



# Arman Financial Services Limited

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February 20, 2026

To, BSE Limited P. J. Tower, Dalal Street, Mumbai-400001	To, National Stock Exchange of India Limited "Exchange Plaza" C-1, Block G, Bandra Kurla Complex, Bandra, Mumbai- 400051
<b>Script Code: 531179</b> <b>ISIN: INE109C01017</b>	<b>Symbol: ARMANFIN</b> <b>Series: EQ</b>

Dear Sir,

**Sub: Transcript of Conference call with Analysts / Investors on Financial Results for the quarter and nine months ended December 31, 2025.**

In continuation of our letter dated February 10, 2026 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby submit the transcript of the Conference Call with Analysts/Investors held on Monday, February 16, 2026 in respect of the Financial Results of the Company for the quarter and nine months ended December 31, 2025.

Kindly take it on your record.

Thanking you,

Yours faithfully,

**For, Arman Financial Services Limited**

Uttam Patel  
Company Secretary



**ARMAN FINANCIAL SERVICES LTD.**

**“Arman Financial Services Limited  
Q3 FY '26 Earnings Conference Call”  
February 16, 2026**

**E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 16th February 2026 will prevail.**



**ARMAN FINANCIAL SERVICES LTD.**



**MANAGEMENT:**

**MR. AALOK PATEL – MANAGING DIRECTOR – ARMAN  
FINANCIAL SERVICES LIMITED  
MR. VIVEK MODI – EXECUTIVE DIRECTOR AND  
GROUP CHIEF FINANCIAL OFFICER – ARMAN  
FINANCIAL SERVICES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Arman Financial Services Limited Q3 FY '26 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Aalok Patel, Joint Managing Director from Arman Financial Services Limited. Thank you, and over to you, sir.

**Aalok Patel:** Thank you so much, Muskan, and a very good afternoon to everybody. Thank you for joining us today. On behalf of Arman Financial Services Limited, I extend a very warm welcome to all of you to our Q3 and 9 month ended FY '26 earnings call. I'm joined by our newest Executive Director and Group CFO, Mr. Vivek Modi, and the Investor Relations team from SGA.

I trust all of you had the opportunity to review our results, the investor presentation and the press release, which are all available on the stock exchanges and our company's website

**Aalok Patel:** Before I move on to the business performance, I would like to highlight important leadership transition at Arman. Mr. Jayendra Patel, the Founder of Arman has transitioned from the role of Vice Chairman and Managing Director; and now he will continue as the Whole-Time Director. He wrote a letter explaining his decision to the shareholders, which is definitely a good read.

In this new capacity, we will remain closely associated with the company and actively engage with the Board and senior management in providing strategic guidance, mentoring the leadership team and ensuring a smooth transition with continuity and stability.

For matter of a worst, now I step into the role of Vice Chairman and Managing Director, of course, pending shareholder approval. I've had the privilege of being with the company for over 16 years now, tried my best to learn everything from the bottom up. I deeply value the trust placed in me by the Board and remain committed to carrying forward our legacy while steering Arman into the next phase of long-term value-driven growth.

I'm also pleased to share that Mr. Vivek Modi has been appointed as Executive Director, again pending shareholder approval, in addition to continuing as the group CFO. Vivek has been with the company for the past 8 years, and in his new role, he will help execute the strategic goals of the company. His financial discipline and structured approach will continue to strengthen our institutional framework as we enter the next phase of growth. We congratulate Vivek on his new role and wish him best of luck on his added responsibilities. For sure, he will need it.

Moving on to the business performance. The past 1.5 years has had its own share of challenges, which I have discussed in excruciating details over the past four to five calls. The industry had



to navigate a series of events, including over-leveraging, low growth in real incomes in the rural household, changing JLG culture, regulatory uncertainties, regional political developments, and broader macroeconomic pressures.

While these factors created short-term uncertainty and affected industry sentiment, it also pushed the MFI companies to become more disciplined, risk-focused and structurally stronger. During this period, MFI tightened underwriting standards, strengthened monitoring mechanisms and recovery processes. In many ways, this period helped the sector build a stronger systems and operate with prudence.

I'm happy to say that the industry continues to learn from every crisis and pushes forward. Notably, much of that uncertainty has now eased. Now we are seeing clean broad-based recovery taking shape. Repayment behaviour has improved across key geographies. Collection efficiencies are much stronger and fresh delinquencies have moderated to a great extent. Borrower cash flows on the ground remain subdued. But our systems have evolved to better assess household cash flows and demand across our business segment is showing healthy sustainable traction.

At Arman too, we took a step back, assess the situation carefully and focused on getting the fundamentals right again. Over the past few quarters, we tightened our underwriting, strengthened our recovery processes and enhanced monitoring across verticals. One important step we took was clearly separating the underwriting and recovery teams. This has brought better accountability, sharper credit decisions at the time of disbursement and more focused follow-up on collections.

This structure is now in place across a majority of the branches, and we are already seeing the benefits in terms of more stable portfolio behaviour and stronger execution on the ground. As a result, our business performance has strengthened. Our consolidated AUM stood at INR2,274 crores, registering a sequential growth of almost 7%, reflecting improving demand and calibrated disbursements.

Disbursement momentum gathered pace across segments with consolidated disbursements reaching INR612 crores during the quarter compared to INR475 crores in Q2 FY '26, marking a strong 30% sequential growth in disbursements. This growth has been supported by sharper credit screening at the loan officer level and improved confidence on collections.

Q4 seems to be shaping up even better. On the financial front, gross total income for the quarter stood at INR160 crores, remaining largely stable on a sequential basis. Gross total income for 9 months FY '26 stood at INR470 crores. Pre-provisioning operating profit, PPOP, stood at INR55 crores in Q3 FY '26 and INR166 crores for 9 months ended FY '26, reflecting steady operating performance even as we continue to invest in people and technology, strengthen our systems and building long-term capabilities.

