"Northern Arc Capital Limited Q2 FY'26 Earnings Call"

October 31, 2025

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MODERATOR: **MR. PARTH JARIWALA - DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Northern Arc Capital Q2 FY'26 Earnings 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Parth Jariwala from DAM Capital. Over to you, sir.

Parth Jariwala: Thank you. Good evening, everyone. Welcome to Q2 FY'26 Earnings Call of Northern Arc Capital Limited. I thank the Management for giving us the opportunity to host the call.

From the Management Team, we have Mr. Ashish Mehrotra – Managing Director and CEO, Mr. Atul Tibrewal – Chief Financial Officer, Mr. Pardhasaradhi Rallabandi – Group Risk Officer and Governance Head, Mr. Chetan Parmar – Head Investor Relations.

Without further ado, I will hand over the call to Mr. Ashish Mehrotra – MD for his opening remarks, post which we can open the floor for Q&A. Over to you, sir. Thank you.

Ashish Mehrotra: Thank you, Parth. Thank you very much. Good evening, everyone. I am delighted to welcome you in today's call. Thank you for joining us for today's Conference to discuss Northern Arc Capital performance for the quarter ending September 30th, 2025.

I am also joined by my colleague like Parth said, Atul Tibrewal – our CFO, Pardhasaradhi Rallabandi – our Group CRO and Governance Head, Jigar Seta – Head of Strategy, Chetan Parmar – Head of Investor Relations.

Let me begin with macro-economic environment:

I think India continues to demonstrate remarkable resilience despite global uncertainties, including tariff-related pressures, geopolitical tension. In the last 15 months, Indian economy has faced multiple headwinds, including slowdown in urban consumption, private credit investments, decline in manufacturing activity, rising protectionism and supply chain disruptions. However, fair to say in the recent policy measures, notably in income tax, GST, RBI, liquidity and regulatory easing initiatives are expected to stimulate consumption and support a broader economic revival. A normal monsoon will further add to the rural demand and stability. Together, these factors are poised to strengthen the country's growth momentum in the coming quarters.

Following the repo rate cut earlier this year and the recent government stimulus through GST rate reduction, expected to provide a flip to consumption, creating supporting environment for higher growth in the second half of FY'26. We began witnessing early signs of revival in credit growth towards the later part of Q2 and this positive momentum has further strengthened through the October, reflecting in improving credit demand environment across the key segments where we operate.

Our assets under management grew by about 15% on a year-on-year basis and about 6% on a quarter-on-quarter basis to Rs.14,166 crores, reflecting the early signs of momentum which is in line with other players in the market. However, excluding the Rural Finance book, which we consciously calibrated, the growth would have been 22%, which would have been better than the industry growth rate. Growth was predominantly driven by our Direct-to-Customer segment, which accounted for 54% of our total assets under management as of September '25. Direct-to-Customer AUM grew by about 17% from Rs. 6,498 crores in September '24 to about Rs. 7,628 crores in September '25.

Excluding the Microfinance or Rural Finance business, our Direct-to-Customer business assets under Management has grown by about 32% year-on-year, which is in line with the guided strategy to grow the direct retail book by over 30%. A growth in D2C segment is driven by strong momentum in the MSME space, which grew by about 42% on a year-on-year basis.

To support this momentum, we have added another 100 employees across sales and collection functions during the quarter and expanded our network with 15 new branches in H1FY'26. These investments further strengthen our infrastructure position as for sustainable growth in the coming quarters. MSME is a very vast opportunity which we are trying to make conscious efforts to grow. We are also building this brick-by-brick as it gives us a long-tenured annuity income of secured asset pools.

Our Consumer Finance business continues to demonstrate healthy momentum. Our assets under management has grown by 24% on a year-on-year basis. We are witnessing early signs of pick-up in consumption demand driven by credit demand supported by recent GST rate cuts and ongoing festival season. This positive trend has extended into October this year. We expect the credit demand in the second half of the year to be much better than what we witnessed in the first half for this segment.

Coming to Rural business:

We have consciously calibrated our Microfinance portfolio while largely retaining a strong operational base of 285 branches with over 1,900 employees. Our incremental par 0+ accretion has now reverted to the pre-stress level reflecting a steady improvement in the portfolio quality. Notably, fair to bring out that 80% of MFI book comprises loans originated after implementation of the MFIN guardrails and nearly 40% of our portfolio is covered under CGFMU and incrementally we continue to cover portfolio as we originate new loans under this program. This sustained improvement in asset quality supported by a robust infrastructure gives us confidence and capabilities to scale up our MFI business as we go forward.

Our intermediate retail, part of the credit solution business, has recorded a healthy growth of 13% on a year-on-year basis.

Building on the recent GST cuts and festival season-led demand, we remain optimist that the credit growth in the second half of the year will be stronger than in the first half consistent with the guidance shared in our earlier calls.

