



© 2017 Equirus All rights reserved

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			
Promoters	Recent	3M	12M %
DII	27.4%	-0.1%	-0.7%
FII	7.0%	-0.1%	7.0%
Public	0.0%	0.0%	-25.0%
Price %	65.7%	0.1%	18.7%
Absolute	1M%	3M%	12M%
Vs Industry	19.0%	5.7%	-20.2%
Ujjivan	17.1%	-3.7%	-47.0%
Equitas	18.0%	-12.9%	-12.7%
	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.

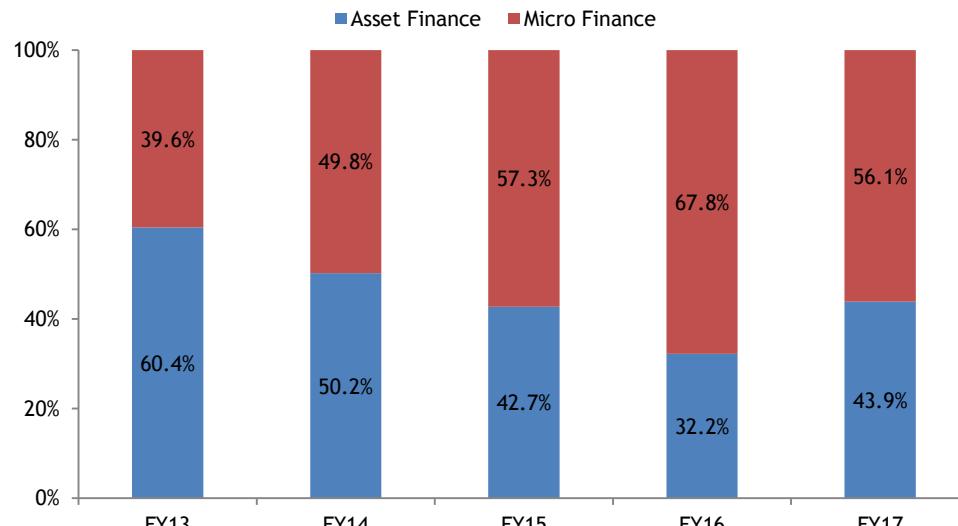
**MFI disbursements pick-up to pre-demonetization levels; share of MSME and 2-wheeler loans to increase:** After almost negligible disbursements during Nov'16 to Feb'17, fresh MFI disbursements have picked up to pre-demonetization levels of ~Rs. 250mn/month. ARLF targets for FY18 disbursements of ~Rs. 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

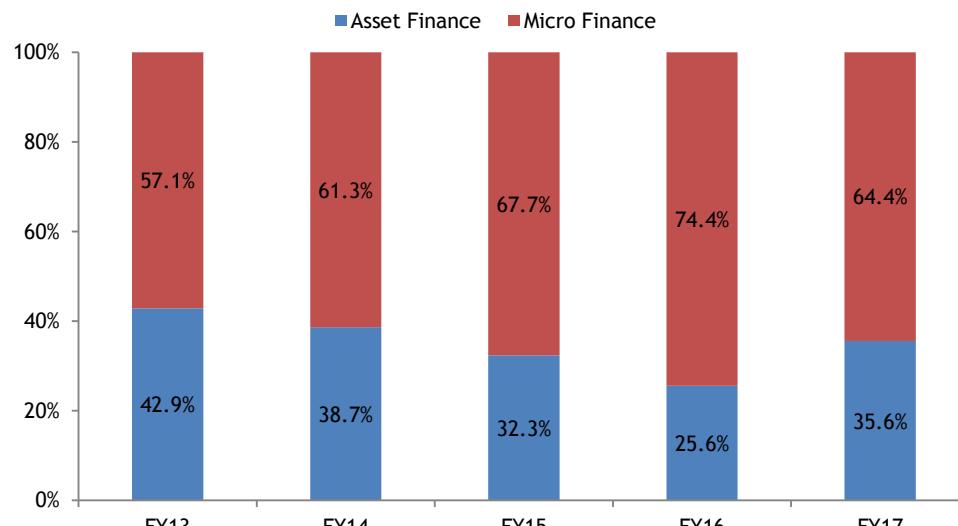
Rs. Mn YE Mar	FY14A	FY15A	FY16A	FY17A
Interest Income	245	284	388	509
Interest Expense	91	107	154	225
Net Interest Inc.	154	177	234	284
Other Income	0	12	19	27
Operating Exp	81	85	118	195
Provisions	6	11	14	17
PAT	45	62	80	63
AUM	911	1,149	1,723	1,839
Disbursements	1,381	1,683	2,467	2,462
Net Worth	337	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**



