Arman Financial Services Limited

June 16, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	52.00	CARE A-; Negative	Assigned
Non-convertible debentures	39.00	CARE A-; Negative	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	58.50	CARE A-; Negative	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has revised the outlook on the long-term rating of Arman Financial Services Limited (AFSL) to 'Negative', on account of expected stress in its microfinance and small and medium enterprise (SME) portfolios, which together accounted for ~95% of the group's consolidated assets under management (AUM) as on March 31, 2025. While the asset quality and profitability were impacted in FY25 due to persistent stress, the asset quality pressures are likely to continue in H1FY26 and expected to witness a recovery in H2FY26.

As of March 31, 2025, microfinance and SME segments exhibited elevated delinquency levels across various buckets with AFSL's (Standalone) 90+ days past due (dpd) portfolio rising to 3.70% from 2.57% as on March 31, 2024. For Namra Finance Limited (NFL), the 90+ dpd book stood at 2.74%, marginally down from 2.82% in the previous year. Additionally, a portion of the microfinance portfolio was written off in the year and gross non-performing assets (GNPA) + write-off (%) stood at 16.51% (Consolidated) as on March 31, 2025. Stressed asset ratios (GNPA + Security Receipts to Gross Advances) for AFSL on a consolidated basis stood at 5.08%(Consolidated). While there has been a slight improvement in collection efficiency across both entities, microfinance and SME segments are expected to continue facing elevated GNPAs and credit costs in the near term and will remain key monitorables.

AFSL group on a consolidated basis reported a significant decline in profit after tax (PAT), which fell over 70% to ₹52 crore in FY25 from ₹173 crore in FY24. A portion of the reported profit was supported by gains from sales of assets to asset reconstruction companies (ARCs) and direct assignment (DA) transactions, contributing 10.57% to the total income. Credit costs at the consolidated level surged to ₹264 crore (₹65 crore), driven by ongoing stress in core lending segments. Profitability is expected to remain under pressure in H1FY26 with some recovery expected in H2FY26.

The Arman Group (including AFSL and its wholly owned subsidiary, NFL [rated CARE A-; Negative]) consolidated AUM declined by 15% year-on-year to ₹2,245 crore as on March 31, 2025, from ₹2,639 crore in the previous year. This decline was primarily due to subdued disbursements in the microfinance segment. However, on a standalone basis, AFSL recorded a 25% growth in AUM, rising from ₹446 crore to ₹560 crore, supported by increased traction in the SME and loan against property (LAP) segments. During the year, the group raised incremental debt of ₹601.10 crore, from non-banking as well as banking channels. Going forward the group's ability to raise fresh bank funding would remain a key monitorable.

The rating nevertheless continues to favorably factor in the comfortable capitalisation level of the Arman Group owing to the capital infusion in December 2023, lower disbursements and low incremental debt availed post that. The liquidity profile in the group also remained adequate with cash and bank balances forming 18% of total assets as on March 31, 2025. However, rating strengths are partially offset by limited track record of operations in new geographies, risks associated with unsecured lending in microfinance and micro, small and medium enterprises (MSME) loans, and its presence in a highly competitive financing industry and regulatory risks pertaining to the microfinance business.

CareEdge Ratings will continue to closely monitor the group's asset quality and profitability trajectory in FY26. The group's ability to enhance collection efficiency, sustain earnings, diversify funding sources, and maintain healthy capitalisation and gearing levels will be closely monitored.

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving profitability profile with return on total assets (RoTA) of over 4% on a sustained basis.
- Sizeable equity raises leading to improving net worth and improving gearing.
- Sizeable scale up of operations while reducing geographical concentration.

Negative factors

- Significantly rising GNPA ratio leading to deterioration in profitability profile with reduction in RoTA below 2%.
- Deteriorating capital structure, with overall gearing exceeding 5x.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has analysed the consolidated business and financial risk profiles of AFSL along with its wholly owned subsidiary. Entities consolidated are listed under Annexure-6.

Outlook: Negative

CareEdge Ratings has revised the outlook to 'Negative' due to ongoing stress in AFSL's microfinance and SME portfolios, which together comprised 95% of the consolidated AUM, resulting in weakened asset quality and profitability. Additionally, limited access to traditional funding channels has further strained the company's liability profile. The outlook may be revised to 'Stable' if the company is able to demonstrate improvement in asset quality and profitability and mobilize funding from banking channel sources.