Our fee-based business, a key differentiator for Northern Arc, continues to complement our lending operation. Our performing credit funds have grown by 14% on a year-on-year basis to Rs.13,198 crores. In addition, few new funds are in pipeline which we expect to launch in the coming quarters which will further enhance our assets under management of the AIF business and strengthen our fee income. This underscores our strategic focus on building a comprehensive credit solution ecosystem rather than solely relying on the balance sheet-led model.

Turning to asset quality:

Our credit performance remains best-in-class supported by prudent risk management and conservative provisioning philosophy. We continue to maintain a very high-quality portfolio by proactively providing for stressed and unsecured exposures. The credit cost for the quarter improved to 2.7% compared to 3% in Q1 of this fiscal year, resulting in H1 credit cost of 2.8% which remains well within our guidance of around 3%.

Improvement was primarily driven by revival in consumption trends and improving economic environment, leading to stronger collection in the Consumer Finance segment. We also witnessed a decline in MFI provision supported by our portfolio calibration and the fact that 80% of our book now in line with the new MFIN guardrails and 40% of that is covered under the CGFMU. Additionally, our analytics-driven collection and recovery initiative further strengthens recoveries and help contain slippages.

We believe that the steps taken, including responsible and sustainable lending practices, focus on long-tenured retail products, adoption of MFIN guardrails, and the coverage of all Rural Finance assets under CGFMU guarantee scheme will help stabilize delinquencies going forward. In addition, we have further strengthened our collection infrastructure which is expected to drive continued improvement in recoveries across our retail portfolio in the coming quarters. Having said that, H1'25 credit cost stands at about 2.8%. As we move into the second half of the year, we believe we should hold on to this momentum and numbers by the end of the year and have a credit cost in the range of 2.6% to 2.8% that we have guided during the Q1 results.

On the funding side, we have seen the great work by our treasury team who were able to negotiate to ensure that the passing down of the repo rate benefits reflecting in our borrowing cost and that started reflecting starting from Feb to June borrowing we have done which is lower than the MCLR rate and I am sure my colleague Atul will share more details about it later on this call. Overall, this positive development gives us confidence that we are well positioned to achieve our guided AUM growth of 20%-22% and RoA around 2.8% for the year FY'26.

With that, I will now hand over the call to Atul to walk you through our Q2 numbers in detail and thanks. Atul, over to you.

Atul Tibrewal: Thank you, Ashish and good evening, everyone. I appreciate all for joining the Northern Arc Q2 earnings call.

Let me walk you through the financial performance:

Our assets under management stood at Rs 14,166 crores reflecting a growth of 15% year-on-year and 6% quarter-on-quarter. Within the AUM mix, the Direct-to-Customer business contributed 54% of which MSME finance was at 22%, consumer was at 26% and MFI consciously calibrated at 6%.

Net interest income for Q2 FY'26 stood at Rs. 322 crores which is up 12% YoY. The yield on advances have improved by 10 basis points quarter-on-quarter to 16.3% and the cost of fund improved by 40 basis points quarter-on-quarter resulting in NIM expansion of 40 bps quarter-on-quarter to 9.3%.

As Ashish highlighted, banks have started to pass on the benefit of the repo rate cuts through reductions in the MCLR. During Q2 FY26, banks' MCLR declined by close to 25 bps. Of the cumulative 100 bps reduction in the repo rate so far, about 40 bps has been transmitted to the borrowers. This combination of lower MCLR rates and the repricing of our existing borrowing resulted in a 40 bps sequential decline in our cost of funds to 8.5% in Q2 FY'26 compared to 8.9% in Q1 FY'26.

The net revenue including the fee income rose 10% YoY to Rs. 344 crores. Fee and other income was Rs. 21 crores.

Our Opex ratio for Q2 FY'26 stood at 3.7%. The slight uptick in the Opex was primarily on account of strengthening our MSME team, particularly in sales and collections. The pre-provisioning operating profit or PPoP for the quarter was Rs. 213 crores.

Asset quality remained quite stable with GNPA at 1.15% and NNPA at 0.56%. Provision improved sequentially to Rs. 92 crores in Q2 FY'26 compared to Rs 102 crores in Q1 FY'26.

This reduction was primarily driven by lower provisioning in the MFI portfolio and a revival in the consumption trends that supported stronger recoveries. On a percentage basis, the overall credit cost for Q2 FY'26 improved to 2.7% compared to 3% in Q1. And as Ashish highlighted, we expect credit cost to remain stable in the range of 2.6% to 2.8% in the second half of the year.

The profit after tax for Q2 FY'26 increased by 13% quarter-on-quarter to Rs. 92 crores compared to Rs. 81 crores in Q1. RoA also improved by 22 basis points quarter-on-quarter to reach 2.6%. RoE for the quarter improved by 78 basis points quarter-on-quarter to reach 10.1%.

