Arman Financial Services Ltd. – Investment BUY Call – 6 Months Horizon

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 21 July 2026

CMP -> 1931
Buying Range -> 1931 to 1970
Upside Potential-> 12%
Investment Horizon -> 6 Months
Target price -> 2162

1. Investment Thesis & Financial Performance

We maintain a BUY recommendation on Arman Financial Services Ltd. for a medium-term investment horizon of 6 months, supported by improving asset quality, accelerating business momentum, robust operating leverage and a favourable recovery cycle in the Indian microfinance industry. During Q4FY26 and FY26, the company delivered a strong operational performance with Assets Under Management (AUM) increasing 22% YoY to INR 2,728 crore, while Q4FY26 disbursements reached a record INR 951 crore, reflecting healthy demand across key lending segments. Management highlighted that profitability improved meaningfully during the quarter as credit costs moderated, collections strengthened and the company's structural transformation initiatives began delivering tangible benefits. Despite elevated operating expenses arising from investments in credit underwriting, collections, technology and manpower, management expects meaningful operating leverage over FY27 as the loan book scales. The company remains focused on profitable growth rather than aggressive volume expansion, with improving ROA and ROE expected through lower credit costs, higher leverage and better portfolio quality.

2. Business Overview & Diversified Lending Platform

Arman Financial Services operates as a diversified non-banking financial company (NBFC) focused on serving India's underbanked population through a high-touch, in-house lending model. Its flagship microfinance business, operated through wholly owned subsidiary Namra Finance, provides unsecured Joint Liability Group (JLG) and individual microfinance loans to women entrepreneurs across 11 states. The company has also built a rapidly growing MSME lending franchise, providing higher-yield working capital loans to small rural enterprises, while gradually expanding secured lending through Loan Against Property (LAP), two-wheeler financing and a newly launched rooftop solar financing business. All sourcing, underwriting, collections and recoveries are managed internally using a cloud-based digital platform, enabling tighter credit control and superior portfolio monitoring. The company's key end-user industries include rural retail, agriculture, dairy, livestock, small manufacturing, trading, transportation, self-employed professionals and micro-enterprises, making it a direct beneficiary of rising rural income, financial inclusion, MSME formalisation, government subsidy programmes and increasing credit penetration in underserved markets.

3. Growth Catalysts, Business Expansion & Structural Opportunities

The company enters FY27 with multiple growth catalysts that are expected to support earnings over the next 2–4 quarters. The most important driver remains the continued recovery of the microfinance business, where MFI AUM increased 19% YoY to approximately INR 1,999 crore, while Q4FY26 disbursements reached an all-time high following improvement in underwriting standards and collection efficiency. Management expects the MSME portfolio, which represents the company's highest-return lending segment, to grow approximately 25% during FY27, supporting higher consolidated profitability. Individual business loans within the microfinance segment continue to gain traction, enabling the company to retain quality borrowers while increasing average ticket sizes and improving customer lifetime value. Simultaneously, the branch network has expanded beyond 500 locations, creating a strong distribution platform capable of supporting sustained business growth across existing and new geographies.

Longer term, Arman Financial is positioning itself to benefit from India's structural financial inclusion opportunity through disciplined expansion across unsecured and secured lending products. The rapidly scaling Micro LAP portfolio, which has already achieved operational breakeven, offers an attractive combination of higher margins and significantly lower credit risk. Management is also expanding geographically into Andhra Pradesh, Telangana and Uttar Pradesh while gradually developing new lending verticals such as rooftop solar financing, supported by government subsidies. Increasing digital collections, deeper customer analytics, individual cash-flow based underwriting and stronger cross-selling opportunities across microfinance, MSME, LAP and future retail products are expected to improve customer retention, portfolio yields and return ratios over the coming years.

4. Business Execution, Strategic Initiatives & Capital Deployment

Management has demonstrated strong execution by fundamentally redesigning its operating model during FY26. Credit underwriting and recovery functions have now been completely separated from branch operations, allowing branch teams to focus exclusively on sourcing while dedicated recovery teams manage collections and delinquent accounts. Underwriting has shifted from traditional group-based lending to detailed household cash-flow assessments, supported by bureau checks, occupation profiling, eNACH mandates and digital verification processes. This disciplined approach has materially reduced delinquency formation while improving loan quality. During the past 12–18 months, the company continued investing aggressively in technology infrastructure, branch expansion, manpower, risk management and digital capabilities rather than pursuing short-term profitability. Although these investments temporarily elevated operating expenses, management expects them to generate significant productivity improvements and stronger scalability as business volumes continue expanding.

