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Rating Information	
Price (Rs)	218
Target Price (Rs)	-
Target Date	-
Target Set On	-
Implied yrs of growth (ERE)	-
Fair Value (ERE)	-
Fair Value (DDM)	-
Ind Benchmark	-
Model Portfolio Position	-

Stock Information	
Market Cap (Rs mn)	1,216
Free Float (%)	72.6%
52 Wk H/L (Rs)	325/163
Avg Daily Volume (1yr)	26,371
Avg Daily Value (1yr)	5.8
Equity Cap (Rs Mn)	57
Face Value (Rs)	10
Bloomberg Code	ARLF IN

Ownership	Recent	3M	12M %
Promoters	27.4%	-0.1%	-0.7%
DII	7.0%	-0.1%	7.0%
FII	0.0%	0.0%	-25.0%
Public	65.7%	0.1%	18.7%

Price %	1M%	3M%	12M%
Absolute	19.0%	5.7%	-20.2%
Vs Industry	17.1%	-3.7%	-47.0%
Ujjivan	18.0%	-12.9%	-12.7%
Equitas	11.2%	2.2%	-2.4%

Arman Financial Services

Management Meet Note

Not Rated

Absolute :NA
Relative : NA

PAR stabilizing, borrowers preference shifting towards individual loans

BFSI

We recently met the management of Arman Financial Services (ARLF) to get updates on MFI business in Gujarat. Key takeaways are 1) PAR stable in 1QFY18 as borrowers in 30+ and 60+ DPD not skipping buckets, 2) Collection efficiency of loan disbursed post demonetization is healthy at >99%, 3) Delinquencies have been high in milk belts of Banaskantha and Sabarkantha districts, 4) Expects JLG model to dilute as borrowers unwilling to take guarantee of others, 5) Rejection rates in fresh proposals is ~60%-65% primarily due to rejections from credit bureau checks, 6) Opex likely to remain elevated driven by higher collection costs and 7) Retains guidance of disbursement of ~Rs. 800mn of MSME and 2-wheeler loans each and overall AUM of ~Rs. 2.5bn-2.7bn.

Incremental slippages stabilizing leading to overdue amounts not increasing further: Management indicated that, since March, pace of fresh delinquencies has come down considerably and overdue borrowers in 30+ and 60+ DPDs are not skipping buckets. Overall portfolio at risk has stabilized at Feb'17 levels and overdue trends for ARMAN are better than industry average. Collection efficiency in the fresh disbursements post demonetization remains strong at above 99%. Within Gujarat, the MFI slippages were higher in the milk belts of Banaskantha and Sabarkantha where the collections continue to remain weak. Milk belt was impacted as dairies stopped cash payments to milk suppliers many of whom didn't have a bank account.

JLG model likely to dilute as borrowers unwilling to take cross-guarantee: Management indicated that easy access to credit over the past 4-5 years has led to borrowers becoming more demanding. Also, incrementally borrowers are refraining from taking cross-guarantee of peer group members. Management feels that the JLG model could evolve further post the current stress period and borrower's preference would shift in favour of individual loans over group loans.