We are improving on ground conditions and stronger repayment discipline. Impairment costs have moderated consistently over the past few quarters declining from INR76 crores in Q3 FY '25 to INR26 crores in Q3 FY '26. This reduction reflects the benefits of tighter underwriting



standards, better early-stage controls and sustained focus on collections. As a result, profitability has improved, while sequential growth may not always be the most appropriate metric to assess profitability.

Profit after tax for Q3 FY '26 stood at INR22 crores, registering a sequential increase of 177%. For 9 months FY '26 profit after taxes stood at INR16 crores. This improvement in our view, is a strong indicator of the broader normalizations largely by our MFI business and other operating trends.

Asset quality trends have also strengthened. GNPA as of December 2025 stood at 3.4%, improving from 4.13% in Q3 FY '25 and 3.69% in Q2 FY '26, while NNPA stood at 0.77%. Early delinquency indicators are also moving in the right direction with PAR 30-90 bucket showing sequential improvement, particularly in the Microfinance segment.

Collection continues to show steady improvements supported by tighter monitoring mechanisms and disciplined field execution. Collection efficiencies improved to 96.3% in December compared to 96% in September 2025, reflecting strengthening borrower behaviour and sustained recovery momentum. Operationally, we added 15 new branches this quarter, taking our total branch down to 524, while remaining focused on strengthening our presence in core geographies.

On the liquidity and capital front, the Board has approved raising up to INR500 crores through NCDs on a private placement basis, providing us with additional financial flexibility to support future growth.

During the quarter, we also raised INR522 crores of debt for the strengthening our balance sheet. We remain very well capitalized with capital adequacy ratio of 38.3% for the stand-alone entity Arman, and 52.3% for the subsidiary Namra finance. Both very comfortable and well above regulatory requirements. In addition, our liquidity position remained healthy with INR247 crores in cash and bank balances, liquid investments, undrawn CC limits which ensures adequate headroom to support business expansion.

Now moving on to the subsidiary, Namra Finance, which is where the MFI portfolio is kept. Our MFI portfolio grew by 7.3% sequentially to INR1,618 crores, supported by strong disbursements of INR455 crores during Q3 of FY '26. We are seeing strong traction in the new individual loan portfolio, which now stands at INR285 crores. While growth has resumed, we have remained measured in our approach, ensuring that expansion is supported by disciplined underwriting and strong risk controls, especially in the current operating environment.

Gross total income for Q3 FY '26 stood at INR107 crores, while for 9-month FY '26 it stood at INR316 crores. Pre-provisioning operating profit for the quarter was INR35 crores, reflecting a sequential decline of 2.2%. For 9-month FY '26, PPOP stood at INR102 crores. PPOP should also start improving once AUM starts increase and generating more interest income.



Importantly, we returned to profitability for Namra this quarter after four consecutive quarters of losses with profit after tax standing at INR13 crores. For the 9-month period, we continue to report a loss of INR16 crores as we steadily walked through the stress seen earlier in the year.

Our net interest margins have also begun to improve with Q3 FY '26 margin at 14.77%. This is driven by two factors: our ability to raise borrowing at competitive rates and new portfolio being built at healthier yield levels. Asset quality trends continue to move in the right direction.

GNPA stood at 3.4% and NNPA at 0.66%, reflecting improving portfolio stability. Collections have strengthened on a month-to-month basis with December collection efficiency at 96.4% and x-bucket collections of 99.3% in the MFI book. Early trends for January and February also indicate continued improvements.

As of December 2025, 82% of our MFI portfolio is covered under the CGFMU scheme providing an additional year of risk protection and balance sheet comfort. Overall, we believe we are past the most challenging phase and now on a steady path of recovery with improving fundamentals, stronger controls and renewed confidence across the portfolio.

Now moving on to the stand-alone Arman business. During the quarter, we have piloted a new product offering solar loans. This initiative started in November, is aimed at supporting households and small businesses in adopting clean and sustainable energy solutions. The product carries an average ticket size of about INR2 lakhs and has been rolled out in selected ADR across Gujarat.

The initial response has been encouraging. As of December 2025, we have disbursed approximately INR56 lakhs under this portfolio in 2 months. The product has a loan tenure ranging from 12 to 60 months with an average tenure of approximately 30 months, offering a balanced mix of profitability and manageable repayment structure.

Beyond this, our non-MFI portfolio continues to witness strong traction. Disbursements during the quarter stood at INR163 crores, comprising of INR115 crores in the MSME book; INR32 crores in the two-wheeler book; and INR16 crores in the Micro LAP book.

Our AUM stood at INR657 crores, a registering a year-on-year growth of 28% with 74% of this portfolio in the MSME book now. We continue to see healthy demand across these segments, supported by disciplined underwriting and improving on-ground confidence. For Q3 FY '26, gross total income stood at INR54 crores, registering a growth of 20.2% quarter-on-quarter and 3.6% year-on-year. For the 9 months ended FY '26, gross total income grew by 20.2% year-on-year to INR157 crores.

Pre-provisioning operating profit or PPOP for Q3 FY '26 stood at INR19 crores. For the 9-month FY '26, PPOP stood at INR40 crores, reflecting largely stable performance on a year-on-year basis despite significant headwinds. Profit after tax for the quarter stood at INR9.4 crores marking a sequential growth of 5.4%. For the 9-month FY '26 PAT stood at INR31 crores, registering a modest growth of 1% year-on-year.