5. Balance Sheet Strength, Capital Position, Cash Flows & Asset Quality

Arman Financial maintains a healthy and conservatively leveraged balance sheet that provides adequate financial flexibility to support future expansion. The company has strengthened its funding profile through approval of a INR 500 crore Non-Convertible Debenture (NCD) programme, of which INR 325 crore has already been successfully raised, while marginal borrowing costs continue to trend lower. With a debt-to-equity ratio of only around 1.7x, well below management's internal comfort threshold, the company retains significant borrowing capacity to fund future loan growth without equity dilution. Operating cash flows remain closely aligned with business expansion, while disciplined capital allocation continues to prioritise technology, branch expansion, collections infrastructure and risk management.

Asset quality has shown meaningful improvement throughout FY26 as tighter underwriting standards, dedicated recovery teams and enhanced credit monitoring began delivering results. Management indicated that NNPA has remained below 1% across business segments, while reported GNPA remains optically elevated primarily because CGFMU claim procedures delay loan write-offs rather than reflecting deterioration in underlying collections. Credit costs are expected to moderate to approximately 3% during FY27, supported by improving collections, write-backs from previously written-off accounts and strong recovery efforts. Delinquency migration into higher ageing buckets continues to decline, zero-bucket collections remain stable and the secured LAP portfolio has witnessed only a handful of default cases. Overall provisioning continues to be driven by stringent Expected Credit Loss (ECL) models, maintaining prudent coverage against future stress.

6. Operating Leverage, Margin Expansion & Earnings Scalability

Operating leverage is expected to become one of the largest earnings drivers over the coming quarters. Management has clearly indicated that the current elevated operating cost structure represents a deliberate investment phase rather than a structural profitability issue. As the loan book expands, fixed operating costs will be absorbed over a larger asset base, allowing the opex-to-assets ratio to decline materially through the denominator effect. Management expects the microfinance cost-to-asset ratio to decline from around 9% towards approximately 7% during FY27, with a medium-term objective of nearly 6%, creating meaningful earnings leverage. Additional margin expansion is expected from improving product mix, increasing contribution from higher-return MSME loans, gradual scaling of the profitable Micro LAP business, better digital collections, lower borrowing costs, stronger operating efficiencies and enhanced cross-selling across lending products. The continued stabilisation of credit costs should further amplify profitability as revenue growth increasingly flows through to the bottom line.

7. Strategic Collaborations, Industry Tailwinds & Long-Term Competitive Position

The company continues strengthening its competitive positioning through multiple strategic initiatives rather than large-scale acquisitions. The launch of the rooftop solar financing business leverages government subsidy programmes and creates access to an emerging rural financing opportunity with potentially superior credit quality. The widespread implementation of eNACH mandates, cloud-based lending platforms, algorithm-based underwriting, geotagging, facial recognition-enabled KYC and digital collections enhances operational efficiency while reducing fraud and collection risk. Funding diversification across more than 38 lending relationships, combined with the recently approved NCD programme, further strengthens long-term liquidity and funding flexibility.

Industry fundamentals also remain supportive. India's microfinance and MSME credit markets continue to benefit from increasing financial inclusion, rising rural incomes, expanding formal credit penetration, government support for MSMEs, renewable energy adoption, digitalisation and greater availability of structured funding for NBFCs. Management believes the broader microfinance industry is entering a more stable and disciplined growth phase after the disruptions witnessed over the past few years. A stronger emphasis on prudent underwriting, sustainable loan growth and improved collection efficiencies is expected to support healthier profitability across the sector. Given its conservative risk culture, disciplined underwriting framework and diversified lending platform, Arman Financial appears well positioned to benefit from these favourable structural tailwinds.