Detailed description of key rating drivers:

Key strengths

Comfortable capitalisation position

With the last round of capital infusion of ₹230 crore in December 2023 in AFSL, the group's tangible net worth (TNW) increased to ₹793 crore as on March 31, 2024, from ₹350 crore as on March 31, 2023, and with internal accruals, TNW increased by 7% YOY to ₹848 crore as on March 31, 2025. As capital was infused in NFL for FY25 of ₹70 crore, its TNW increased to ₹638 crore as on March 31, 2025, from ₹539 crore as on March 31, 2024.

With the capital raise and muted disbursements in FY25, borrowings increased slowly and the group's debt requirement reduced, translating to reduced gearing level 1.45x as on March 31, 2025, from 2.2x as on March 31, 2024. Similar trend followed in NFL with 1.3x as on March 31, 2025, from 2.7x as on March 31, 2024.

CareEdge Ratings expects comfortable capitalisation will provide the cushion to the group in current times of stress in the microfinance sector.

Diversified albeit declining AUM

AFSL caters to low-income customers by providing lending services for two-wheeler (TW) financing, financing for MSME and loan against property (LAP) and NFL provides microfinance loans. The group's AUM has been on a rising trend over the years, reaching AUM of ₹2,639 crore as on March 31, 2024, up by 36% y-o-y. However, owing to ongoing stress, the Arman Group's consolidated AUM stood at ₹2,245 crore as on March 31, 2025, reflecting a year-on-year decline of 15% from ₹2,639 crore as on March 31, 2024. The decline was primarily driven by muted disbursements and repayments in the microfinance segment, which is managed through its wholly owned subsidiary NFL, contributing ~75% to the group's AUM.

Despite this decline, the group's AUM remains diversified across segments, with the non-MFI portfolio showing positive traction and AFSL on a standalone basis, registered a 25% AUM growth in the same period from ₹446 crore as on March 31, 2024, to ₹560 crore as on March 31, 2025, supported by increased traction in the SME and LAP segment.

CareEdge Ratings expect the AUM growth to be moderate for FY26, owing to continued stress in the microfinance sector, although the group's diversification into non-MFI segments may support partial recovery in growth.

Key weaknesses

Concentrated resource profile

Entities in the Arman Group borrow on a standalone basis. Lenders' profile for both companies are different, where AFSL borrowed majorly from capital market in FY24 with 58% share, however, in FY25, its majority borrowings were in the form of term loan with 53% share.

NFL majorly borrows in form of term loan with 77% share and balance in form of NCD with 23% share as on March 31, 2025. The share of NCDs has grown significantly in FY25 to 23% compared to 9% in FY24. Ratio of banks and NBFC in term loan has been 70:30 as on March 31, 2024, and Marh 31, 2025. During the year, the group raised incremental debt of ₹601.10 crore, from non-banking as well as banking channels.
Going forward the group's ability to raise fresh bank funding would remain a key monitorable.

Weakening profitability and asset quality amidst MFI stress

The group reported a significant deterioration in profitability in FY25, with RoTA sharply declining to 2.16% from 7.48% in FY24 with decline in profit to ₹52 crore in FY25 from ₹174 crore in FY24, primarily driven by elevated credit costs to 10.97% from 2.81% in the previous year, owing to stress in the microfinance segment. Although yields and net income margin (NIM) remained stable, the sharp spike in provisioning expenses eroded bottom-line performance. However, profitability in FY25 was partially supported by a one-time income of ₹36.75 crore (net gain on sale of Financial Instrument) from an ARC transaction, involving transfer of assets amounting to ₹185.99 crore that had already been fully provided for in Q4FY24 and FY25. On a standalone basis, NFL reported a sharp decline in profit to ₹7.9 crore in FY25 from ₹138.3 crore in FY24, with RoTA dropping significantly to 0.43% from 7.44%.

As of March 31, 2025, both microfinance and SME segments exhibited elevated stress and asset quality weakened with GNPA rising to 3.35% as on March 31, 2025 (from 2.96% in March 2024). Delinquency levels on AFSL's (Standalone) 90+ dpd portfolio rose to 3.70%, up from 2.57% on March 31, 2024. For NFL, the 90+ dpd book stood at 2.74%, marginally down from 2.82% in the previous year. Additionally, a portion of the microfinance portfolio was written off in the year and GNPA + write-off (%) stood at 16.51% (Consolidated) as on March 31, 2025. Stressed asset ratio (Gross NPA + Security Receipts divided by Gross Advances) for AFSL on a consolidated basis stood at 5.08%(Consolidated). While there has been a slight improvement in collection efficiency across both entities, microfinance and SME segments are expected to continue facing elevated GNPAs and credit costs in the near term, which will remain key monitorable.