Asset quality improved sequentially across our stand-alone portfolio. As of December 2025, GNPA for MSME stood at 3.74%, for the LAP book at 0.31%, and for the two-wheeler segment at 4.28%.

Collections are also strengthened across these segments. In December 2025, collection efficiency of the MSME portfolio stood at about 96%, while the two-wheeler portfolio reported collection efficiency of 95.6%, reflecting stable repayment behaviour and disciplined follow-up.

Largely as the environment continues to improve, we remain focused on building a stronger and more resilient company. With disciplined growth, prudent risk management and committed team on the ground, we are confident of delivering sustainable performance in the quarters ahead.

With that, I believe we can now open the floor for questions. Thank you very much.

- Moderator:** The first question is from the line of Karthik Srinivas from Unifi Mutual Fund.
- Karthik Srinivas:** Thank you so much. Congratulations team for the good set of numbers and the organizational change. So I had two or three questions. One being, what will be the percentage of the loan book that would represent the loans raised in FY '26 now, sir? What would be the percentage of the loan book that have been raised in FY '26?
- Aalok Patel:** The loans that we have given out, how much of the AUM will contribute to loans that were disbursed in '26? Is that the question? Did I get that right?
- Karthik Srinivas:** Yes, FY '26. Yes, right.
- Aalok Patel:** Vivek, you have that number?
- Vivek Modi:** This will not be readily available, Karthik, but generally, if I could give a good guesstimate, it will be about 70%.
- Aalok Patel:** 65%, 70% would be a good guess also from me. I can pull that number out and give it to you.
- Karthik Srinivas:** Sure. Sir, when you just mentioned about the collection efficiency, 96.4% for MFI. So, while the peers have reported collection efficiencies of 96% and above, what would be the difference in the calculation, sir? How do we compute vis-a-vis the collection efficiency? How do we understand the collection efficiency in right metric? Or how do we compare it? So that's the question.
- Aalok Patel:** So that's a good question. So there are two kinds of collection efficiencies, which are reported. So one is typically called a zero-bucket collection efficiency or other is the overall total across all buckets. So the number that you are most likely seeing is the X-bucket or the zero bucket collection efficiency for which ours is about 99.3%.
- Karthik Srinivas:** Got it, sir. Sure. Understood, sir. And sir, if I may ask one question. What are the key changes to your Provisions episode versus vis-a-vis as it is now and see it going forward So as our ECL

model strengthened, how have we strengthened our ECL model to accommodate such kind of shock? So what will the key parameters that changed in the ECL mode?

**Aalok Patel:** In the ECL model, you are saying?

**Karthik Srinivas:** Yes. Right.

**Aalok Patel:** All we can do is provide more management overlay. Our ECL model is evaluated semi-annually and whatever needs to change in that, that is the comp. I mean, once the account goes into 1 plus DPD, that's when the ECL model kicks in. And then obviously, there is some bit of provisioning, which is there on the zero bucket as well.

**Vivek Modi:** In addition, Aalok, in '24-'25, when you really saw the asset quality deteriorate u, ECL provisions went up ensuring covering yourself up for a probable future losses. But as a strategy, it was also important for us to ensure that at a sector level, if the stress continues, then how do we safeguard ourselves.

And that's wherein we were probably one of the few who took the leap forward and started subscribing to the CGFMU coverage. And as Aalok during his opening remarks commented, that we already have 82% of our Microfinance book in Namra, being covered under the CGFMU cover, which came into existence since October 2024.

**Aalok Patel:** So I think, that's an excellent point, Vivek. So provisioning, I know a lot of people put a lot of emphasis on the provisioning figure. But I mean from a non-accounting standpoint aside, only thing the provisioning helps is to secure incomes. It's just a balance sheet figure. So I mean, yes, I guess that provides comfort to some people, but like having adequate liquidity, sufficient capital available and other factors play a lot bigger part for companies to get out of any jam that they find themselves in during a down cycle.

So CGFMU are definitely one of those calls where if there was a way to sort of hedge away the risk by paying some premium, I think it was a no-brainer, and that's what we jumped into. And that is basically the insurance policy available to us today in case something drastically goes wrong again in a short period of time.

**Karthik Srinivas:** Sir, just a follow-up question. Sir, in that case, will your provision PCR come down, now that your 82% of your book is now covered by the scheme?

**Vivek Modi:** Yes. You're right. Because you're paying for the default guarantee cover and you're covered. For every INR100 that you kind of take a coverage for, the default guarantee cover applies to about 75% of it. So the provision requirement to that extent will come down.

**Aalok Patel:** So in some ways, the opex would increase, because you're paying for the cover. And subsequently, your provisioning might decrease to the percentage that, that cover is guaranteed for those particular assets, which are in default.

**Karthik Srinivas:** Got it, sir. And last question is on the growth rate. So, now that the entire sector is on a steady state like coming out of the woods. So just talking about growth rate, how do you see, sir, now



that the number of lenders is capped and then you have a high rejection ratio. So going forward, what will be the strategy to grow then? So would you have to seek more and more penetration? Or would you have to give -- how do you grow then in terms of your strategy?

**Aalok Patel:**

So the growth, see, there are a couple of things here. So first of all, let me say that hopefully, people like myself and the industry has learned enough lessons where just because the market is improving, we don't really go into -- not just unreasonable growth. You can grow fine, but not just put growth ahead of whatever the lessons that were learned during these crisis, right?

People have a tendency to sort of forgive and forget and move on after a couple of years. And so my fear is that is exactly what's going to happen again. And hopefully, that does not happen. So whatever growth comes in has to be calibrated. It has to be well thought out.

But to answer your specific question, you are right. As far as JLG and things are concerned, I mean, the culture is diluted, you are restricted with underwriting and -- you are restricted in terms of number of MFIs and total leveraging and other factors.