On the liabilities front, in line with our debt strategy and AUM growth plans, we continue to diversify our funding base with a clear focus on long-term funds including borrowing through the NCD and the ECB route. Liquidity remains very comfortable with positive cumulative mismatch across all time buckets. As of September '25, we held surplus liquidity of close to Rs. 600 crores and undrawn sanctions of over Rs. 1,150 crores from various banks and institutions.

Total borrowing at the end of the quarter stood at Rs. 10,331 crores with approximately 70% linked to variable interest rate, positioning us well to benefit from the ongoing decline in the interest rate. Our funding mix remains well diversified with 25% sourced from offshore and DFI partners and the balance 75% from domestic banks, institutions and capital markets.

Tangible net worth stood at Rs. 3,663 crores and which is up 10% YoY. We have strengthened the balance sheet materially. Our debt-equity ratio also improved from 3.9x in March 2024 to 2.8x as of September 2025. Capital adequacy remains quite strong at 24.6%, well above the regulatory requirements, giving us ample headroom to grow the balance sheet over the next 2-3 years.

Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Thank you for the opportunity. It is good to see that our credit costs have stabilized now at. 2.7%. But Ashish Ji, just one question to you here that in the next two quarters, which is H2 FY'26, because your full year guidance is 2.6% to 2.8%, so it means that we may not see any reduction in credit costs and generally we were thinking that because MFI and small ticket laps, the worst is probably behind?

Ashish Mehrotra: Hopefully we will see an improvement in credit cost. Like I said, the quality of the new book is both in case of Rural Finance or MFI is actually performing better than what we saw in April '24, pre stress level. We are seeing sequential improvement across the portfolio. But if there is a residual stuff which needs to pass through, that will pass through. And that is one of the reasons why we are holding on to it. Obviously, with the investments in collection and investments in analytics will allow us to get some more incremental gains. That is the position we are taking. It is always good to be prudent and make promises, which will give you positive surprises.

Digant Haria: Okay, that is great. I always thought so.

Ashish Mehrotra: I am holding on to what I said and everything we have said in our comment, we also referred to the earlier guidance and it is important for us to build that level of what we are seeing and how we demonstrate the performance against the guidance we gave.

Digant Haria: Perfect, Ashish bhai. My second question is on the partnership business (Intermediate Retail (IR)). Maybe the last 12 months, the growth was slow because the underlying NBFC ecosystem in IR lending itself was going through this entire macro stress. Next 12 months, do you expect better growth rates in the placement business and the partnership loan book, which is around Rs. 6,700 crores? Is that possible?

Ashish Mehrotra: I think we only look at credit solution as a single cohort and if you refer to a slide no 16, I think we are a very unique franchise with the ability to underwrite a large pool of retail loan across seven sectors of retail credit, process that through our own bespoke tech platform, underwrite it through a time-tested model, give it to institutional investors, give it to a retail investor through our bonds platform called Altifi.ai, invest in our funds, performing credit funds and support from balance sheet. And I think that's the sequence we want to follow. So, the focus is more towards building a holistic credit solution business rather than a simplified balance sheet-led approach.

Digant Haria: Right. Okay, and just the credit costs for this division. The partnership division (Intermediate Retail) was slightly higher this quarter versus last quarter.

Ashish Mehrotra: I think it holds some prudent provision in it. We have said that even earlier. In the coming quarters, as we run through the situation, we are seeing the improvement, the partner should also see the same improvement, which we are seeing in the flow rate. We will start releasing what needs to be released.

Digant Haria: Great. And now my last question is on the Opex that this quarter was slightly higher, was it because of the collections infra we are building in the small LAP MSME.

Ashish Mehrotra: The idea was to proactively also build back on both while we continue to hold the infra on the Rural Finance side. But we also wanted to build a lot more on the direct lending capabilities. And I thought it's a good thing for us to initiate it. We spoke about it. But our guidance on that remains range bound. Our Opex ratio will remain between 3.7% to 3.8% around that range. We are below the 4% mark long time back, we made the right set of investments. And if we continue to make investments, we will remain well within the range point. You will see a movement between a quarter and that's depending on how you prioritize what expenses you undertake. But on a full year basis, we should land between 3.7% to 3.8%.

Digant Haria: Perfect. Ashish ji, thank you so much. Wish you all the best and hopefully we wish to see a Rs. 100 crore plus quarter soon. Thank you so much.

Ashish Mehrotra: Yes, thank you.

Moderator: Thank you. The next question is from the line of Shweta from Elara Capital. Please go ahead.

Shweta: Thank you, sir, for the opportunity. Sir, could you throw some light on MSME credit and are we yet to assume that the challenges haven't subsided fully because your transaction volume sequentially have been quite sluggish. The placement volumes also have been softer. Are we still sensing some challenges or pressures or it's more to do with being slightly cautious?

