INDOSTAR

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November 07, 2025

**BSE Limited**
Listing Department, 1st Floor,
P J Towers, Dalal Street, Fort,
Mumbai - 400 001

**National Stock Exchange of India Limited**
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

**Scrip Code: 541336**

**Symbol: INDOSTAR**

**Sub.:** Transcript of analyst(s) / institutional investor(s) call held on October 31, 2025 at 12:00 p.m. (IST)

Dear Sir / Madam,

Please find enclosed herewith transcript of analyst(s) / institutional investor(s) call held on Friday, October 31, 2025 at 12:00 p.m. IST, pertaining to the Unaudited Financial Results of the Company for quarter and half year ended September 30, 2025.

The transcript is also available on the website of the Company at www.indostarcapital.com.

Request you to kindly take the above on record and disseminate the same on your website.

Thanking you,

Yours faithfully,

For **IndoStar Capital Finance Limited**

SHIKHA JAIN
Digitally signed by SHIKHA JAIN
Date: 2025.11.07 17:34:02 +05'30'

**Shikha Jain**
Company Secretary & Compliance Officer
*(Membership No. A59686)*

Encl: a/a

“IndoStar Capital Finance Limited Q2 FY '26 Earnings Conference Call”

**October 31, 2025**

**MANAGEMENT:** **MR. RANDHIR SINGH – MANAGING DIRECTOR AND EXECUTIVE VICE CHAIRMAN, INDOSTAR CAPITAL FINANCE LIMITED**
**MR. JAYESH JAIN – CHIEF FINANCIAL OFFICER, INDOSTAR CAPITAL FINANCE LIMITED**

**MODERATOR:** **MS. AYUSHI GUPTA – MUFG INTIME INDIA PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to IndoStar Capital Finance Limited Q2 FY '26 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*', then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Ayushi Gupta from MUFG. Over to you, ma'am.

**Ayushi Gupta:** Thank you. Good afternoon, ladies and gentlemen. I welcome you all to Q2 and H1 FY '26 Earnings Conference Call for IndoStar Capital Finance Limited.

To discuss this quarter's performance, we have from the Management, Mr. Randhir Singh - Managing Director and Executive Vice Chairman and Mr. Jayesh Jain - Chief Financial Officer.

Before we proceed with the call, I would like to mention that some of the statements made in today's call may be forward-looking and may involve risks and uncertainties. For more details, kindly refer to the investor presentation and other filings that can be found on the company's website.

Without further ado, I would like to hand the call over to the management for their opening remarks and then we will open the floor for Q&A. Thank you and over to you, sir.

**Randhir Singh:** Thanks, Ayushi. Good afternoon, everyone.

I am Randhir Singh – Managing Director and Executive Vice Chairman of IndoStar Capital Finance Limited.

On behalf of the entire IndoStar team, I extend a very warm welcome and thank you all for joining us on our Earnings Conference Call for Q2 and H1 FY '26. I trust you have had a chance to review our detailed Financial Results and Investor Representation, both of which are available on our website and filed with the Stock Exchanges.

I will begin with a strategic overview of our business and operational performance for the quarter, following which Mr. Jayesh Jain, our Chief Financial Officer, will take you through the financial performance in detail.

As you know, IndoStar has undergone a significant transformation from being a predominantly corporate and large-ticket lender to a retail NBFC. We have successfully sold our wholly-owned subsidiary, Niwas Housing Finance Private Limited, a strategic shift allowing the management team to focus on the vehicle finance and build Micro LAP business, two of our core growth engines. IndoStar today stands as a stronger and more agile retail franchise with a clear focus on sustainable and quality growth. We continue to scale the vehicle finance business, supported by improving collections, deepened customer relationships, and robust domain expertise. And the Micro LAP business, launched in FY '25, continues to gain traction.