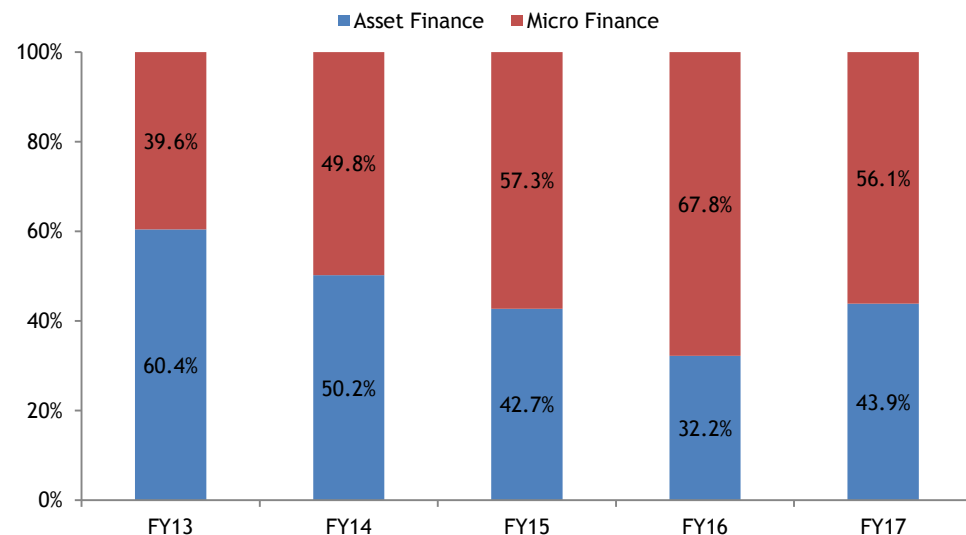
MFI disbursements pick-up to pre-demonetization levels; share of MSME and 2-wheeler loans to increase: After almost negligible disbursements during Nov'16 to Feb'17, fresh MFI disbursements have picked up to pre-demonetization levels of ~Rs. 250mn/month. ARLF targets for FY18 disbursements of ~Rs. 800mn each in MSME and 2-wheeler loans and ~Rs. 3.5bn-Rs. 4.0bn in MFI loans. Opex likely to remain elevated in 1QFY18 owing to i) subdued disbursements in 4QFY17, ii) higher collection costs and iii) higher rejection rates of ~60%-65% in the newly sourced MFI loans. Arman has recently raised Tier-II Capital of Rs. 150mn.

Valuation: At CMP of Rs. 218, ARLF trades at 2.8x FY17 ABV of Rs. 78.

Consolidated Financials

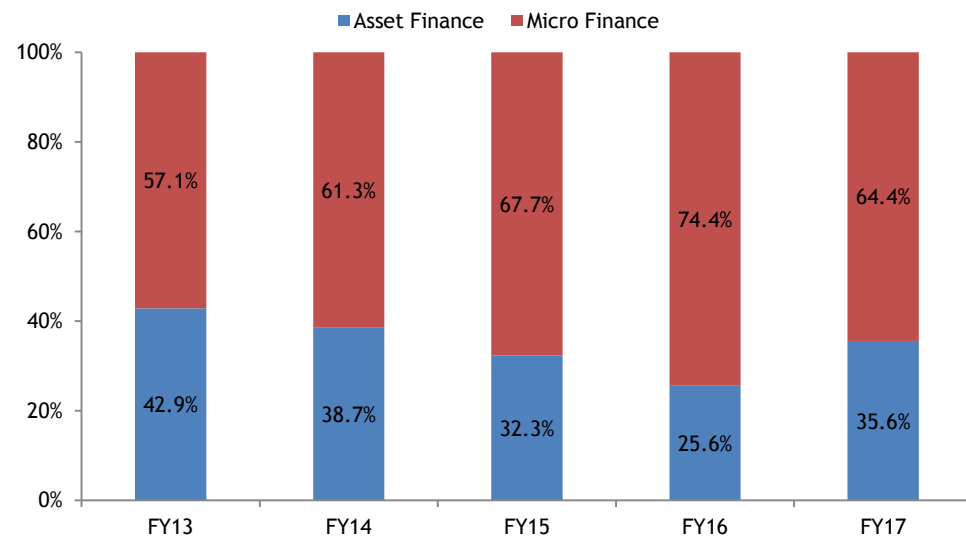
Rs. Mn YE Mar	FY14A	FY15A	FY16A	FY17A
Interest Income	245	284	388	509
Interest Expense	91	107	154	225
Net Interest Inc.	154	177	234	284
Other Income	0	12	19	27
Operating Exp	81	85	118	195
Provisions	6	11	14	17
PAT	45	62	80	63
AUM	911	1,149	1,723	1,839
Disbursements	1,381	1,683	2,467	2,462
Net Worth	337	392	505	560
NIM	18.6%	17.0%	16.1%	15.3%
Prov/ Avg loans	0.7%	1.0%	1.0%	0.9%
Rs Per Share	FY14A	FY15A	FY16A	FY17A
EPS	7.3	8.9	11.6	8.3
Adjusted EPS	7.3	8.9	11.6	8.3
Book Value	48.7	56.7	72.9	80.9
Adjusted BVPS	47.8	55.6	70.5	77.9
DPS	1.0	1.2	1.4	1.0
P/E (x)	30.0x	24.6x	18.9x	26.3x
Adj P/B (x)	4.6x	3.9x	3.1x	2.8x
ROE (%)	13.4%	16.9%	17.8%	11.8%
RoA (%)	4.1%	5.0%	4.8%	3.0%