And so honestly, as a company, we have already started to redefine of what is Microfinance, right? Because it's not just the JLG model. That might be a model that is there and it still is a substantial part of your books.

But I personally feel that the future is in product innovation and better underwriting. If we are able to assess the customer better, and that's what we are trying to do with the BCM model, that's what we are trying to do with technology, with new algorithms, and stuff that we are starting soon, that if we can assess the customer better, we don't need them in a group. We can service them individually. And we have been doing that in the MSME book as well for many, many years successfully, perhaps even more successfully than the JLG model.

So I believe that the next phase of growth is going to come with innovating the product structure itself. So we are not saying reinvent the wheel and find new customers. But the segment that you are servicing, can you evaluate them better and service them with different products basically.

**Moderator:**

The next question is from the line of Rudraksh Raheja from ithought Financial Consulting. Can you speak a little louder please?

**Rudraksh Raheja:**

Yes. Sir, I wanted to check, sir, what kind of growth rates would we be comfortable now the industry books has all been cleaned up and all of that?

**Aalok Patel:**

That's an interesting question, and that's probably one that I also struggle with. Is there a growth rate that we can target or should the growth come naturally as a function of all the things that -- all the changes and all that you are trying to do? So I mean, I would say in FY '27, roughly speaking, I would be comfortable growing maybe 25%, just throwing a figure in the air.

But I think we are going to stop doing those kinds of things that, okay, we want to grow at 40% and what do we need to get there. I think it needs to be a function of many, many different things. And the growth figure has to be reverse engineered in that perspective. So usually, right after a crisis, there are short-term opportunities available typically we have advantage of.

So you might see a sort of strong growth in the last quarter of this year, for example, when a lot of the MFIs are still kind of coming out of crisis, working through liquidity issues, leadership issues and other things. So that creates sort of a temporary vacuum where we can sort of take over market share.

And then typically, that slows down, right? So, I don't have an exact growth percent to give you. Certainly, I don't think we can expect growth out of the industry that we have -- the market has been historically been used to, very honestly. But that said, I think FY '27, you can expect at least a 25% growth.

**Rudraksh Raheja:** Understood, sir. Understood. And sir, would it be fair to assume that non-MFI book would grow at a much higher rate than MFI book going forward?

**Aalok Patel:** I would say the non-JLG will grow much, much faster, whether that is in the subsidiary, Namra, or in the stand-alone Arman through MSME, LAP and two-wheeler loans. So I would say JLG will be a lot slower to or even I dare to say, growth and while these other products will continue to grow faster.

**Rudraksh Raheja:** Understood. And sir, for business going forward, what level of debt to equity would we be comfortable before getting into the market and raising more equity and diluting? So what is the peak debt to equity that we foresee?

**Aalok Patel:** We are usually comfortable at about 4.5x,

**Vivek Modi:** Right now, our debt equity is less than 2x, in fact, less than 1.5x for that matter. But having said that, I mean, with the new normal, the first milestone would be to reach a debt equity of at least 3x, 3.5x. And looking at the overall how market behaves, we might have to go forward.

And largely, we can say that at an organizational level, group level, still an AUM size of about INR5,000 crores, I think we should be comfortable with a capital adequacy of upwards of 25%. So largely not really seeing that as a challenge in our growth.

**Rudraksh Raheja:** Understood, sir. And last question, sir, from my side. Would we be like stepping up disbursements a lot on the MSME book now? Or we will be focusing more on new products like one you mentioned this quarter, we have done a pilot on solar goods, etcetera. So what is going to be focused on non-MFI side?

**Aalok Patel:** Well, I mean, there are no problem here for sure. If I can grow the MSME book a lot faster, sure, I'll take the opportunity to do that. But that product has always been sort of slow and steady kind of a growth for us and that has worked very well for us during both COVID and whatever you call this new crisis. So I would rather not take my chances. I've been lucky with that product for the past many, many years. So I think the growth rate in the MSME book should be similar to whatever you have seen in the past 3-4 years.

**Moderator:** The next question is from the line of Ronak Chheda from Awriga Capital Advisors LLP.

**Ronak Chheda:** Yes. Congratulations on the disbursement growth. I have two questions. One is on the pilots which we were running, especially on, say, LAP products, etcetera. Just wanted to check on the progress. Have we met internal benchmarks for you to kind of now see a significant scale up on these products? In your past answers, you really mentioned about adding more products. So what is the status there? And will we use Namra's distribution kind of to go ahead and ramp up this product significantly?

**Aalok Patel:** Yes. So definitely, the LAP is doing reasonably well. A little bit of, sort of, fear, which is a good fear in the micro-LAP and the affordable housing space. Obviously, there are murmurs of something of quality-related issues that - may or may not happen in the short term. But we are steadily growing.

I think, Vivek, what are we now, about INR6.5 crores disbursement on the LAP and growing about probably 5% to 10% every month. And so yes, as far as we are concerned, we are on schedule for whatever we had envisaged for it. But I'm very cautious about blowing anything up. So we'll continue with that slow and steady approach, and we'll see. As far as performance goes, we are facing no significant so far in the LAP portfolio.

**Vivek Modi:** It's about close to INR90 crores more.

**Aalok Patel:** Close to INR90 crores

**Vivek Modi:** I think, we are out of that project phase because today, we're doing it across at least three states. And we have move into UP, -- I mean, that way, we can clearly say that it's definitely not a project phase, and we are looking at scaling it up in all these geographies where we are comfortable with.

**Aalok Patel:** And so as far as some of the other pilots, I think we had mentioned we started in November, the rooftop solar financing. And again, that's just probably an experiment and also a limited opportunity in the market because there are government subsidies available directly to the customers. So it has become a very popular option.