Ashish Mehrotra: Shweta, thanks. I think like we said earlier, we continue to follow a calibrated and a little bit cautious approach. In placement business, we do not represent institutions where we don't track risk. We are not like other arrangers. It is skin in the game for Northern Arc. So, we consciously take the first pool which we take for an institutional investor who needs to pass through our pool filters. And that's why 90% of investors continue to buy pools from us for over three to five years. They are the large clients. So, I think that's where it is. Also, the demand on that sector has been slightly slow. That is one of the reasons. But on our own balance sheet, you've seen that business has grown tremendously and we continue to see that growth momentum. I think as we get into H2 of this year, we are seeing massive traction being built in our placement business and in our bonds platform. Those two will augur really well for us to build the fee franchise apart from the growth in the funds.

Shweta: Sure. And secondly, what contributed to higher credit cost on the intermediate retail segment?

Ashish Mehrotra: Like I said earlier, it's a prudent provisioning which we are carrying on some of the accounts. There is no specific reason for us to do it, but we wanted to have enough management overlay given the stress which we witnessed or what we seeing the amount of credit which flows through. It's good to have prudent provisioning.

Shweta: Okay. So, just to follow up there. So, even the Stage-2, that sort of saw some spike sequentially emerged from, which portfolio contributed to this spike on Stage-2?

Ashish Mehrotra: I think that came in on the unsecured business loan side and that's one of the reasons why you are seeing slight increase in the Stage-2.

Shweta: Sure, sir. Thank you so much.

Ashish Mehrotra: Thank you.

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

Shubhranshu Mishra: Hi Ashish. Good evening. Thanks for this opportunity. Just wanted to understand which all sectors do we cater to in the MSME financing and which all sectors are actually under stress? Are they tariff related sectors or are they some other kind of sectors? I believe we have a huge concentration in Tamil Nadu which again has some hotspots for MSMEs like Coimbatore, Tirupur so on and so forth. So, if we are speaking of specifics, then the MSME--

Ashish Mehrotra: Okay. The way to look at MSME business is a pretty broad spectrum. Our primarily big focus is to do with the average ticket size of 10 to 15 lakhs which is secured by hard collateral based on perfect collateral with full MODT (Memorandum of Deposit of Title Deeds) registration and underwrite the customers under the projected income or the derived income. So, that means that's a very good quality business for us. We do have a choice of large financing and we are not seeing any stress and there is a smaller component of an unsecured business loan which is secured through by leveraging the RBI's FDLG guidance of 5% loss coverage. In our case, that's the one way. Our business philosophy is pretty comprehensive, and we look at the risk both at a product level, at a geographical level going down to state level. The point made both at a portfolio whether it's to do with the Rural Finance portfolio or MSME portfolio, nowhere we will have more than 26% of our exposure in any district across product of more than 5%. So, we have hard defined guardrails which we follow. That to my mind is the true power of a diversified lending business to ensure that you are able to navigate cross cycle

Shubhranshu Mishra: Understood. And my second question is on the MFI. We do CGFMU insurance. So, what is the math of the insurance? When does it kick in? And my sense is that unless one has less than 2% kind of GNPAs doing an insurance with CGFMU doesn't really make sense. So, in that case, is not the MFI business build for more than 2% GNPAs?

Ashish Mehrotra: I want to make one thing very categorically very clear. Our entire Rural Finance business runs on our time-tested lending scorecards. While we do follow JLG and a non-JLG financing model which is more from acquisition, servicing and the engagement with the end customers, each loan approval is a function of Nu Score. And we are prepared to say at some point in time we have underwritten over 60 million loans, either directly or indirectly. So, scorecards determine whom we are going to lend. We have tested this scorecard again and again. And the all-new sourcing effective March 2025 onward is under CGFMU. Scorecard is actually non-negotiable. So, we have tested it across the past 36 months. We looked at it. We have done the look-back. We have done the look-forward analysis to ensure what quality of customer we want to do. We have also said that 80% of all loans, including new and old follows the MFIN guardrails, which means the quality of new assets is significantly better. PAR 0 accretion on the newer vintages is less than 50 basis points. So, that tells you the quality of the books. I am going to request my colleague Pardhasaradhi to add more texture with regards to risk here.

Pardhasaradhi Rallabandi: Ashish has covered specifically on Microfinance. While the CGFMU cover is there to ensure that we don't have big volatility, the way we have seen in most of the industry in the last few quarters. That is not the basis on which we take credit exposures. Credit exposures are taken based on the risk that we see at the borrower level and if it is acceptable. To that extent, the portfolio is covered by CGFMU. All the portfolio that originated from March '25 is covered by CGFMU. But again, that's how the underwriting is done. It's not the basis on which underwriting is done.

Shubhranshu Mishra: Understood. Thank you so much. This was very helpful. I look forward to future quarters. Thanks.

Ashish Mehrotra: Thank you.

Moderator: Thank you. The next question is from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: Thank you for the opportunity and congrats on a good set of numbers. Firstly, on the margins front, so margins have kind of seen a steep uptick, so almost 40 bps improvement, largely driven by the funding cost. How much of the funding cost is yet to be, how much the borrowings are yet to be repriced? I understand that 70% of the borrowings are floating in nature. So, most of them have been repriced or do we anticipate some further benefit in H2 as well? That's the first question.