In terms of overarching macro trends, India's real GDP grew at 7.8% in Q1 FY '26, driven by the government's spending on infra rural wage growth and services. The Reserve Bank of India has revised its GDP growth forecast for FY '26 to 6.8%, while CRISIL maintains its estimated 6.5%, reflecting sustained momentum in private consumption and investment activity. Inflation figures for September 2025 came in at 1.54%, the lowest since June 2017, which is reflected in the RBI's CPI inflation forecast, easing to 2.6% for FY '26 from 3.1% previously, driven by GST, rate rationalization and easing commodity prices. The Central Bank's monetary policy remains supportive of growth, with the RBI having delivered 3 rate cuts of cumulatively totaling to 100 bps during calendar year, bringing the repo rate to 5.5%. These measures are gradually translating into lower borrowing costs across the system.

Credit growth remains robust, particularly in retail and MSME lending, which continue to expand at a double-digit rate. According to ICRA, the NBFC sector is expected to record 15%-17% year-on-year loan book growth in FY '26, led by strong traction in vehicle finance, MSME, and micro-lending segments. IndoStar remains well-positioned to leverage the improving credit cycle, with a clear focus on retail-led growth.

Moving to the commercial vehicle industry, ICRA expects overall CV volumes to grow by 3-5% in FY '26, driven mainly by the light and medium commercial vehicle segments, while demand for heavy trucks remains moderate. The outlook remains positive, supported by continued infrastructure projects, e-commerce expansion and logistics growth. In the used vehicle market, demand continues to rise, supported by growing logistics and construction activity, and a shift towards cost-efficient fleet ownership. The implementation of stricter BS6 emission norms has increased the cost of new vehicles, further boosting demand for new CVs. Disbursements in vehicle finance business grew 8% this quarter, compared to the last. Several steps taken recently, like adding a prime business, widening of customer funnels, aligning DSA payouts with market standards, offering flexible pricing by segments, upgrading our 48 micro-branches, and hiring more field sales staff, are helping build momentum. These efforts should continue to support growth in coming quarters. Typically, disbursements in H2 for the company have been about 1.4-1.5x of H1.

Over a period of time, we have also achieved significant diversification in our vehicle finance business, away from medium and heavy commercial vehicles, and have built significant volumes in passenger vehicles, construction equipment, farm equipment, and small commercial vehicles. Our eminence CV disbursements are now just about one-third of the total disbursements. On the Micro LAP front, NBFCs remain key players, and this segment has emerged as a high-growth area. According to CARE Edge Rating, the Micro LAP loan book is expected to grow by over 25% in FY '26, driven by self-employed borrowers and small businesses seeking secured affordable funding.

Micro LAP continues to be a key growth driver for IndoStar, fully aligned with our retail strategy. To strengthen this momentum, we have onboarded Mr. Amit Khan as Chief Operating Officer for the Micro LAP business. With over 25 years of experience, primarily in secured market products, Amit has successfully built a mortgage business from the grounds up to nearly Rs. 10,000 crores in his previous organization. After a successful launch in Tamil Nadu, we are now expanding to Andhra Pradesh. To support this, we have hired senior professionals with deep experience in micro-markets across the state. We have sanctioned our first loan in Andhra Pradesh this week. We are on track to start Micro LAP business in 3-4 states using our existing vehicle finance branch network this year.

Disbursement of scaling up through a structured roll-out across Tier-3 to 5 towns with loan tenors of up to 7 years and average ticket sizes of Rs. 3- 6 lakhs, much smaller than the legacy SME loans that averaged over Rs. 50 lakhs. At the same time, our funding profile continues to strengthen. The company's weighted average cost of borrowing declined from 10.8% in Q2 FY '25 to 10.2% in Q2 FY '26, marking a reduction of 60 basis points over the past year. This declining trend should continue as our incremental borrowing cost is now around 9%-9.25%, supported by improving credit profile, strong lender confidence, and access to more competitive borrowing sources.

We had previously highlighted during our Q4 earnings call about proactive credit policy adjustments, undertaken in response to collection softness that we had absorbed within our own portfolio and across our peer groups. Loans originated under the revised policy framework are showing significantly lower delinquency rates. 30-plus BPDs are tracking at nearly half the levels seen for the corresponding period in the last year. In future too, we will continue to strengthen our credit policy by proactively adjusting our framework in response to software collection trends. This strategic move is designed to enhance our portfolio's performance and reduce credit costs moving forward.