But what we found is that most of the marketing is being done in the urban metropolitan cities and Tier 1 cities. I don't think that reach has developed in the rural yet for these rooftop solar. And arguably, they probably needed more than the urban people.

So we have started this pilot. Let's see where it goes. I mean, we have done very small volume so far, only about 56 lakhs. The goal is in this quarter to reach about INR1 crores of disbursement monthly by March, hopefully. So we'll keep you posted on that.

**Ronak Chheda:** My question was more on LAP. Given that it's at a critical size, can this go to like INR500 crores where we are MSME book is over the next 2, 3 years, given that if your internal benchmarks are met, you just roll it out across your different geographies where you already are doing unsecured. So the question was more on the LAP side?

**Aalok Patel:** It's definitely possible even going pass that, because the LAP ticket sizes are larger and the stickiness is higher as well because the tenure is higher. But these are not, honestly speaking,

from my perspective, you have to take a balanced approach because \ opex is low in LAP as well.

So let's not compare it to MSME, but the margins are also lower in the secured book. So it's just not a matter of being secured or unsecured. I think you have to take a calibrated approach. And yes, over 2, 3 years, I think it's definitely possible for it to even surpass the MSME portfolio for the reasons which I said. But I wouldn't really feel comfortable making long-term predictions at this time.

**Ronak Chheda:**

And second question is on MFI. So given that the guardrails are in place now, a lot of the borrowers who may have defaulted in the last cycle are already out of the system. So just wanted to check on the on-ground credit growth demand. And is that aggressive enough for us to step up on disbursement? Is there enough growth?

And the second part is, are the fintech's, etcetera, which were active in the last cycle still relevant as competition? Or you're seeing some of the competition with various startups exiting the market and there are a handful of players now catering to this demand. So just wanted to check on this front.

**Aalok Patel:**

Yes. So to answer your second question first, definitely, there are a lot fewer players serving the same customers as we were today than they were, let's say, about 2 years ago or something. So yes, I would say, again, I don't have any numbers to back it up. This is just the feedback which I received from operations team that definitely their overall presence in the markets that we are servicing is significantly lower, number one. Your first question was -- remind me again, what was your first question?

**Ronak Chheda:**

About the growth...

**Aalok Patel:**

Yes. So that is -- I mean, again, we struggle with these kinds of questions very often as well that during COVID, you had a significant serviceable population drop out because of defaults, during this cycle, you have another significant portion. So the market from a client perspective, becoming smaller and smaller because for most MFIs, being a past defaulter is an auto reject, right? I mean, no human eyes even look at it. The system will automatically reject the customer.

And so over the long run, what do we do with these customers? I mean, I don't know. It's really a valid question that the industry needs to get together and try to figure out that if we keep removing customers who have ever defaulted from the overall pool of potential customers you have, that in it of itself is a problem.

But on the other hand, nobody is going to really risk giving loans to customers who had higher defaults, right? So that is one aspect of it. And that is something that we face on a day-to-day basis. That is what pushes up our rejection rate significantly as well.

So you were asking about inquiries. So the inquiries have increased. The rejection rate has improved slightly by 2%, 3%, where it was, let's say, about 80% earlier, now it is closer to 75%-77%. So it's improved slightly, and the inquiries have also increased over the last 2 to 3 months.



I think our staff is now better trained or have better experience that which customers will have a higher chance of getting approved.

And so that is what the pipeline gets pushed into the system as well. But there are a lot of contributing factors that would determine how much we can and cannot disburse. Obviously, past default is a huge issue that the industry would have to solve in the next year or 2 years.

**Moderator:** The next question is from the line of Chinmay Nema from Prescient Capital Investments.

**Chinmay Nema:** Sir just wanted a little better understanding of the trend in PAR on the Microfinance side. So one, if you could explain what has led to such a sharp decline in the 30 to 90 book in the last two quarters. So have the collections been better or have the fresh inflows have been significantly lower?

And secondly, the the same trend is not visible on the 90-plus book, which I believe is a book on which you would have had all the write-offs. So if you could explain that as well?

**Aalok Patel:** Yes. So the reduction in par figures is at the expense of overusing this, a function of many different things. So first of all, whatever pain points we saw were essentially disbursements made prior to March 2024. And typically, when you work with a 24-month cycle in the MFI pool, long story short, either those customers have mostly repaid you back or they have defaulted and we have written them off or are provided for and are already at 90 plus.

Whatever new pool was created post September or November that we are tracking closely with new underwriting standards, with guardrails in place with very, very calibrated kind of disbursements. We were looking at their performance and following up on their performance in terms of quality basis very, very closely.

So the reduction is largely replacing bad customers with good customers. That's number one. That's probably 80% of the reason. The 20% is probably slightly better macroeconomics and better collection team on the ground level. Vivek, anything to add?

**Vivek Modi:** So again, just from a more statistical point of view, because you would have seen that the x bucket collection efficiency or the zero bucket collection efficiencies have been constantly improving in the sector and also for Namra, which automatically means the slippage ratios into the 90 to 30 will in a phased manner come down.

Because when the trouble was at the peak in, let's say, quarter 2 of the last fiscal, then the zero bucket collection efficiencies have come down to as low as 97.5% or something. And today, they're upwards of 99%, that clearly means that we're adding so many less defaulters every month.

**Chinmay Nema:** Correct. Correct.

**Aalok Patel:** Yes. So that's also a very interesting point. So right, the zero DPD is something that in the MFI pool, you follow very closely. Usually speaking, again, this is a very rough statistic, but a



customer who goes into one plus bucket, depending on what crisis it is, whether it's COVID or demon or others, there is about a 30% to 50% chance, that they will eventually write them off.