Ashish Mehrotra: Thank you. I am going to request Atul, over to you for all the great work treasury has done.

Atul Tibrewal: Thanks. Hi, Chintan. So, on the liabilities front, our strategy is to diversify and with a clear focus on long-term resources. So, this quarter, the key levers for us was issuance through the NCD and the ECB route. The cost of fund incrementally for us has been in the range of 8.7% consistently, which is best of the class in terms of our rating category. You will not have too many NBFCs with such low cost of fund in the AA minus category. Nevertheless, on your question of the interest rate, roughly we have availed 50% of the benefit of the MCLR cuts, but repricing of around 50% of our balance liabilities is yet to happen. That will gradually happen in December and March quarter. Most of the borrowings actually takes place in the latter half of the year and most of them will come up for repricing after completion of a year or so in December or March quarter. We have a good amount of headroom for further reduction and we are very hopeful of a good set of numbers going forward as well. 70% of the borrowings is variable for us and this is very advantageous as far as the declining interest rate environment is concerned. So, this is a key contributor for us in the form of increased NIM expansion during the quarter.

Chintan Shah: Sure. So, if you could also break that 70% into how much of that is linked to repo, MCLR, 3-month, 6-month, 1-year?

Atul Tibrewal: So, I would say around 50% of that 70% would be linked to 1-year MCLR and the balance would be, 6-month, 3-month or T-bills as well as the repo rate. Most of the 1-year MCLR would have come up for repricing only in the later part of the year. But one good thing is that incrementally we are seeing not only we are getting the benefit of the lower MCLR but the spreads have also come down. And the other important feature for us was the issuance of NCDs. I think that is very key to us. We have successfully raised large NCD issuance in the previous quarter and we will be doing more such issuance in the coming quarters as well.

Chintan Shah: So, now on the Opex front, actually, if I understand the Opex looks elevated largely because of the fee and commission expense. And if you look at the Dupont, the Opex is like around 3.5% to 3.7%. But still there is some increase on the employee cost to 2.4%. So, this 3.7% should largely be the peak. So, we don't expect any rise from this. This is largely in line with our guidance, right?

Atul Tibrewal: No. Chintan, the fee and commission that you see is actually netted off from the interest income because this is the servicer fee that is paid to the Loan Service Provider (LSP) in the partnership business. And in the investor presentation that you see, this is netted off in the interest income or the yields. So, the Opex of 3.7% is largely the employee cost and the other Opex and that has slightly increased. And as Ashish mentioned, primarily on account of the sales & collection infrastructure that has been built over the last 3 to 4 months.

Chintan Shah: Sure. So, this is likely, is there any scope for reduction here or no? Or this will be around 3.7%?

Atul Tibrewal: I think this is the guidance we had also given that we will be in the range of 3.7% to 3.8% during the year. And I think we are still sticking to that guidance. We don't see too much of a movement as far as the Opex ratio is concerned. It should be in this range going forward as well.

Chintan Shah: And I think if you could help us with the number of 1+ DPD, if at all, we can share that number for the portfolio. And how much was that quarter ago?

Ashish Mehrotra: Can we share it offline? Dividing it by product will take time.

Atul Tibrewal: Chintan, we will share it with you offline, if that's okay with you.

Chintan Shah: Sir, no worries. And so, lastly, on HFC exposure. So, any update on the HFC exposure? Where are we in terms of the process, legal process? Or have we started to take the accounts payment in our book? Any update on that?

Ashish Mehrotra: We have been upfront from the very beginning when we did the direct assignment. We hold the title documents. All that is there. And, we have been presenting NACH. We are working through with them. Since this is under subjudice, it'll be unfair for me to disclose more.

Chintan Shah: Okay. So, and just one lastly on the Fintech exposure. So, any stress do we see in the intermediate retail book among the Fintechs or any other large accounts? Where are we seeing some stress or is it business as usual?

Ashish Mehrotra: No, I think it's business as usual. We have prudently calibrated the growth across the sectors, if you look at it. And we have also been pretty prudent in terms of volume growth. We consciously look towards high quality underlying assets when we finance and the lending practices. And that's why the Q1 growth was or the H1 growth was largely muted at 15%. I think we are seeing a better trend in the underlying books of each originating partners as we are seeing better quality of book coming in. We are happy to support with more liquidity solutions. And that holds true for placement, that holds true for investments, that holds true for bonds, everything else, including structured finance product.

Chintan Shah: Yes, sure. Thank you. I think that's it from my side. Thank you. And all the rest for the future quarters.

Ashish Mehrotra: Thank you.

Moderator: Thank you. The next question is from the line of Hitaindra Pradhan from Maximal Capital. Please go ahead.

Hitaindra Pradhan: First question on the credit cost. So, we have got in at 2.7% for this quarter. Now, a large part of it is also contributed by higher credit cost in intermediate retail, which you said is part of a prudent framework. And the other thing is MFI. Now, given that both these things may not be sustainable in the next year, what kind of credit cost guidance would you look at, at the new book in FY'27?