In Q2 FY '26, our total loan portfolio stood at Rs. 7,564 crores and disbursements for the quarters were Rs. 927 crores compared to Rs. 858 crores in Q1 FY '26. The sequential growth reflects improving business momentum and demand across our focus segments. Overall, our portfolio continues to grow, supported by several operational improvements. We have scaled up customer self-service through the Indo Mitra app and other digital tools, including customer eNACH, at a rate of 27% for vehicle finance and 95% for Micro LAP business for the month of September. Technology-driven collections have helped minimize cash handling and an optimized collection infrastructure with a one-plus flow process has improved recovery speed.

With that, I hand over the call to Jayesh Jain, who will provide a comprehensive overview of our financial performance.

**Jayesh Jain:** Thank you, Randhir. Good afternoon, everyone. Thank you for joining us today. As shared by Randhir earlier on the call, we shall be discussing the standalone numbers.

Let me begin by sharing an overview of our Q2 FY '26 numbers. Our retail disbursement for the quarter amounted to Rs. 927 crores compared to Rs. 858 crores in the previous quarter and Rs. 1,452 crores in the same period last year. We expect disbursements to pick up sequentially in the coming quarters as we continue to deepen our presence and tap into growing demand across our focus segments. In Q2 FY '26, we achieved an average disbursement yield of 17.8%driven by our strategic focus on Tier-3 and Tier-4 towns and a growing share of secured lower-ticket vehicle loans. Our asset under management stood at Rs. 7,564 crores compared to Rs. 7,783 crores in the previous quarter. While this represents a marginal dip, our on-book portfolio stands at Rs. 7,022 crores and our off-book portfolio stands at Rs. 542 crores. We remain firmly focused on scaling our co-retail businesses with discipline, prudent risk management, and strategic intent.

For the quarter, our net interest income stood at approximately Rs. 190 crores, marking a 15.7% year-on-year increase from Rs. 164 crores in Q2 FY '25. This was supported by an improvement in our net interest income margin, which rose from 5.6% to 7.6%. The yield on loans improved to 17.1% and 16.1% as compared to the same period last year. The operating expenses for the quarter were Rs. 121 crores as compared to Rs. 129 crores in Q2 FY '25. During the quarter, we took a proactive step to strengthen the quality of our own book assets by undertaking the sale-of-the-best portion of our commercial vehicle loan book. The transaction involved dues amounting to Rs. 309.6 crores sold for a purchase consideration of Rs. 220.3 crores.

The ARC transaction was a strategic step aligned with our newly adopted policy to write off loans over 210 days past due, with our aim to maintain a high-quality book and keeping headline GNPA firmly under control. With policy tightening initiatives taken from the beginning of this calendar year, the forward close on 210 DPD is expected to slow down in the next few quarters. Our collection efficiency remains healthy at around 92% supported by adoption of data-driven recovery tools. As a result of above and our continued focus on portfolio quality and disciplined trade practices, our gross Stage-III assets have improved to 3.04% while Net Stage-III assets stand at 1.13%.

We closed the quarter with a net profit of Rs. 10.4 crores compared to Rs. 18 crores in the same quarter last year. Our capital adequacy remains strong at 37.3%, which gives us more than enough headroom to fund growth while staying financially solid. Our debt-to-equity ratio is 1.4x, so we have plenty of room to expand further. Our cost of funds continue to come down this quarter to 10.2% from 10.8% over the past one year. Our incremental borrowing cost is now in the range of 9%-9.25%. As we look ahead, our focus will remain on improving our cost of funds and maintaining a balance between growth, profitability and asset quality. With the macroeconomic environment continuing to look positive, we plan to lean into the momentum growing our book responsibly under tighter credit norms. At the same time, the fall in our funding costs is opening up opportunities for us to serve the prime customer segment, helping us expand our reach and diversify our portfolio. We believe these steps position us well for steady, profitable growth in coming quarters and beyond.

With this, I now hand over the call to the moderator to begin the Q&A session.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Rhea Jain from SDA Finance. Please go ahead.

**Rhea Jain:** Hi, good afternoon team and thank you for the opportunity. Sir, I have a few questions from my end. Currently, the disbursement mix is heavily concentrated in the vehicle finance at around 97%, while micro loan against property contributes just 3%. Also, moreover, the Micro LAP disbursements have remained almost flat over recent quarters at around Rs. 27 crores. So what is the company's plan to scale up the Micro LAP segment going forward? Are there any specific strategies or regions being targeted to drive growth in this portfolio?