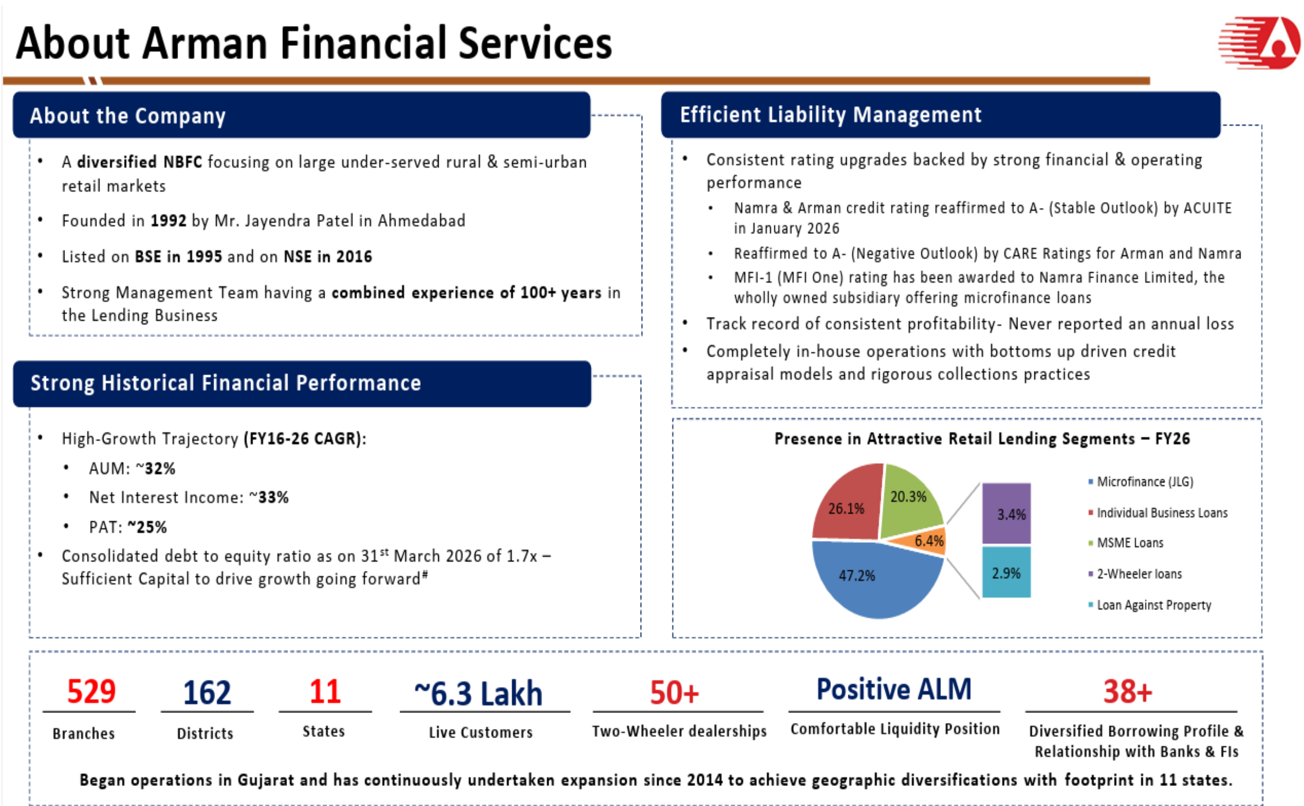
8. Key Short-Term Headwinds & Risks

Despite the favourable long-term outlook, investors should closely monitor several near-term risks. Management continues to remain cautious regarding global macroeconomic uncertainty, geopolitical tensions in West Asia, elevated fuel prices and localised economic stress, all of which could temporarily affect borrower cash flows and credit demand. Competition has intensified across MSME lending, Micro LAP and secured lending as NBFCs and Small Finance Banks expand into these segments, potentially exerting pressure on yields. Attrition remains another operational challenge, as higher employee turnover may affect organisational culture and execution quality. In addition, higher-than-expected delinquency in the secured LAP portfolio, adverse interest rate movements, slower rural demand recovery, prolonged collection challenges or delays in achieving planned operating leverage could temporarily impact earnings performance over the next few quarters. Nevertheless, management's continued focus on portfolio quality, disciplined underwriting and recovery rather than aggressive loan growth substantially mitigates these risks.