Exhibit 1: Share of MFI loans in AUM declined during FY17 as ARFL had considerably slowed down MFI disbursements during Nov'16 to Feb'17



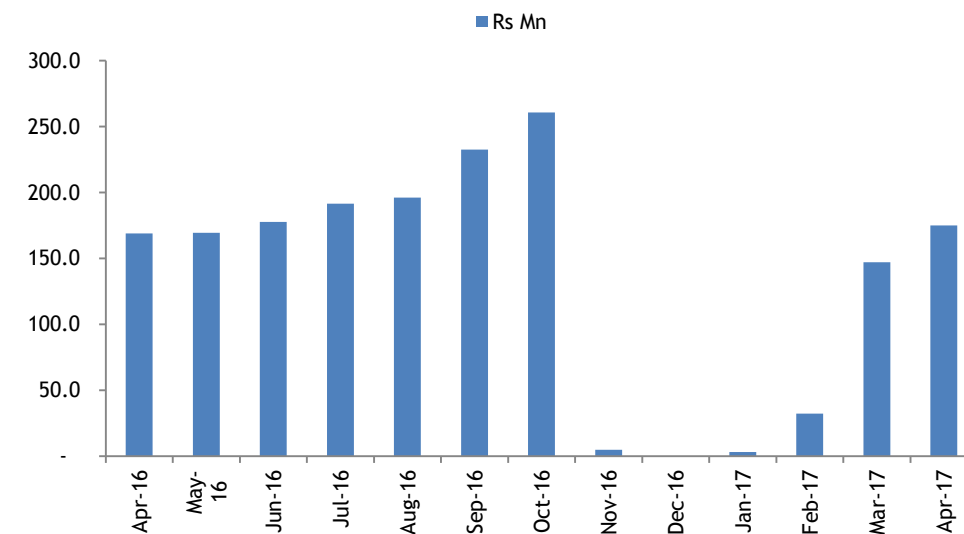
Source: Company, Equirus Securities

Exhibit 2: MFI disbursements likely to pick-up in FY18E



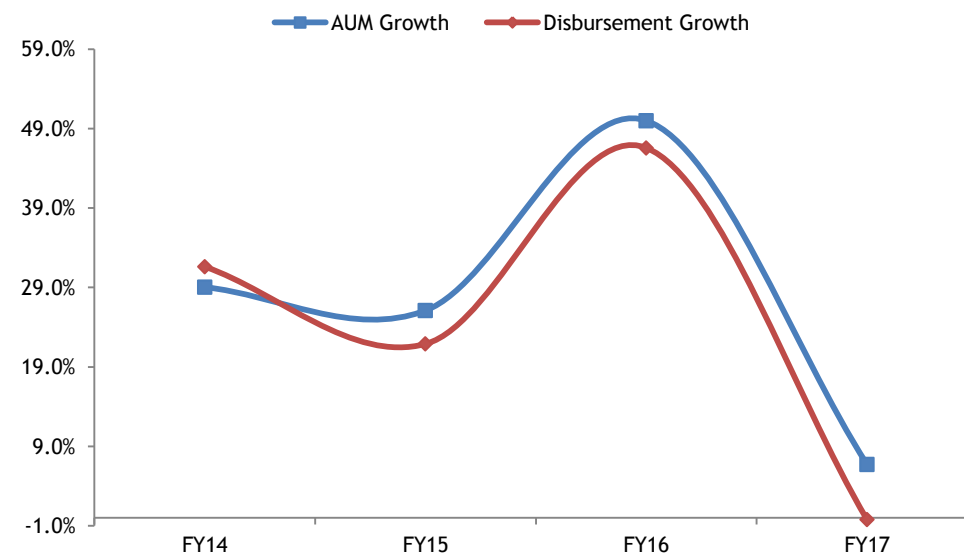
Source: Company, Equirus Securities

Exhibit 3: MFI Monthly Disbursement trend



Source: Company, Equirus Securities

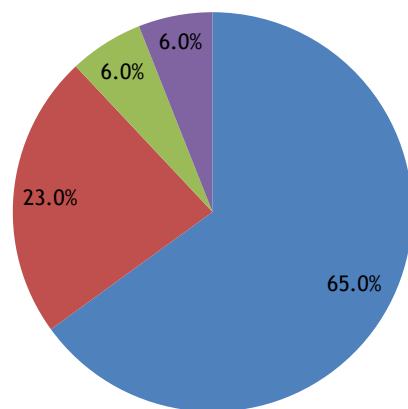