**Randhir Singh:** Rhea, I will take that. First, I think on the concentration point, Micro LAP is obviously a recent business and that is why you are obviously seeing the heavily concentrated towards vehicle finance business. However, like I mentioned in my initial comments, within our vehicle finance business, we now have significant diversification, not just across products, but also across geographies and you will find those details actually in our presentation. We have now built, within vehicle finance, significant scale in passenger vehicles, in construction equipment, in farm equipment versus small commercial vehicles, pickup, etc. And that business is very well diversified now across various zones. So we are present obviously in all the zones. We are present in 23 states. You will find more details of this in our slide number 16. You will find how diversified we have come to be over a period of time, not just geographically but in our production.

Coming to Micro LAP, like we said that we have launched recently, you will see this business grow. Typically, even in Micro LAP business, like in this vehicle finance business, second half, you would see a significant momentum compared to what you have seen in the first half. So typically after March, there has been typically a drop in the disbursement, but it will pick up the pace. Like I mentioned, we are obviously taking all the right steps from being present only in one state in Tamil Nadu. We are building the business in AP and Telangana and we should offer, some people have already joined. In fact, we should be able to disburse our first loan either today or tomorrow in AP. So with that, we will have TN, AP plus Telangana coming on board in the next 3-6 months. And we would also guide that we will try to be in at least 3 or 4 states in this financial year. And I think we are absolutely on track. Like we also discussed, all of this is using our existing vehicle finance, branch network and obviously without any incremental cost on infra. Hi Rhea it just answered your question.

**Rhea Jain:** Yes Sir, it does answer my question. I just had a small follow-up question on what you said right now. So sir, how do you view the growth potential of the used vehicle financing segment going forward?

**Randhir Singh:** So I think the segment is a growing segment. We ourselves have grown by 8% over last quarter. And in general, second half is anyway better for this one. So we should continue to see growth in this segment. We had also guided that we proactively in January, given seeing the softness all around, not just in our portfolio, we did take the step of tightening our policies. And it was a conscious decision to tighten the policy, which obviously led to some drop in disbursement. But I do see that now the momentum is reversing. We have grown by about 8%-9% this quarter. And I think this momentum should continue.

**Rhea Jain:** Got it, sir. Any key trends you are observing in terms of demand, customer profile and competition here?

**Randhir Singh:** So I think it remains the same. There is no real change. If you see, it has been a very stable peer set except potentially one more NBFC, which has entered the space. There is no really, I cannot say that there has been any increase in competitive intensity in the segment. I think we obviously look at ourselves as someone who is getting the advantage of funding cost. And we can obviously widen our customer funnel, but significantly, there are a lot of segments that earlier we could not target, but with our own cost of funds down significantly, we are able to do more new vehicles, more time customers. So I think, in general, the macro environment is supportive for us and our own, obviously, cost of funds, and our strong distribution of strength, which can help us to increase the amount significantly, actually. So we are just probably being cautious, trying to adjust the risk and reward. And that is how we are building our business on strong foundation. But from macro demand wise, there is absolutely no issue.

**Rhea Jain:** Got it, sir. One last question from my end. Where do you see IndoStar positioning within this market, both in terms of scale and differentiation?

**Randhir Singh:** Sure. So I think we essentially, our focus continues to be, we want to be one of the top performing retail NBFCs with very strong governance framework, professional board, professional management. And essentially, we want to become a multi-product company because we have very strong distribution of strength. So our trajectory is very clear, very strong capital base, very strong investor profile, including a majority investor, easy access to capital, senior experience team. And we are in both segments and both of the segments that we are targeting are growing segments with a large addressable market. So we feel quite good about where we are and about our future prospects.

**Rhea Jain:** Got it sir, thank you for answering all my question that will really help me

**Moderator:** Thank you. The next question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

**Shubhranshu Mishra:** Hi, sorry. So I just had this question on vehicle finance. With the rate cuts, my sense is that there should be some bit of uptick, but if you can please call it out, with all segments, we will see sustained growth. Also, we have been talking about.