So they'll keep going into different buckets into 30-60, 60-90. So the idea is that you don't want things to slip into even one plus bucket because then the probabilities are very high that eventually you will have to provide for them and write them off completely. So yes, that has come down significantly as well and for reasons which I just explained to you.

**Moderator:** The next question is from the line of Sarvesh Gupta from Maximal Capital.

**Sarvesh Gupta:** So sir, first question is on your opex. So for 9 months, we can see that the opex in absolute terms has increased by around INR40-odd crores and around INR17 crores, INR18 crores is being contributed by the MFI business. So I'm guessing some part of it is related to the premiums that you might have paid. But if you can explain what has led to this sort of an increase in the opex and how we should look at opex ratios going forward?

**Aalok Patel:** Yes. So opex has definitely increased. There is no denying it. I mean, I've covered this in previous calls as well, but largely, we added the whole BCM structure, which is expensive. We separated operations completely from credit. And so that adds to the opex. We have a big recovery team, which is in place, which is collecting a good bit of money that otherwise would have gone into NPAs and provisioning and write-offs.

So definitely, we are getting more value from them than what we are spending at this point for sure. But that has also increased the overall opex related to employee costs. And as you mentioned, the CGFMU, we have paid INR7 crores this year on CGFMU. And so that has also contributed to the increase honestly, I don't think it's going to be possible.

All we can do is that at the existing levels, you increase the portfolio and therefore, the interest income that you are earning portfolio and that will increase the PPOP. I don't think it is a good strategy today to about reducing that absolute number of opex. But certainly, from a percentage standpoint, it will slowly start coming down.

**Sarvesh Gupta:** But even in the stand-alone piece, I think the opex has increased by almost 50%. So MFI, we understand collection teams and credit structure and premiums. But in stand-alone, what has contributed to this high opex?

**Vivek Modi:** So standalone, you're talking about Arman?

**Sarvesh Gupta:** Yes.

**Vivek Modi:** Okay. So stand-alone, Arman, we kind of added team on the LAP and there has been expansion of the Arman team itself into states like UP, Uttarakhand. Additionally, there's expansion. So it's basically expansion and then we've added this entire solar energy or green energy team. So, it's not a very large thing, but still that's something that has come up in the quarter 3 itself.

- Aalok Patel:** No, I think if you look at it, we have opened new branches, we have opened new divisions. Employee costs are going up just like many other companies in all over India. So I don't have any better explanation than that.
- Vivek Modi:** And additionally to address while this number in absolute terms may not be very high because two-wheeler itself is not a very big portfolio. It's just about less than 10% or around 10% for the stand-alone. But quarter 3 is the highest performance quarter for the two-wheeler and that's where the expense also kind of peaks per se.
- Aalok Patel:** Yes, I think he's talking about the 9 months.
- Vivek Modi:** Yes, 9 months. So, it's kind of both...
- Sarvesh Gupta:** And where should it settle, sir? Where are your opex ratio is going to settle, if you can give some guidance on that?
- Aalok Patel:** I would love for them to at about 4.5%. Well, for Microfinance consol level, let's say, about probably 4.5% to about 5% of total AUM. Typically, I think, the good new target to see.
- Sarvesh Gupta:** Okay. And sir, this quarter, I think last quarter, we felt that you were slowing down a little bit on the MSME piece and increasing other product segments more than MSME. But this quarter, I think, again, we have seen a sharp increase in the MSME disbursements vis-a-vis other bucket, other products.
- Aalok Patel:** MSME product is that what you are saying?
- Sarvesh Gupta:** No. So last quarter, I think going by the commentary it looked like you are relatively preferring other products, which are lower-yielding products within your stand-alone business. But this quarter, I think, again, MSME has grown the most in the disbursement. So has there been any change there?
- Vivek Modi:** think last quarter. it has been Misunderstood we never kind of want to slow down our unsecured MSME -- last quarter, in fact, we started or ramped up our branch network in newer states as well. So maybe...
- Aalok Patel:** I say a lot of things. Sometimes, I don't remember it. I have said it in a context that I don't remember. But no, my intent was never to slow down MSME. So let me, very well.
- Moderator:** The next question is from the line of Srinivas V. from Bellwether.
- Srinivas V.:** Just wanted to take forward from Ronak's question on loan against property. So what we are kind of looking for is a slightly more nuanced and detailed understanding of how do you plan to roll out this product? And what kind of customer occupancies have you seen join in or cohorts where it's worked out well?



And if you can share between the three markets, how has been behavioural pattern? And one of the issues in this particular product has been that there's been some level of over-leveraging at the end client. And what are your thoughts on that?

And how have you built a credit process to kind of keep a check because if the customer has not been that over-leveraged, the collections in these products are phenomenal. So generally, I want to get a perspective of how you are seeing this product and its nuances over like a 3-year window?

**Aalok Patel:**

So let me tell you that the NPAs in this segment are pretty much very, very low at this point. I think it's only 30 bps. So I don't have enough data to develop that nuance is one occupation better than other, is one region better than other, I've not noticed anything that you can -- from at least from the BI perspective, we track all of these things, but nothing really has emerged as more or less risky in terms of LAP.

Now we are rolling them out in our MSME branches, which are located in Gujarat, MP, Rajasthan, Telangana and Maharashtra, we are not rolling out, but obviously, we are in Maharashtra as well. So far, we have rolled them out in MP, Telangana and Gujarat.

**Vivek Modi:**

We have not rolled them out in Rajasthan yet. Not even in Rajasthan that way. But very few cases we might have tried there just to get the flavour of the place, right. But the major pie for the LAP portfolio, as we talk today stands in Gujarat, which is more than 60% of the entire and then Telangana, MP. And as we scale up, maybe UP might be also one of the larger.