Exhibit 4: AUM and Disbursements growth was subdued at 6.7% yoy and -0.2% yoy in FY17



Source: Company, Equirus Securities

Exhibit 5: 65% of Microfinance book is in Gujarat which company targets to reduce to 50% over medium term

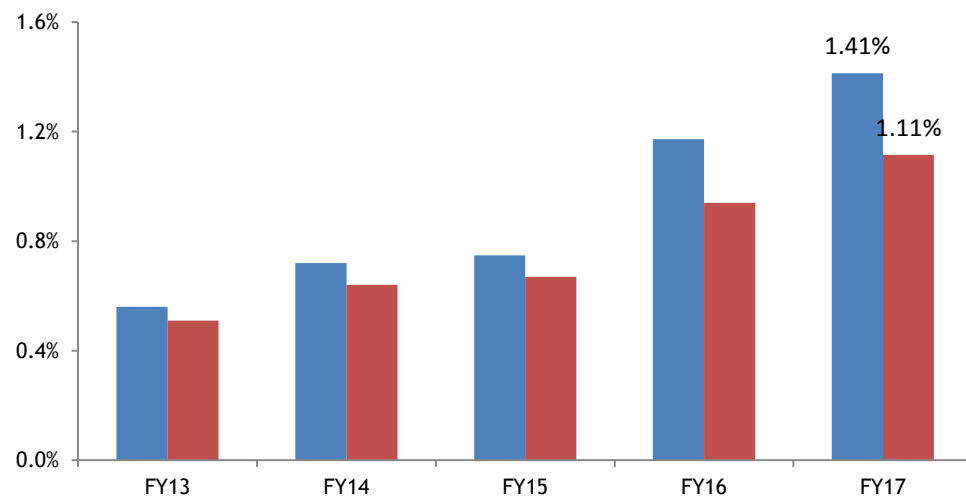
■ Gujarat ■ Madhya Pradesh ■ Maharashtra ■ Uttar Pradesh



Source: Company, Equirus Securities

Exhibit 6: FY17 GNPA in Asset finance/MFI was 2.83%/0.32%. MFI GNPL without the RBI dispensation was 2.6%.

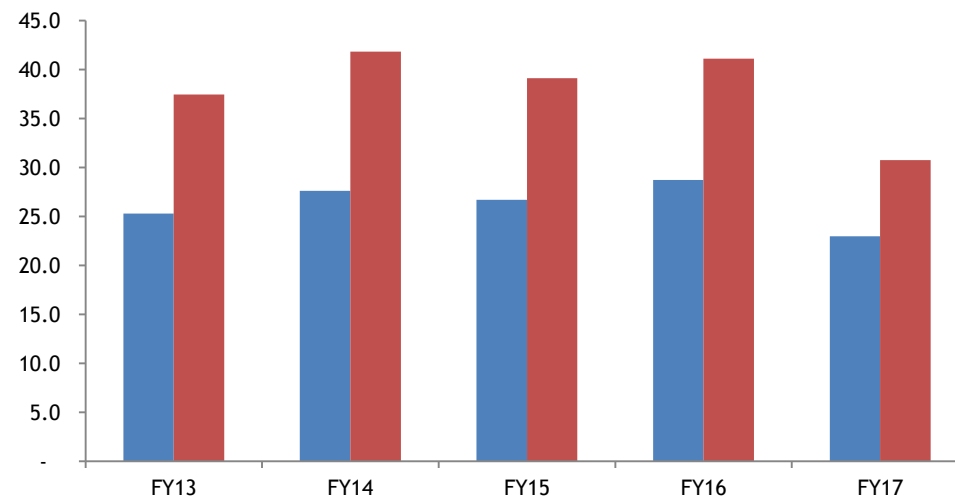
■ GNPA (%) ■ NNPA (%)



