Prior to joining Arman, he worked at Belstar Investment & Finance, KBS Bank, and Basix
Mr. Mahendar Pinninti	Head – MSME & Rural 2W	12+ years of industry experience. Prior to joining Arman, he worked at Fullerton India, Share Microfin.
Mr. Rambabu Agarwal	Operations Head – 2W Loans	20+ years of industry experience with Arman

Source: Company, JMFS Research

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All of the views expressed in this research report accurately reflect his or her or their personal views about all the issuers and their securities; and

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