**Randhir Singh:** Shubhranshu, you were not very clear. Can you just repeat your question? Shubhranshu, can I request you to repeat your question? We couldn't hear you very well?

**Shubhranshu Mishra:** Right. So with the GST rate cuts, what kind of volume uptick are we going to see in vehicle finance? And the delinquencies in small commercial vehicles and light commercial vehicles, how long will that continue?

**Randhir Singh:** So I think, see, the GST rate cut obviously is recent. It is still playing out. But essentially, for an entity like us, with our AUM and scale, we really do not see any sort of meaningful, this thing because we obviously have enough target market to recover. So this is not something that obviously, this is something that will play out over the longer run, not really on a quarter-by-quarter basis. On your other question, I think, like I mentioned to Riya earlier, we do see significant growth opportunity available, right, in the market. And essentially, what we want to do is, obviously balance growth with risk management, right. So that is really the philosophy that we have. With our 450 branch network and a fleet on the street with 4,000 plus people, about 1,200-1,500 people in the field, we do have a significant distribution strength to cater to this growing demand. So we have all the building blocks, strong capital base, reducing cost of funds, low leverage, steep distribution. So we feel good in catering to this growing demand. And we will obviously calibrate our response to developing market situation.

**Shubhranshu Mishra:** Right. And just one last question. With the GST rate cut, there would be price deflator in the new vehicles, right. So what is that blended price deflator?

**Randhir Singh:** So we are not really sort of presenting new vehicles that much like we discussed. We have been predominantly, right, if you see our disbursement trends. Though you would see that growing over a period of time, in the past, it has been 2%-3%. It may increase over a period of time because obviously new vehicle financing is at obviously a much lower rate. But essentially, what will happen in the industry, and which is what we will do and many of our peers are doing, that essentially what you do is the impact on the valuation of the used vehicle. Because the price of the new vehicle itself drops, the price of used vehicles should also drop and that requires adjustment to valuation grid, which is what everybody is working out. It is yet to play out because the change has been very recent. So we will have to see what is the financing amount, for example, if something was costing, let us say, 5 lakhs before the GST cut in the UCV, it should cost now lower technically, right. But we have not seen that transmission fully with the prices. But as it happens, we will obviously adjust our grid values.

**Shubhranshu Mishra:** And is the OEM likely to increase its pricing after December 31st?

**Randhir Singh:** Sorry, volumes increase after December because of GST?

**Shubhranshu Mishra:** No. GST rate cut and the discounts should be done by December 31st. Post that, do we expect OEMs to increase pricing?

**Randhir Singh:** I think these are the questions that you should really honestly ask the OEMs. That is not for us. And I am sure like we are keeping a very close track on our peers and what is happening in the new vehicle. We will not be able to guess on what is the pricing action OEMs should take. Obviously, it does seem very obvious that price should come down for the GST rate cut.

**Shubhranshu Mishra:** Understood. Thank you so much. Best of luck for ensuing quarters.

**Randhir Singh:** Thanks, Shubhranshu.

**Moderator:** Thank you. The next question is from the line of Sumit Bhalotia from MK Ventures. Please go ahead.

**Sumit Bhalotia:** Yes, hi. Thanks for taking this question. The question is a slight repetition of the last 2 questions, primarily focusing on the growth front. So a few pointers that your branch count has come down Q-o-Q, your employee base count has also come down Q-o-Q. And when you were talking about in your opening commentary, you mentioned that the second half growth typically is 1.4-1.5x of the first half growth. And if I look at the disbursement numbers for the first half, it implies a disbursement of around Rs. 2,500 crores in the second half. So how do you see that overall growth situation for FY '26 as a whole? And also, this would be the first quarter probably when we have de-grown in the core vehicle finance book as well, adjusting for the ARC that obviously the transaction is there. But at one hand, we talk about the huge opportunity which is there in this segment. And given the size at which we are and also with the new capital coming in, how do you see that growth scenario playing out for the second half and then maybe in the next 2 years, if you can throw some color on that, that will be helpful?