Source: Company, Equirus Securities

Exhibit 7: Arman opened 25 branches in FY17 but lower AUM and Disbursements led to AUM/Branch and Disbursements/Branch at Rs. 23mn and Rs. 31mn respectively

■ AUM Per Branch (Rs Mn) ■ Disbursement Per Branch (Rs Mn)



Source: Company, Equirus Securities

Exhibit 8: Key Ratios - Post demonetization opex were higher in FY17

Ratios	FY14	FY15	FY16	FY17
Int Exp/Int Inc (%)	37.3%	37.8%	39.6%	44.3%
Non-Int Inc/Tot Inc (%)	0.0%	6.4%	7.5%	8.6%
Cost Income Ratio (%)	52.6%	45.3%	46.6%	62.8%
Staff cost / Operating expenses (%)	56.3%	61.0%	53.2%	52.2%
Prov/Pre-Prev Profits (%)	8.3%	10.4%	10.4%	14.7%
Effective tax rate (%)	32.1%	33.5%	33.9%	36.0%
Provision/Avg Advances	0.7%	1.0%	1.0%	0.9%

Source: Company, Equirus Securities

Exhibit 9: ROE-ROA Tree

ROE Tree	FY14	FY15	FY16	FY17
Yield on Loans and Advances	29.7%	27.3%	26.7%	27.8%
Cost of Funds	13.8%	12.8%	13.3%	15.4%
Net Interest Margin	18.6%	17.0%	16.1%	15.3%
Advances (A)	919	1,162	1,741	1,921
Investments (B)	-	-	14	24
Interest Earning Assets	919	1,162	1,755	1,945
Average Interest Earning Assets (D)	824	1,040	1,458	1,850
Nil/Avg Int Earning Assets	18.6%	17.0%	16.1%	15.3%
Non Int Inc/Avg Int Earning Assets	0.0%	1.2%	1.3%	1.4%
Total Income/Avg Int Earning Assets	18.6%	18.1%	17.4%	16.8%
Op. Costs/Avg Int Earning Assets	9.8%	8.2%	8.1%	10.5%
PPI/Avg Int Earning Assets	8.8%	9.9%	9.3%	6.2%
Provisions/Avg Int Earning Assets	0.7%	1.0%	1.0%	0.9%
Taxes/Avg Int Earning Assets	2.6%	3.0%	2.8%	1.9%
Return on Avg Int Earning Assets	5.5%	5.9%	5.5%	3.4%
Adj Return on Avg Int Earning Assets	5.5%	5.9%	5.5%	3.4%
Productivity (Avg Int Earning Assets/Avg Total Assets)	73.8%	83.7%	87.7%	88.0%
Return on Average Total Assets	4.1%	5.0%	4.8%	3.0%
Leverage (Average Total Assets/Average Equity)	3.3x	3.4x	3.7x	3.9x
Return on Average Equity	13.4%	16.9%	17.8%	11.8%

Source: Company, Equirus Securities

Consolidated Financial Statement

P&L Statement (Rs Mn)	FY14	FY15	FY16	FY17
Interest Income	245	284	388	509
Interest Expense	91	107	154	225
Net Interest Income	154	177	234	284
Other Income	0	12	19	27
Total Income	154	189	253	310
Operating Expenses	81	85	118	195
Employee Expense	46	52	63	102
Other Operating Expenses	35	33	55	93
Pre Provisioning Income	73	103	135	115
Provisions	6	11	14	17
PBT	67	93	121	98
Tax	21	31	41	35
PAT	45	62	80	63