Regulatory and inherent risks associated with unsecured lending

The group operates in a business segment that is unsecured in nature, exposing itself to credit risk. However, with strong underwriting mechanism, the net NPA (NNPA) ratio remained controlled. The company is also exposed to regulatory risks associated with adverse changes in regulations guiding such NBFCs, and event-based risks associated with microfinancing.

Liquidity: Adequate

Per asset liability management (ALM) statement of AFSL on a standalone basis, as on March 31, 2025, there are positive cumulative mismatches across all time buckets. On a consolidated basis, the Arman group had a cash and bank balance of ₹403 crore as on March 31, 2025, of which ₹101 crore remains unencumbered in nature. Additionally, ₹167 crore of unutilised overdraft facility backed by fixed deposits provides comfort. As on March 31, 2025, expected collections of the group stood at ₹1,311 crore for the next one year against debt repayment of ₹885 crore during the same period.

Applicable criteria

Consolidation
Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

Incorporated on November 26, 1992, AFSL caters to low-income customers by providing lending services for TW financing, financing for SME and LAP. In May 2013, a wholly owned subsidiary of AFSL, NFL started its operations by providing microfinance loan. AFSL is registered as a non-deposit taking NBFC is registered as a non-deposit taking NBFC-MFI with RBI. Formerly known as Arman Lease and Finance Limited, AFSL is promoted by Jayendra Patel. AFSL and NFL, together known as the Arman Group, started operations with microfinance lending through NFL in 2013 and SME financing through AFSL in 2017

Consolidated Brief Financials (₹ crore)	31-03-2024	31-03-2025
	A	A
Total income	614.07	730.04
PAT	173.57	52.07
Interest coverage (times)	2.05	1.29
Total assets	2615.61	2,201.36
Net NPA (%)	0.28	0.54
ROTA (%)	7.48	2.16

A: Audited UA: Unaudited; Note: these are latest available financial results

AFSL - Standalone Brief Financials (₹ crore)	31-03-2024	31-03-2025
	A	A
Total income	132.98	185.30
PAT	37.90	43.17
Interest coverage (times)	1.88	1.75
Total assets	843.94	1009.26
Net NPA (%)	0.89	0.95
ROTA (%)	5.38	4.66

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non Convertible Debentures-Proposed	-	-	-	-	70.89	CARE A-; Negative
Debentures-Non Convertible Debentures	INE109C07048	14-Jun-2022	11.30%	14-Jun-2027	28.88	CARE A-; Negative
Debentures-Non Convertible Debentures	INE109C07071	11-Apr-2023	12.2	11-Apr-2028	49.73	CARE A-; Negative

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)CARE BBB+; Stable (19-Sep-22) 2)Withdrawn (19-Sep-22) 3)CARE BBB+; Stable (01-Jun-22)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (01-Jun-22)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE BBB+; Stable (01-Jun-22) 2)Withdrawn (01-Jun-22)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (06-Mar-24) 2)CARE BBB+; Stable (05-Apr-23)	1)CARE BBB+; Stable (03-Jan-23) 2)CARE BBB+; Stable (19-Sep-22) 3)CARE BBB+; Stable (01-Jun-22)
5	Debentures-Non Convertible Debentures	LT	39.00	CARE A-; Negative	-	1)CARE A-; Stable (07-Jan-25)	1)CARE A-; Stable (06-Mar-24) 2)CARE BBB+; Stable (05-Apr-23)	1)CARE BBB+; Stable (03-Jan-23) 2)CARE BBB+; Stable (19-Sep-22)

								3)CARE BBB+; Stable (01-Jun-22)
6	Debentures-Non Convertible Debentures	LT	58.50	CARE A-; Negative	-	1)CARE A-; Stable (07-Jan-25)	1)CARE A-; Stable (06-Mar-24) 2)CARE BBB+; Stable (05-Apr-23)	-
7	Debentures-Non Convertible Debentures	LT	52.00	CARE A-; Negative				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	NFL	Full	Wholly owned subsidiary

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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