Ashish Mehrotra: Like I said, if you see, for intermediate retail we created an overlay of prudent provisioning. We spoke about it. You see an improvement in the consumer from what it was in Q1 to Q2. And so is in rural. Like I said, that our new book, which we are originating, and if I look at it over the last 10 months, 12 months book, it is performing better than the pre-stressed level. We are looking at the PAR 0 accretion and I spoke about it. It is lower than what it used to be around January '24 to April '24, which was a good period of the book. So, we are pretty confident around on it. If there is something we are holding on to, overall credit cost would range between 2.6% to 2.8% and that is the number we believe is well within there. I know it is a little bit of a conservative piece. I am also personally very confident that we should do better than these numbers.

Hitaindra Pradhan: No, sir. That is for FY'26. But you mentioned that what has to pass through will pass through. So, that is all right. But given the situation right now, what can we assume for next year?

Ashish Mehrotra: I think next year, like we said, I think we should see as you build the quality of this book, if you are going to end this year at 2.6% to 2.8%, the following year credit cost should be between 2.3% to 2.5%. It should not be more than that. That is where it is. That is the quality of business we speak of.

Hitaindra Pradhan: And on the fee and other income in the ROE tree, we see that in this quarter, this has been subdued at 0.6%. So, maybe because of stronger credit filters that we have used. But, going forward as things stabilize, where do we want this number to be? Again, more from a next year's perspective rather than the remaining remainder of the year.

Ashish Mehrotra: Like we said, last year, this number was about 80-90 basis points. I think if you look at it on a full year basis, we should be close to 80to 90 basis points. And as we go forward with the credit demand picking up, this number should be upward of 90-110 basis points on a forward looking. That is what we are working towards. So, growth in funds, growth in placement, growth in bonds platform, all of these are strong field line and we have all of those capabilities. Last quarter particularly was low also because the credit demand offtake only happened around mid of September 2025And then even on the vehicle finance or some of the other pieces, we were not seeing as much of demand. As we see the demand picking up, I am pretty confident on an overall basis, we should land upward of 80 basis points for the full year. And movement within the quarter will happen depending on the environment, what you want to do, transaction you want to take, not take. Like I said, we only represent transaction which pass through our risk filters. So, sometimes we let go of stuff which we do not think is the right thing to take for our investing partners to look at it.

Hitaindra Pradhan: On the cost of fund, we mentioned that, so we have reduced, we have got a 40 basis point reduction in this quarter. And we mentioned that this is just 50% of the overall decrease that we might have. So, but this has been erratic also, like quarter before it was 8.7% and then it increased in Q1 by 20 basis point. So, are we looking at this to settle at around 8% given where repo and things are?

Atul Tibrewal: So, this 8.9% for Quarter was the overall cost for the entire book and this 8.7% that you are mentioning is largely the incremental cost. So, I think, we should settle in this range of around 8.5% to 8.6% in the next few quarters. This is what we are giving guidance, but there is scope, there may be a 10-15 basis points lower as well. But as a guidance, we would stick to around 8.5% to 8.7% for the year.

Hitaindra Pradhan: Now, Atul, you mentioned that, you know, we have received around 50% of the rate cuts that have been there in the market. So, what is the base from which we are comparing this because we are already at 8.5%. So, how much have we got? And how much further is the scope?

Atul Tibrewal: Sure. So, a lot of these banks who would have already reduced the MCLR would have given loans at a much higher rate. So, even if their MCLR comes down, it will not be very significant because if you recall a year back, the rates were close to 9.10% for us. So, even if they have to reduce the rates by around 40 basis points, this will not reduce my overall cost to below 8.7%. So, that is the reason I am saying we will be in the range of around 8.5% to 8.7% incremental. And for the year, we should close in the range of around 8.5% to 8.7%.

Hitaindra Pradhan: Okay, and just final one bookkeeping question now. You have been taking the insurance on the MFI part. So, has that also contributed towards increase in the Opex? And how much in absolute number would we have paid in terms of premium?

Atul Tibrewal: We will have to get back on the exact number for that. Maybe Chetan will circle back to you with that number.

Hitaindra Pradhan: Thank you and all the best, sir. Thank you.

Atul Tibrewal: Thank you.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Good evening, sir. Firstly, congratulations on a great set of results, sir. So, I just wanted to know in terms of guidance that we just gave right now, I don't know if I could hear that correctly. You are saying an AUM growth of around 20%-22% and ROA of 2%, right? Is that fair, sir?

Ashish Mehrotra: No, we said the overall growth of 20%-22%, and ROA of 2.8%.

Darshil Jhaveri: Okay, because I was just about to ask that in H1, we have done such good ROA. That makes a lot of sense.

Atul Tibrewal: So, what I am saying is that sequentially, we have improved from 2.4% to 2.6% already in Q2'FY26. And end of the year, we should be in around 2.8%.