**Randhir Singh:** Sure, Sumit. So I think what you would see is, essentially ballpark, our branch number has sort of really been almost constant with the small changes in there, which is really part of our consolidation exercise. Sometimes we merge few branches if we are unable to really get productivity and if we feel that we can just manage it from one rather than two. So that really has been the case. You would see, right, like we typically sometimes close, but we also open a few small branches. So as we speak, we are also opening some branches in Tamil Nadu and Kerala. And I think you may again see us going back to 450. But I think what is also fair is that we will not have a significant increase in the branch network for some more time because we obviously have opened significant number of branches in the last 2 years or so. And we obviously want to stabilize, fully spread out our infrastructure, improve the productivity, utilize these branches fully before we open new branches. So to answer your question on the branches, I think the number is ballpark has remained 440-450, plus minus few branches here and there. That is what will be consolidation and new branches we will continue, but broadly the numbers remain at 450 for 2 quarters.

There has been some drop in the number of people. And I did cover in my opening speech, we do plan to make it up. We have a significant pipeline of sales people joining. And you should see us actually exceeding our numbers in last 2 quarters. So you would see that significant amount of hiring in progress because we obviously want to build on the growth momentum as we have sold our HFC and got significant capital. So you will see both branch numbers stabilizing around 450. The Human Capital will go back to the numbers that you saw earlier. And again, at the peak, we are at about 4,300. So you will see both of these getting normalized. And we want to do that for a simple reason that we obviously want to pursue growth.

Another step that we have taken was even within these branches, Sumit, one significant step we took was, we had a few micro branches, about 48 micro branches, wherein micro branches operated on a very simple concept where essentially we had kept one salesperson who was the leading and then subsequently we were converting these to full-fledged branches. We have chosen to convert all these 48 micro branches to full-fledged branches. And that itself will lead to about 100 plus, I suppose. So a lot of this is in the pipeline, but you will see in the next 2 quarters, you will see all of this reverting to the mean that we had. So very clearly, the intent is to grow. But I think where we have been very focused, given general softness in the NBFC industry, especially on the commercial vehicle segment, and we have obviously very close studies of many of our players, including banks, and you will see in the commentary from some of the banks, as well as many of our NBFCs in the last quarter and some more that will come this quarter.

We surely want to calibrate our growth and not get ahead of ourselves, because we also want to make sure that our portfolio quality remains pristine, and so that we shouldn't have any challenges going forward. Like I mentioned, I think we have absolutely all the ingredients for ramping up. And some of this has been fairly conscious decision, but with 450 branches, in 23 states, absolutely we can grow our business and we would. Few things which are work in progress is basically as we have added more prime customers, better credit quality customers, we had obviously, we had to reorient some of our sales team, as well as some of our DSA channels, because the prime customers cooperate at 13%-15% are very different than 18% DSAs, right? So a lot of that onboarding, new channel engagement is going on, typically takes some time, it is not immediate, because you need to obviously build that relationship. So a lot of this is obviously a process. But you would see us on that path very soon, the numbers will start showing up in the subsequent quarters.

**Sumit Bhalotia:** Sir, on disbursement, if you can throw some color and also, this degrowth in AUM that we have seen in the last 2 quarters, from the next quarter onwards, as you are saying that it is improving. Should we return to growth phase from next quarter onwards?

**Randhir Singh:** Yes, I think, like you said, except for ARC, we should have grown because it was 8% growth. So I think, your analysis absolutely sort on, it was basically that is what led to degrowth. But otherwise, of course, our disbursements have grown by 8%. Another thing that we have done so much, and this is again, in part, obviously, our strategy is to obviously keep your headline GNPA numbers to a very accessible level. We have also been maybe a little more conservative, we have started a new site of policy, where after 210 days we are doing a technical write-off. So some of that obviously happened last quarter and this quarter. And that is why, because of change in policy, you have seen that degrowth, but there will be normalization of that in the subsequent quarters, and that effect will go away.

**Sumit Bhalotia:** Sure. So there is a significant improvement in asset quality, because of all the effort and the focus that the current management has. But now we are back to say 1%-1.1% net NPA. Are we within the comfort zone now? Or do you want to, what is the first comfort level of GNPAs for you as a philosophy for this, particularly vehicle finance business?