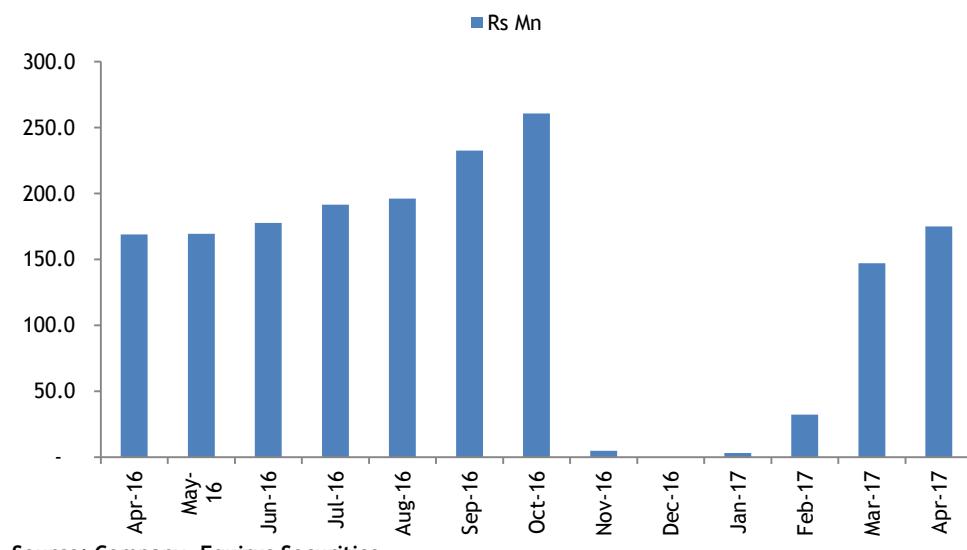
Source: Company, Equirus Securities

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



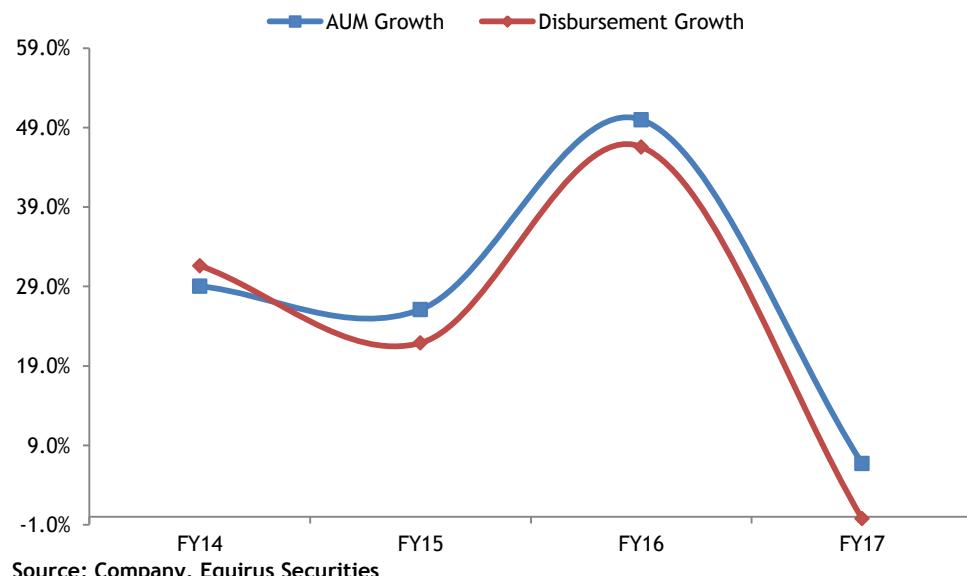
Source: Company, Equirus Securities

**Exhibit 3: MFI Monthly Disbursement trend**



Source: Company, Equirus Securities

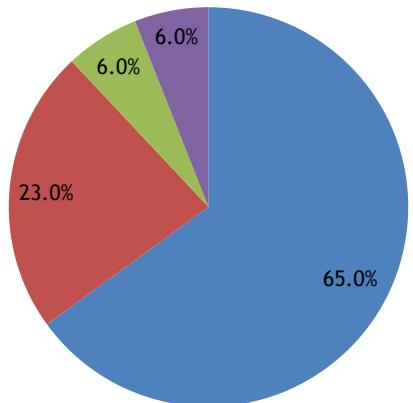
**Exhibit 4: AUM and Disbursements growth was subdued at 6.7% yoy and -0.2% yoy in FY17**