**Aalok Patel:**

Yes, right. So in the MSME side, we are pushing our branches towards these. And so that can be another place that we can start micro-LAP in the UP market. Now in terms of underwriting, you're absolutely right. See, I don't know so much about the LAP, but at least in the affordable housing, some players are better than others.

Some are just considering something as secured and just not doing a lot of underwriting checks. And I mean, they are making sure that all of their loan agreements and mortgage needs and everything are absolutely clean.

But as far as assessing whether the customer can actually repay the loan, I don't think a lot of players, in my limited opinion, are doing a very, very good job just getting comfort from the fact that it's a secured product. And I believe that in the Indian context, it's very, very difficult to repossess somebody's house, their primary residence.

And so whether it's secured or unsecured, you have to make sure that all the underwriting you do, is assuming that it's going to be very difficult to get comfort from the security itself.

So we are doing everything that we can. I mean, obviously, we are doing reasonably well income assessment and making sure that on the ground level, doing all kinds of checks that we possibly can.



Income proofs are difficult to get in some of these segment markets. But in the event the income proof is not available. Our BCMs go in and make sure that they get a good guesstimate around it by supporting things. So, I don't know if that answers your question or not.

**Srinivas V.:** Yes. Perfect. Just to -- so effectively, we have 120 MSME branches. So over a period of time, most of these branches will also service Micro LAP. Would that be a fair understanding?

**Aalok Patel:** I would say most, not all, for sure, but most would.

**Srinivas V.:** Got it. And these teams are separate teams completely sitting there, right? Because last time I checked the credit appraisal team of the Micro LAP is completely different. So it's basically infrastructure housing two different teams.

**Aalok Patel:** It's infrastructure housing two separate teams. But in many cases, we are using -- so there are two levels of BCMs that we have. The more senior BCM structure that we have can do the evaluation for both MSME and Micro LAP. And of course, there are other branches where it is separated also. So it just depends based on branch-to-branch nuances.

**Srinivas V.:** Got it. Just one last question is in MFI, we've added credit officer in many of these branches. I just wanted to circle back, even last time you had very encouraging feedback on this practice. How has been your assessment of loans that have been disbursed post this particular addition? And in those branches, have you particularly seen quality of book being better when there is a question kind of overlooking the specifics, so on and so forth?

**Aalok Patel:** Correct. and that's a great question. So on average, non-BCM originated customers post, let's say, November of 2024, compared to BCM originated cases post November 2024, there is almost a 50% difference in the default rates. So but the default rate is low as it is.

Let's say, if it was non-BCM originated where 2%, this is close to 1%. So there is a broad difference right now. Whether that carries forward during credit cycles is anybody's guess. Because it's easy to say 50% when your default rates are low, but whether that same thing carries forward when the default rates are high, I don't know. And there's no way to know until you reach that, right? So -- but I'm very bullish on it.

And having BCMs apart from reduction in overall credit cost also serves another benefit in terms of culture and having the ability to introduce new products. So if you are just doing the same JLG, one could argue, well, given the cost and what you are saving, it might not be worthwhile to have BCM.

But having BCMs, every new product that we introduce is always like, okay, this requires a lot more evaluation. It's a higher ticket size; it's something we haven't done. And so it allows us a lot more flexibility to be agile in terms of offering new products or changing our products.

**Moderator:** The next question is from the line of Jaiprakash from Korman Capital Investments.

**Jaiprakash:** Sir, my first question is on this provisioning and NNPA. So we've seen some rise in the NNPA from generally, I think your last three quarters were about 0.5% and now this has changed up to



0.8%. So does it mean that you have confidence in terms of your GNPA accretion to be lower going forward, and that's why maybe you have not provided and you are comfortable with that kind of a number?

**Vivek Modi:**

Two things that have happened here over the last 1 year is given the overall market scenario; we've been slightly aggressive in our write-offs. And hence, the on-balance sheet books, the average DPDs of the NPAs are far lower when you compare on a Y-o-Y basis.

So that means something which sits at an average of, let's say, 180 DPD in my NPA book vis-a-vis an average that would have been, let's say, 225 days, my NPA provisioning requirement based on the analysis will slightly come down, taper down. So to that extent, there is an improvement in the overall collection efficiencies and the quality of the NPA book.

**Jaiprakash:**

Got it. And sir, just a question on this, you said product innovation and new products, right? If you can give some more color around this, like we see that solar financing as a new product launch. And can you provide some thoughts on new product launches in the foreseeable period?

**Aalok Patel:**

So the individual loan portfolio in the Microfinance number side is one such thing where I think what is the book now of that INR285 crores So that is one part where we are using the BCMS to evaluate customers almost similar to how we evaluate them in the MSME book.

And we are focusing on -- see, one of the main purposes of JLG was also the opex side, because we were doing doorstep collections. And so instead of going to one customer to collect at their doorstep, it's a lot easier to go to five and collect at their doorstep, right? So apart from the risk mitigation part, there was a good case in terms of operating cost as well.

So with these customers, we are targeting cashless. And I think until last month in this entire portfolio, I believe 75% to 80% of the money was coming through cashless mechanisms, primarily the UPI mandates or NACH mandates. So that is the full model. We are not waiting for the customers to initiate a cashless payment, but we are directly pulling it out of their bank accounts.

So as long as it remains that way, even if it maybe slightly goes slightly lower, I'm very, very comfortable with the individual book. In fact, more so, because we are doing a lot more underwriting. The only problem with individual that I had was the opex side. But as long as it continues to perform well in cashless payments, I don't foresee much of an issue there. So that is the individual loan side.