**Randhir Singh:** Yes. So Sumit, very clearly, what we guided in Q4 was that we have taken a significant policy response because we obviously, our intent is to have a good portfolio quality. So that has been really the intent. And that is basically a tossup between growth and portfolio quality, we obviously want to balance it. In general, you would see, and like we also guided that, since the tightening, our delinquencies are half, which you would note that is a significant improvement. And it is really on a fairly large amount of data in the first half, we disburse about give and take about 40,000 loans. So compared to the previous quarter, a significant amount of data. So we feel very good about our portfolio quality on what we are getting after January. So I think purely on that book, obviously, we are tracking closely and things are also looking very good. And then I think that is where we are headed, which means much lower GNPA. I think some of the headline GNPA is also a function of what is the technical write-off policy some people may have and that obviously plays a role. But in general, what we really want to target is the headline GNPA which is about 3%. That is where we want to be. And it has significant positive value during our discussion like from lender. It does give a very positive signal and which is also reflected in our cost of funds.

**Sumit Bhalotia:** Sure. So last question on cost of funds, it has come down already, but with the significant amount of inflow, because of the transition that we have seen, and now we have the cash in hand. Can you throw some color on the high cost NCDs that we had done, whether they are completely out or there will be a meaningful improvement from that getting replaced with the incremental low cost borrowing? How would that get reflected in the P&L?

**Randhir Singh:** Yes, I think I got your question, Sumit. Did I interrupt you while you are asking?

**Sumit Bhalotia:** Yes, so basically, there should be a significant improvement in the cost of funds going forward because of the replacement of high cost debt, whether it has already started getting reflected from this quarter, or it is still due if you can throw some color on that?

**Randhir Singh:** Yes, so I think it is running off, it is running off quite fast. So that is why you were seeing a reduction in the overall stock of the old borrowing. Some of the very high cost borrowing has already been paid off. The remaining there is some bit which is getting paid off in the next quarter. But in general, essentially, if you look at our slide number 25, what you would see there, that our incremental is about 9.2. And our on the book cost is about 10.2. Eventually, they should converge. And I think they should converge sort of quickly in the next few quarters, like I said, one of the highest cost NCDs entirely running off next quarter.

**Sumit Bhalotia:** Thank you, sir. Very helpful.

**Moderator:** Thank you. The next question is from the line of Faizaan Joad from Singularity AMC. Please go ahead.

**Faizaan Joad:** Yes, hi. Thanks for taking my question. Just wanted to get some sense on sequential disbursement growth. Because if I recall correctly, mid-August, the management said you were expecting some disbursement growth from 15% on a sequential basis. We ended Q2 on roughly half of that. So what changed here?

**Randhir Singh:** So I think, obviously, some of it was general softness that we saw, right. There has been a general softness in the disbursement, some bit of demand and some bit, obviously, because we had tightened our policies and also put a lot of restrictions in few micro markets, which we are hoping that would go away. A lot of that has been now with restriction of the micro markets we have now removed actually, just about a month back. So there has been delay in removing some of the restrictions because you want to see the data. The data was actually quite interesting. And that is why we have removed restrictions in about 110 micro markets that we put in. So that relaxation in restrictions, we just delayed it a bit consciously and that is really the difference between 10%-15% that we guided versus 8%.

**Faizaan Joad:** Understood. And given the H1 performance, do we continue to stick to our AUM guidance of 12%-15% for FY '26 and 15%-17% for FY '27?

**Jayesh Jain:** Hi. So as you have already seen the H1 number, and we are kind of behind our guidance, while the effort would be there to kind of maintain the guidelines and deliver the performance as per our guidance. But as mentioned, generally our trend is 40-60. So let us see, I think things are evolving. Randhir did mention in his opening remark, as well as during Q&A, a few of the initiatives which we are taking in terms of winding the funnel, conversion of few branches to large branches, hiring plan, we kind of want to do that. But the core, as we mentioned, quality and the customer segment, which we want to target would be something which we would primarily focus on. And within that framework, we would want to grow.