Source: Company, Equirus Securities

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

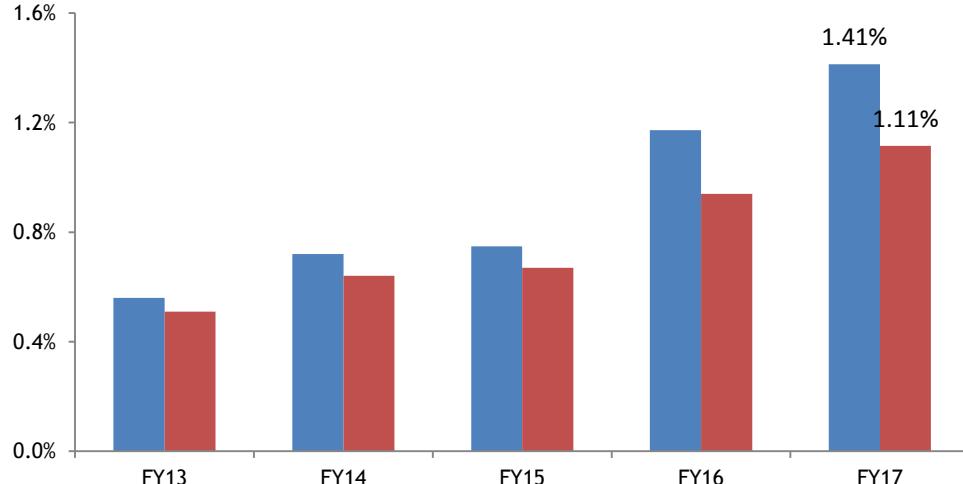
■ Gujarat ■ Madhya Pradesh ■ Maharashtra ■ Uttar Pradesh



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%.**

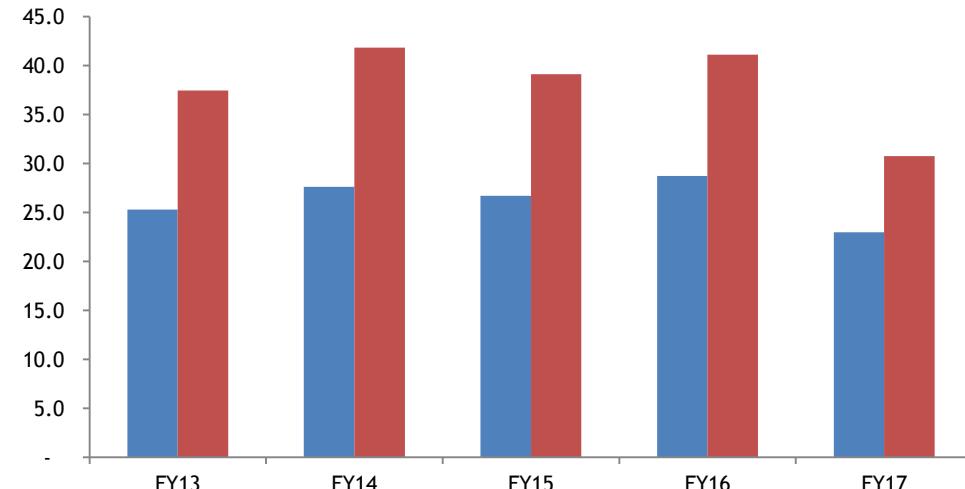
■ GNPA (%) ■ NNPA (%)



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-Prov 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



Equirus

Arman Financial Services

Absolute – NR

Relative – NR

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
NII/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



Equirus

## Arman Financial Services

## Absolute – NR

## Relative – NR

## Consolidated Financial Statement

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

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
<b>Total Equity &amp; Liabilities</b>	<b>1,116</b>	<b>1,372</b>	<b>1,953</b>	<b>2,250</b>
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
<b>Total Assets</b>	<b>1,116</b>	<b>1,372</b>	<b>1,953</b>	<b>2,250</b>