Darshil Jhaveri: Okay, that helps a lot, sir. And sir, I just wanted to go maybe in a more directional for a longer term vision. Like, we have the slide where we have shown that we have grown over 30% despite demonetization, COVID and now MFI stress. So, just want to know like currently when you are saying our book is performing better than what it was pre-stress. So, maybe next two years can be even more accelerated like 20%-25% is the guidance. But it can be towards the more higher side because I think whatever bad in terms of macro environment was supposed to happen has probably happened. I don't know if anything worse and hopefully god forbid, it doesn't happen. But is it a fair assumption that now the acceleration phase where we can even be better than what we are performing previously?

Ashish Mehrotra: Hey, Darshil, thanks. Thanks for pretty insightful. You picked it up. For this year, our growth should be between 20% to 22%. On a forward-looking, we said that given the quality of business, we should be growing anywhere between 25% to 28% as sustainable growth rate on year-on-year basis. You know, sometimes you have to calibrate depending the risk you are seeing, and that's one of the reasons we calibrated our growth in MFI. But the core businesses grew, like I said, direct lending business to secure MSME and consumer as a cohort grew almost 30% plus. So, I think overall growth forecast on a forward-looking basis should be 25% to 28%. This year, given that the H1 and Q1 was muted, and now we are seeing the growth, we should land somewhere between 20% to 22%.

Darshil Jhaveri: Okay, that's it from my side. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Parth Jariwala from DAM Capital. Please go ahead.

Parth Jariwala: Hi, thank you for the opportunity. Sir, our credit cost has improved on the MFI piece, basically the Rural business. So, what are the green shoots we observing there? Can you throw some color there? And secondly, our provision on Stage-2 has sequentially come down. So, what is the reason for that? Those two questions from my side.

Ashish Mehrotra: **Pardhasaradhi**, do you want to take it? Because we spoke about PAR 0 accretion. So, maybe you want to give more granular texture.

Pardhasaradhi Rallabandi: Thanks, Parth for the question. As you mentioned, the MSME credit cost for Q1 and Q2 both was at 1.8%. And what we are seeing actually is the collections improving and the flows actually come down a little between Q1 and Q2. The way we look at it with improved focus on collections and the flow control, this should improve as far as the MSME credit cost is concerned.

Ashish Mehrotra: On the MFI.

Pardhasaradhi Rallabandi: MFI credit cost, again, while the CGFMU is there, but in terms of the current credit cost, as you can see, Q1 was 7.7% and Q2 was 5.1%. We should expect the credit cost to improve. The net accretion to PAR, that is, 1 to 90 has actually come down quite a bit between Q1 and Q2. Directionally, it looks pretty reasonable.

Ashish Mehrotra: Also, the advantage of using our own scorecard, which some of the other lenders also now begin to use called Nu Score, helps us not only to get better approval rate, but also to eliminate potentially bad customers. And while we may use CGFMU scheme, but our sense is with or without it, our quality of the book should be significantly better using our scorecards.

Parth Jariwala: And sir, what would be the overall credit cost for the Rural business for this year?

Ashish Mehrotra: Currently, it will be about 5.1%.

Parth Jariwala: I am asking for the year.

Pardhasaradhi Rallabandi: Q2 is 5.1%. And obviously, Q1 was 7.7%, which is slightly elevated. The way we look at it overall for the year, we should be able to maintain close to 5%.

Ashish Mehrotra: I think it is true so as we go forward on a quarter-on-quarter basis, yes, that is where it should be.

Parth Jariwala: And on the PCR on Stage-2?

Pardhasaradhi Rallabandi: Yes, on the PCR question, it is a matter of composition of what was there and what type of asset is there in the Stage-2. We have seen an addition of one asset in Stage-2, which required, unlike a retail portfolio where the Stage-2 provision requirements are significantly higher. Under IndAS, when the life of an asset is equal to or less than one year, the ECL provisioning requirement on a Stage-2 asset is not substantially different from a stage 1 asset, if the average life of the asset is lower. Because of which, if the Stage-2 composition is such that the asset which requires lower Stage-2 coverage is one that has added to the pool, obviously, your coverage ratio will look a little lower. It is just the model remains intact, all the rates remain intact, and it is just a composition of Stage-2.

Parth Jariwala: Okay, sir. Thank you.

Moderator: Thank you. The last question comes from the line of Bharat Sharma from Three Sigma Asset Managers, LLP. Please go ahead.

Bharat Sharma: Yeah, hi, Ashish and team. First and foremost, congratulations for a good quarter. Ashish, I am a retail investor. I want to just understand what is your overall, long-term positioning for

Northern Arc or the vision for Northern Arc in Indian financial ecosystem? Where do you see yourself in the next 4 years in terms of being a large NBFC or any special segment specific NBFC? I just wanted to have an overall vision from you.