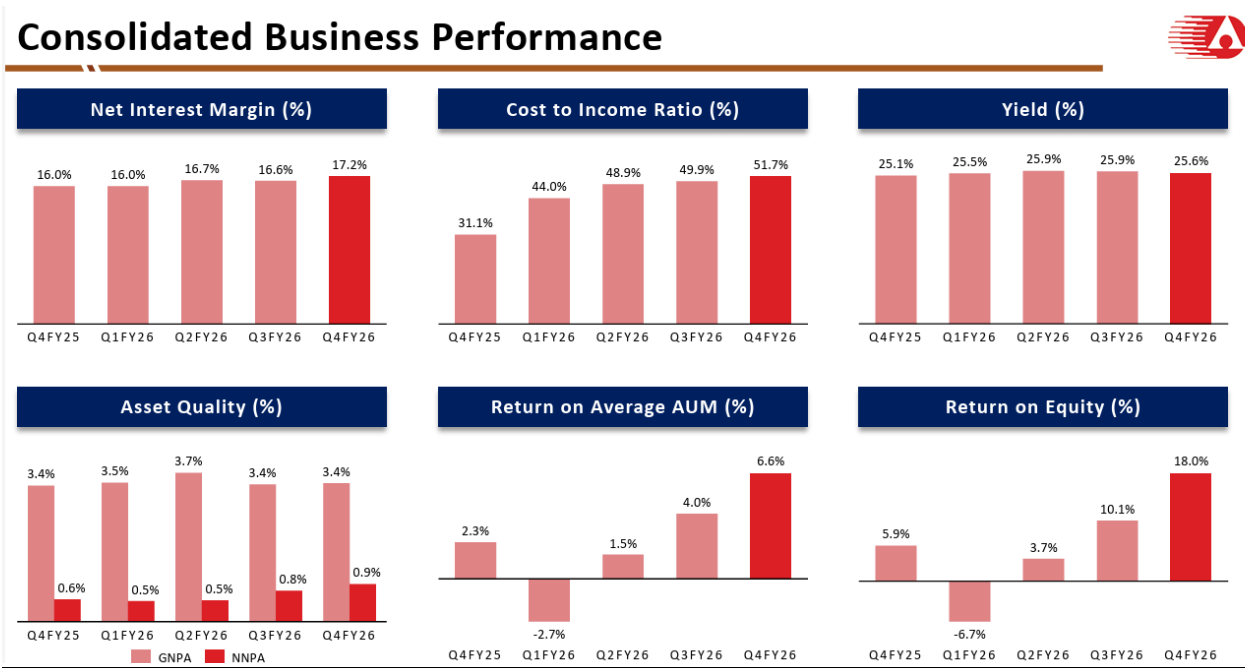
9. Investment Conclusion

Arman Financial Services is entering FY27 from a significantly stronger position than a year ago, supported by improving asset quality, record disbursement momentum, healthy AUM growth, strengthening profitability and a disciplined operating framework. Investments made over the past 12–18 months in technology, branch expansion, credit infrastructure, recovery mechanisms and manpower are expected to generate meaningful operating leverage as business volumes continue to scale. Growth across microfinance, MSME, Micro LAP and emerging solar financing, combined with lower credit costs, stronger funding flexibility and improving operating efficiency, should support sustained improvement in earnings, ROA and ROE over the coming quarters. While near-term macroeconomic and competitive risks remain, the company's conservative underwriting philosophy, robust balance sheet, improving credit quality and multiple growth catalysts provide a favourable risk-reward profile. Accordingly, we maintain a BUY recommendation on Arman Financial Services Ltd. with a medium-term investment horizon of 6 months.

<u>About Company:</u>



<u>Historical Financial Performance:</u>



Recommendation Timeline & Performance Summary: -

1. 6 January 2026 – Initial Recommendation: BUY call initiated at a price of 1535 with a target price of 1856, implying ~21% upside over a 12 months investment horizon.

2. **6 May 2026 – Target Price Upgrade:** Target price revised upward to 2020, indicating ~13% additional upside from the then prevailing price of 1788 over the next 6 months.

3. **14 July 2026 – Upgraded Target Price Achieved:** The stock achieved the revised upgraded target, delivered cumulative returns of ~35% (CMP as of 15th July 2026) from the initial recommendation in 6 months, significantly outperforming the original timeline.

4. 21st July 2026 – Re-Initiation of BUY Call: We have re-initiate the BUY call at the CMP of 1931 with a target price of 2162, indicating an envisaged upside potential of 12% over the next 6 months.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team