Source: Company, Equirus Securities



## Equirus Securities

Research Analysts	Sector/Industry	Email		Equity Sales	E-mail	
Abhishek Shindadkar	IT Services	<a href="mailto:abhishek.shindadkar@equirus.com">abhishek.shindadkar@equirus.com</a>	91-22-43320643	Vishad Turakhia	<a href="mailto:vishad.turakhia@equirus.com">vishad.turakhia@equirus.com</a>	91-22-43320633
Ashutosh Tiwari	Auto, Metals & Mining	<a href="mailto:ashutosh@equirus.com">ashutosh@equirus.com</a>	91-79-61909517	Subham Sinha	<a href="mailto:subham.sinha@equirus.com">subham.sinha@equirus.com</a>	91-22-43320631
Depesh Kashyap	Mid-Caps	<a href="mailto:depesh.kashyap@equirus.com">depesh.kashyap@equirus.com</a>	91-79-61909528	Sweta Sheth	<a href="mailto:sweta.sheth@equirus.com">sweta.sheth@equirus.com</a>	91-22-43320634
Devam Modi	Power & Infrastructure	<a href="mailto:devam@equirus.com">devam@equirus.com</a>	91-79-61909516	Viral Desai	<a href="mailto:viral.desai@equirus.com">viral.desai@equirus.com</a>	91-22-43320635
Dhaval Dama	FMCG, Mid-Caps	<a href="mailto:dhaval.dama@equirus.com">dhaval.dama@equirus.com</a>	91-79-61909518	Binoy Dharia	<a href="mailto:Binoy.dharia@equirus.com">Binoy.dharia@equirus.com</a>	91-22-43320632
Manoj Gori	Consumer Durables	<a href="mailto:manoj.gori@equirus.com">manoj.gori@equirus.com</a>	91-79-61909523	<b>Dealing Room</b>		<b>E-mail</b>
Maulik Patel	Oil and Gas	<a href="mailto:maulik@equirus.com">maulik@equirus.com</a>	91-79-61909519	Ashish Shah	<a href="mailto:ashishshah@equirus.com">ashishshah@equirus.com</a>	91-22-43320662
Praful Bohra	Pharmaceuticals	<a href="mailto:praful.bohra@equirus.com">praful.bohra@equirus.com</a>	91-79-61909532	Ilesh Savla	<a href="mailto:ilesh.savla@equirus.com">ilesh.savla@equirus.com</a>	91-22-43320666
Rohan Mandora	Banking & Financial Services	<a href="mailto:rohan.mandora@equirus.com">rohan.mandora@equirus.com</a>	91-79-61909529	Manoj Kejriwal	<a href="mailto:manoj.kejriwal@equirus.com">manoj.kejriwal@equirus.com</a>	91-22-43320663
<b>Associates</b>		<b>E-mail</b>		Dharmesh Mehta	<a href="mailto:dharmesh.mehta@equirus.com">dharmesh.mehta@equirus.com</a>	91-22-43320661
Ankit Choudhary		<a href="mailto:ankit.choudhary@equirus.com">ankit.choudhary@equirus.com</a>	91-79-61909533	Sandip Amrutiya	<a href="mailto:sandipamrutiya@equirus.com">sandipamrutiya@equirus.com</a>	91-22-43320660
Bharat Celly		<a href="mailto:bharat.celly@equirus.com">bharat.celly@equirus.com</a>	91-79-61909524	<b>Compliance Officer</b>		<b>E-mail</b>
Harshit Patel		<a href="mailto:harshit.patel@equirus.com">harshit.patel@equirus.com</a>	91-79-61909522	Jay Soni	<a href="mailto:jay.soni@equirus.com">jay.soni@equirus.com</a>	91-79-61909561
Meet Chande		<a href="mailto:meet.chande@equirus.com">meet.chande@equirus.com</a>	91-79-61909513			
Parva Soni		<a href="mailto:parva.soni@equirus.com">parva.soni@equirus.com</a>	91-79-61909521			
Pranav Mehta		<a href="mailto:pranav.mehta@equirus.com">pranav.mehta@equirus.com</a>	91-79-61909514			
Ronak Soni		<a href="mailto:Ronak.soni@equirus.com">Ronak.soni@equirus.com</a>	91-79-61909525			
Samkit Shah		<a href="mailto:samkit.shah@equirus.com">samkit.shah@equirus.com</a>	91-79-61909520			
Shreepal Doshi		<a href="mailto:shreepal.doshi@equirus.com">shreepal.doshi@equirus.com</a>	91-79-61909541			
Vikas Jain		<a href="mailto:vikas.jain@equirus.com">vikas.jain@equirus.com</a>	91-79-61909531			
<b>Rating &amp; Coverage Definitions:</b>				<b>Registered Office:</b>		
<b>Absolute Rating</b>				Equirus Securities Private Limited		
<ul style="list-style-type: none"> <li>LONG : Over the investment horizon, ATR &gt;= Ke for companies with Free Float market cap &gt; Rs 5 billion and ATR &gt;= 20% for rest of the companies</li> <li>ADD: ATR &gt;= 5% but less than Ke over investment horizon</li> <li>REDUCE: ATR &gt;= negative 10% but &lt;5% over investment horizon</li> <li>SHORT: ATR &lt; negative 10% over investment horizon</li> </ul>				Unit No. 1201, 12th Floor, C Wing, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai-400013.		
<b>Relative Rating</b>				Tel. No: +91 - (0)22 - 4332 0600		
<ul style="list-style-type: none"> <li>OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon</li> <li>BENCHMARK: likely to perform in line with the benchmark</li> </ul>				Fax No: +91- (0)22 - 4332 0601		

**Equirus****Arman Financial Services****Absolute – NR****Relative – NR**

- **UNDERWEIGHT:** likely to under-perform the benchmark by at least 5% over investment horizon

**Investment Horizon**

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**

We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies. We intend to publish updates on Lite coverage stocks only on an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.