Ashish Mehrotra: Thank you, Bharat. I think it is fair to say the unique strategic posture which Northern Arc has is hitherto no other company have. If you take a composition of the capabilities and domain expertise Northern Arc has developed, essentially financing the credit needs of India's underserved household and businesses through a multi-channel, we run probably the most unique credit solution business, which is where we can originate large pool of retail loans, housing loans, consumer loans, MSME loans, vehicle finance, Agri, and Climate, across the 7 sectors where we operate. We have our proprietary scorecard. We have been doing this, each of these segments, we have been doing for more than 10 years. So, this means we have over 50 million time series of loan performance data of individuals, unique individuals. We then build the competence of our last 15 years to take these pools to institutional investors. We have placed over INR 1.3 trillion of institutional credit. We only take those places where we have exposure, where we track risk to the institutional investors and that reflects on the quality when a paper comes from Northern Arc and that is a unique capability, not a transactional capability, but a unique capability. We have been doing it for 15 years. It is core of the credit solution piece for us. We can make that paper available to our retail investors for last 3 years through our bonds platform. Please do look at altifi.ai. You can download the app. We have been deployed almost $2 billion through our performing credit funds where the current outstanding is about INR 3,200 crores of assets under management, but since these are amortizing funds, you originate and you deploy a lot of assets. We have run 12 funds so far. Six of them have closed. The funds which have closed have generated gross returns of, between 14.25% to 14.5%. That is a performing credit return. We right now have six funds which we are running. We are raising money for three-four new funds. One is in the space of climate. The second is in the space of MSME. The third is also in the space of MSME and the fourth will potentially be in the space of women entrepreneurs. So, we run high impact funds, both high quality HNI and UHNI and institutional investors invest in it. Ability to originate, ability to underwrite, ability to have a unique technology platform which none other has to process so much of data information, 60 million time series of loan data coupled with then the placement business, then the bonds platform, then the performing credit funds and our own balance sheet to support and build on top of it risk mitigation and collection team. That creates a unique capability unlike any other institution. So, that is the one part of it. Using that learning, then we said we should also build for the last five to six years, we build direct to customer business which focuses on MSME, consumer and rural. So, it is a great mix and a unique capability of a very well diversified retail financial services business with a very strong fee franchise. I think that gives us both domain expertise, consistency of performance over last 15 years, we have been profitable quarter-on-quarter, year after year. So, there is a lot to speak in terms of unique positioning and actually if you look at on my liability profile, what Atul spoke of on cost of funds including the core underlying profile of that, almost

30% of our borrowing comes from multilaterals, both domestics and overseas. So, given the entire unique headspace, it positions us with right to win as a diversified retail lender and a unique fee franchise between placement solutions and the fund management business. On a forward looking, I think growing at 25% to 30%, it positioned us well for to be a high-quality growth franchise, getting to the late teens RoE over the next 2 to 3 years. And the advantage we have is given the unique nature of a business and so much of credit which flows through us, we should be performing significantly better. So, our sense is from current return on assets of 2.7% to 2.8%, if we are going to end this year around that, we should get to see a 100 basis point improvement over the next 4 to 6 quarters. I think that is where I am looking at it.

Bharat Sharma: Ashish, thanks and really appreciate. One last, I will say closing question and comment. One is this that, appreciate you giving a guidance of 27%-30% growth. But I assume some of this would be linked to the growth of the economy also, right? So, are you probably somewhere have you benchmarked yourself to with regard to the overall GDP growth or you are probably putting 30%?

Ashish Mehrotra: I will not say 25% to 28%. I think we benchmark both the way to look at it on a banking piece look at it saying if the GDP is growing 7%-7.25%, and you grow 3x of that should be doable for the GDP to grow at 6% or 7%. That is the one part of it. The second, one in the credit solution you have a wide sector. So, you can dial up, dial down, and you have the full capability between performing credit funds, bonds platform and the balance sheet to support. In the direct to customer, MSME is a chosen field. We know 50% of India's MSME does not have access to formal credit. That is a very large cohort for us to grow or for all the lenders to grow in that segment. Our entire GDP, 60% to 64% is consumption led. This means that the consumption is going to continue to happen. That means your Consumer Finance business should continue to grow at 25% plus. In rural India, only 10% have access to formal credit, 90% still does not have. That is the power we need to bring into play. So, I think we have very consciously chosen three key segments where we want to play directly. And we have a unique strategic posture which none other institution has. There are very few players which can take a holistic view of credit solution between lending placement, funds management, bonds and all of that capability. I think that gives us a right to win in the areas we chose to play.

Bharat Sharma: Best wishes to the entire team.

Ashish Mehrotra: Thank you very much. Thank you for asking a very insightful question and making me to think. Thank you.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for closing comments.

Ashish Mehrotra: Thank you very much. We truly appreciate the active participation and insightful questions which make us think, make us work harder. We stand committed to building a high-quality franchise. Thank you all. Have a great weekend and have a great rest of the year. Thank you.

Atul Tibrewal: Thank you.

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