Source: Company, Equirus Securities

Balance Sheet (Rs Mn)	FY14	FY15	FY16	FY17
Net Worth	337	392	505	560
Borrowings	749	927	1,380	1,547
Other Liabilities and provisions	30	52	68	143
Total Equity & Liabilities	1,116	1,372	1,953	2,250
Net Block	18	16	19	25
Cash and Bank Balance	151	168	107	214
Investments	-	-	14	24
Advances	919	1,162	1,741	1,921
Other Assets	28	26	71	66
Total Assets	1,116	1,372	1,953	2,250

Source: Company, Equirus Securities



Equirus Securities

Research Analysts	Sector/Industry	Email		Equity Sales	E-mail	
Abhishek Shindadkar	IT Services	abhishek.shindadkar@equirus.com	91-22-43320643	Vishad Turakhia	vishad.turakhia@equirus.com	91-22-43320633
Ashutosh Tiwari	Auto, Metals & Mining	ashutosh@equirus.com	91-79-61909517	Subham Sinha	subham.sinha@equirus.com	91-22-43320631
Depesh Kashyap	Mid-Caps	depesh.kashyap@equirus.com	91-79-61909528	Sweta Sheth	sweta.sheth@equirus.com	91-22-43320634
Devam Modi	Power & Infrastructure	devam@equirus.com	91-79-61909516	Viral Desai	viral.desai@equirus.com	91-22-43320635
Dhaval Dama	FMCG, Mid-Caps	dhaval.dama@equirus.com	91-79-61909518	Binoy Dharia	Binoy.dharia@equirus.com	91-22-43320632
Manoj Gori	Consumer Durables	manoj.gori@equirus.com	91-79-61909523	Dealing Room		
Maulik Patel	Oil and Gas	maulik@equirus.com	91-79-61909519	Ashish Shah	ashishshah@equirus.com	91-22-43320662
Praful Bohra	Pharmaceuticals	praful.bohra@equirus.com	91-79-61909532	Ilesh Savla	ilesh.savla@equirus.com	91-22-43320666
Rohan Mandora	Banking & Financial Services	rohan.mandora@equirus.com	91-79-61909529	Manoj Kejriwal	manoj.kejriwal@equirus.com	91-22-43320663
Associates		E-mail		Dharmesh Mehta	dharmesh.mehta@equirus.com	91-22-43320661
Ankit Choudhary		ankit.choudhary@equirus.com	91-79-61909533	Sandip Amrutiya	sandipamrutiya@equirus.com	91-22-43320660
Bharat Celly		bharat.celly@equirus.com	91-79-61909524	Compliance Officer		
Harshit Patel		harshit.patel@equirus.com	91-79-61909522	Jay Soni	jay.soni@equirus.com	91-79-61909561
Meet Chande		meet.chande@equirus.com	91-79-61909513			
Parva Soni		parva.soni@equirus.com	91-79-61909521			
Pranav Mehta		pranav.mehta@equirus.com	91-79-61909514			
Ronak Soni		Ronak.soni@equirus.com	91-79-61909525			
Samkit Shah		samkit.shah@equirus.com	91-79-61909520			
Shreepal Doshi		shreepal.doshi@equirus.com	91-79-61909541			
Vikas Jain		vikas.jain@equirus.com	91-79-61909531			
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• **UNDERWEIGHT:** likely to under-perform the benchmark by at least 5% over investment horizon

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Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.

Lite vs. Regular Coverage vs. Spot Coverage

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Corporate Office:

3rd floor, House No. 9,
Magnet Corporate Park, Near Zydus Hospital, B/H Intas Sola Bridge,
S.G. Highway Ahmedabad-380054
Gujarat
Tel. No: +91 (0)79 - 6190 9550
Fax No: +91 (0)79 - 6190 9560

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Research Analyst’ or Relatives’ financial interest	No	
Research Analyst’ or Relatives’ actual/beneficial ownership of 1% or more	No	
Research Analyst’ or Relatives’ material conflict of interest	No	

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