**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

**© 2017 Equirus Securities Private Limited. All rights reserved. For Private Circulation only. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Equirus Securities Private Limited**

**Analyst Certification**

We, Rohan Mandora/Ankit Choudhary, author to this report, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

**Disclosures**

Equirus Securities Private Limited (ESPL) having Corporate Identification Number U65993MH2007PTC176044 is registered in India with Securities and Exchange Board of India (SEBI) as a trading member on the Capital Market (Reg. No. INB231301731), Futures & Options Segment (Reg. No. INF231301731) of the National Stock Exchange of India Ltd. (NSE) and on Cash Segment (Reg. No. INB011301737) of Bombay Stock Exchange Limited (BSE). ESPL is also registered with SEBI as Research Analyst under SEBI (Research Analyst) Regulations, 2014 (Reg. No. INH000001154), as a Portfolio Manager under SEBI (Portfolio Managers Regulations, 1993 (Reg. No. INP000005216) and as a Depository Participant of the Central Depository Services (India) Limited (Reg. No. IN-DP-324-2017). There are no disciplinary actions taken by any regulatory authority against ESPL. ESPL is a subsidiary of Equirus Capital Pvt. Ltd. (ECPL) which is registered with SEBI as Category I Merchant Banker and provides investment banking services including but not limited to merchant banking services, private equity, mergers & acquisitions and structured finance.

As ESPL and its associates are engaged in various financial services business, it might have: - (a) received compensation (except in connection with the preparation of this report) from the subject company for investment banking or merchant banking or brokerage services in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; or (c) have received a mandate from the subject company; or (d) might have other financial, business or other interests in entities including the subject company (ies) mentioned in this Report. ESPL & its associates, their directors and employees may from time to time have positions or options in the company and buy or sell the securities of the company (ies) mentioned herein. ESPL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company mentioned in the report as the last day of the month preceding the publication of the research report. ESPL or its Analyst or Associates did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ESPL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ESPL has not been engaged in market making activity for the subject company.

The Research Analyst engaged in preparation of this Report:-

(a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) might have served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

This document is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession of this document are required to inform themselves of, and to observe, such applicable restrictions. Please delete this document if you are not authorized to view the same. By reading this document you represent and warrant that you have full authority and all rights necessary to view and read this document without subjecting ESPL and affiliates to any registration or licensing requirement within such jurisdiction.



Equirus

Arman Financial Services

Absolute – NR

Relative – NR

This document has been prepared solely for information purpose and does not constitute a solicitation to any person to buy, sell or subscribe any security. ESPL or its affiliates are not soliciting any action based on this report. The information and opinions contained herein is from publicly available data or based on information obtained in good faith from sources believed to be reliable but ESPL provides no guarantee as to its accuracy or completeness. The information contained herein is as on date of this report, and is subject to change or modification and any such changes could impact our interpretation of relevant information contained herein. While we would endeavour to update the information herein on reasonable basis, ESPL and its affiliates, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent ESPL and its group companies from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document including the merits and risks involved. This document is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. ESPL and its group companies, employees, directors and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. ESPL/its affiliates do and seek to do business with companies covered in its research report. Thus, investors should be aware that the firm may have conflict of interest.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp> and [www.bseindia.com](http://www.bseindia.com) (Choose a company from the list on the browser and select the "three years" period in the price chart).

Disclosure of Interest statement for the subject Company	Yes/No	If Yes, nature of such interest
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	

#### Disclaimer for U.S. Persons

ESPL/its affiliates are not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition Equirus is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by Equirus, including the products and services described herein are not available to or intended for U.S. persons. The information contained in this Report is not intended for any person who is a resident of the United States of America or a resident of any jurisdiction, the laws of which imposes prohibition on soliciting the securities business in that jurisdiction without going through the registration requirements and/ or prohibit the use of any information contained in this report. This Report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. "U.S. Persons" are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed "US Persons" under certain rules.