**Faizaan Joad:** Sure. Thanks.

**Moderator:** Thank you. The next question is from the line of Varun Gajaria from Omkara Capital. Please go ahead.

**Varun Gajaria:** Sir, I just wanted to understand that we are looking at 95% or 94% collection efficiency. But at peak, I think we used to be doing 97% until the last 2 quarters. So what has faltered the 2% there? And when are we expecting that to come back up?

**Randhir Singh:** Sure. So I think you are referring to our presentation slide or I think more on 28. So typically, you would see, I think, what I would really request you to compare ourselves with last quarter, you compare this with the Q2 FY '25, which was 92%. And versus that, we are up to 94. So there has been improvement there. Like I said, that you will actually see this, you will see this improving, because our policy tightening, right, the new book creation has led to significant improvement on the collection. So the trend is obviously, but you have to just compare it with the right period, which is really one year back, because there are obviously seasonalities involved in both the demand and the realization. And typically, March is really the best period and the last quarter typically is, so what you need to see is, you will see this 97% versus what happens in 2 quarters from now. So that really is, but essentially, the trend from a one-year basis is obviously from 92, we move to 94. And you should see this number improving on a quarter-by-quarter basis, as our new book is increasing in percentage and the old book is cutting off.

**Varun Gajaria:** And with reference to Micro LAPs, since we are targeting now Andhra Pradesh and Telangana markets. So how do you see the ramp up going there and how will we go about adding branches there?

**Randhir Singh:** Yes. So essentially, we are like we discussed, we were openly only using our existing vehicle finance network. So we have about 45 existing branches. So we will be launching this business in those branches only, there will be no new branch expansion, because it helps in reducing the cost, helps in amortizing the branch infrastructure costs over a larger area. So that is the strategy we would follow. I think we already had very experienced professionals as a state head. We have done the recruiting for 2 areas, which is about 12 branches and that is how we started. So we will keep gradually from 12 to about 45. I think that should happen over the next 3 quarters will be fully live in AP in all 45 branches. But we want to give ourselves time, build it cautiously, because we obviously there is nothing which really stops us from launching in 45 branches, but we are more comfortable building it gradually, lending along the way and making sure that while we invest, we obviously maintain the productivity and portfolio quality. So far, I think we have done quite well on that front, calibrated growth in Micro LAP, we have about 1800 customers, and only 3 delinquent customers. So that is really the approach that we are taking to build Micro LAPs. With confidence, of course, because we have the network, so it is a great opportunity for us. We can essentially launch Micro LAP in 450 branches, but we are doing in a calibrated way, maintaining portfolio quality and maintaining the risk reward and investment versus profit.

**Varun Gajaria:** Just follow up question on that and if I can squeeze in one, Micro LAP currently is relatively small. So with the kind of network that we have, what kind of risks are we looking at, probably in the next 2 years?

**Randhir Singh:** So that is something that obviously, we will decide on a quarter-by-quarter basis. We want to make sure that when we grow, obviously we grow making sure that profitability and portfolio quality remains supreme. But in general, our guidance is that eventually as a company, we would be launching Micro LAP in majority of our 450 branches, right, over a period of time. And I think we would look to build a significant AUM, about 20%-30% of our total AUM should come from LAP business and which is no different from what many of our peers have. They have built this over a period of time. We made the start just about a year back and that is the journey that we will also pursue. But like I said, we will not do this in great hurry because we obviously want to make sure that if there is any course correction required, we can do that. But it is a big picture guidance from our side. And that is our intent that we will eventually have Micro LAP business in majority of our 450 branches. So we are truly multi-product. And that is our intent we have. And that we are obviously making significant investments in the business hiring senior team. We talked about Amit Khan, who has about 25 years plus experience in mortgage business and is leading that business buildup.

**Varun Gajaria:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, this was the last question for today's conference call. I now hand the conference over to Ms. Ayushi Gupta from MUFG for closing comments. Over to you, ma'am.

**Ayushi Gupta:** I would like to thank the management for taking time out for this conference call today. I would also like to thank all the participants for joining the call. If there is any further queries, feel free to contact us. We are MUFG Intime India Private Limited, Investor Relation Advisors to IndoStar Capital Finance Limited. Thank you so much.

**Randhir Singh:** Thank you.

**Moderator:** Thank you. On behalf of IndoStar Capital Finance Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.