Other than that, obviously, we had started Micro LAP. We have talked in quite a bit of detail in this call about that. I won't get into that. Solar is just an experiment. I mean, I don't want to spend too much time talking about it. People who have been following the company knows that we do these occasional pilots and experiments. I think let's talk more about it in the next quarter. It's really too early to kind of get into a lot of details about that.

**Moderator:**

The next question is from the line of Shyam Sampat from MSA Capital Partners.



**Shyam Sampat:** I want to understand, firstly, on the MSME book. We had spoken about earlier as another participant how the book grew and it contributes a significant portion of all the high-yield book. So because this is a high-touch cash collection model, I wanted to understand do the current branches and manpower infrastructure that we have, does it support further scaling of this vertical if required without diluting the underwriting standards?

**Aalok Patel:** It's the current -- so what you are asking is, can I push the portfolio higher without increasing operating cost?

**Shyam Sampat:** Correct. Yes.

**Aalok Patel:** Yes. But not by much. Maybe 10%-20%. I take that back. I mean, we have a lot new branches. Maybe by about 20%-25% for sure, we can scale up without increasing opex. Will we, I don't know. I mean, it's a continuous process. You've got to open branches, invest in people. It's the case load of around 300 or something in the MSME.

I have to hire another ICO. Once the branch reaches a certain portfolio, I have to get assistant BM. Once the branch reaches a certain portfolio, in the credit side instead of one. And then there's a whole support team above it. So MFI 100%, I can tell you that we can scale that up quite a bit before quarter we need to hire new people at least in terms of portfolio and disbursement. MFI new branches, I'm not too sure.

**Shyam Sampat:** Okay, sir. Understood. Sir, and the next question with regards to -- in the presentation, you had mentioned that digital collections are now above 25%. And -- so I want to understand with that, are we analysing the credit behaviour of digital peers versus cash peers? And if in case we are doing that and if digital peers show a lower default rate, are we thinking of any differential pricing with lower interest rates to incentivize digital adoption?

**Aalok Patel:** That's a good question. So, I mean at the origination space we cash payers and cashless because we encourage all customers to become cashless. At the organization state I don't know I think that's an interesting point, Vivek. We'd have to look into that at that point.

Right now, no, we are not distinguishing the cash payer versus cashless players. It's hard to tell them apart during the origination side. In terms of offering better rates to people who are paying cashless in further cycles, of course, I'm happy to do so because the operating cost would be much lower. So yes, I think if a customer is paying a significant amount of their EMIs through cashless mechanisms, definitely, we can pass on some rate benefit.

**Shyam Sampat:** Okay, sir. Got it. Sir, next, I wanted to understand, you had mentioned there were commentary around like visible signs of normalization and credit behaviour is improving, right, like industry wide. So given that our MFI GNPA has moderated down to 3.4%. Do you think that this is the bottom of the credit cost cycle that we are seeing or in the coming quarters, can we expect more write-offs?

**Aalok Patel:** I'm not sure exactly how to answer that. Vivek, will GNPA's continue to go down from this 3.4%? My judgment tells me that, yes, definitely, in Q4, it should go down further.

**Vivek Modi:** So primarily, if you can look at the GNPA plus 12-month trading write-offs, if we can put it that way as a figure, that definitely has been tapering downwards for the last three quarters, and we feel that this will continue to kind of keep coming down with the overall improvement in the sector and also with the kind of checks and balances that we put into place through this will be probably expecting it to perform better than the market number.

**Aalok Patel:** But where the industry stands today, it would be hard for me to say, we will ever go below 3%, for example. So I mean, good cycles where you are growing very fast and due to the denominator effect under 3%. But it would be very difficult to say that in the long run, on average, it will go below 3%, but happy to be proven wrong.

**Shyam Sampat:** Okay, sir. Got it. There was a slight disturbance, but I think I get the gist of what you're saying.

**Aalok Patel:** Sorry.

**Shyam Sampat:** No, no worries, sir. No worries. Next, I wanted to understand, sir, around the MFI customers, we are down to about INR5 lakhs and our disbursements are rising. So is this because we are increasing the ticket size per borrower to drive growth? And do you see this as a risk of increasing delinquencies next FY?

**Aalok Patel:** So yes, I would say it would be super critical of me to not acknowledge the fact that the average ticket sizes have increased, especially not in the JLG products. I think in the JLG products, they have decreased or are in stagnant. But in the other products like the individual loans, they are obviously much higher.

But that said, being sort of a conservative kind of a guy myself. In terms of risk, I am not very uncomfortable even despite the higher ticket sizes in the individual products. Because, again, we are being very, very careful, very selective.

To give you an example, in the individual product, all of our customers have like a credit score of 300 plus, and they all have credit history. So we are not really doing a lot of new to credit borrowers unless the checks and balances around that are even much stronger. So it's just a different product.

So I would be a lot more uncomfortable if the JLG ticket size is not increasing. In this product, we are taking ample precautions. And still, I agree, it's still at an early stage to say whether it's less risky, more risky. But it seems like the right strategic decision, and I still stand by that this was the right direction to go towards.

**Moderator:** So as that was the last question for the day, I would now hand the conference over to Mr. Aalok Patel, Joint Managing Director, for closing comments. Over to you, sir.

**Aalok Patel:** Nothing much to add. I think nice long call. I thank everybody for being a part of this call and hopefully answered all the questions to the best of our abilities. And if you need more information, please feel free to contact the Investor Relations team. Their contact is available in the presentation, and I appreciate everybody's time. Thank you very much.



**Moderator:** Thank you. On behalf of Arman Financial Services Limited, that concludes this conference.  
Thank you for joining us, and you may now disconnect your lines. Thank you.