Arman Financial Services Limited

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August 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
Script Code: 531179 **ISIN: INE109C01017**	**Symbol: ARMANFIN** **Series: EQ**

Dear Sir,

Subject: Transcript of Conference call with Analysts / Investors on Financial Results for the quarter ended June 30, 2026.

In continuation of our letter dated August 07, 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 Thursday, August 13, 2026 in respect of the Financial Results of the Company for the quarter ended June 30, 2026.

Kindly take it on your record.

Thanking you,
Yours faithfully,

For, Arman Financial Services Limited

Uttambhai Narayanbhai Patel
Digitally signed by Uttambhai Narayanbhai Patel
Date: 2026.08.20 10:08:59 +05'30'

Uttam Patel
Company Secretary & Chief Compliance Officer

"Arman Financial Services Limited Q1 FY27 Earnings Conference Call"

August 13, 2026

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13th August 2026 will prevail."

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

MODERATOR: **MR. SHREEPAL DOSHI – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY27 Earnings Call of Arman Financial Services, hosted by Equirus Securities. 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Shreepal Doshi from Equirus Securities. Thank you, and over to you, sir.

Shreepal Doshi: Thank you, Sumit. Good evening, everyone. I welcome you all to the earnings conference call of Arman Financial Services to discuss the Q1 FY27 financial performance and business update. Today, we have Mr. Aalok Patel, Vice Chairman and Managing Director; Mr. Vivek Modi, Executive Director and Group CFO.

I will now hand over the call to Mr. Aalok Patel for his opening remarks, post which we can open the forum for question-and-answer. Over to you, sir.

Aalok Patel: Yes. Thank you, Shreepal, and a very good afternoon to everybody, and thanks to everyone for joining us today for the Arman Financial Services Q1 FY27 Earnings Conference Call. As Shreepal mentioned, I'm joined on the call by Mr. Vivek Modi, our ED and Group CFO, along with the Investor Relations team. I hope all of you have had an opportunity to review our financial results, the investor presentation and also the press release.

So let me start first with the operating environment. So Q1 of FY27 has been an encouraging start to the year and more importantly, the improvement that we started seeing during the second half of FY26 has continued into this quarter. Collection trends have remained stable, fresh delinquencies have moderated and borrower behavior has continued to improve across most of our operating geographies.

That said, I would still hesitate to say that the sector has completely normalized. We are clearly operating from a much stronger footing than we were a year ago, but there continues to be uncertainties in the broader economy, and we remain watchful. Volumes have been a bit lower than expected in Q1, but that is not unusual in the first quarter of the fiscal year, particularly given our continued emphasis on quality over quantity.

I made a point on our previous call, which I think continues to remain relevant. The improvement that we are seeing should not necessarily be interpreted to mean that the ground level environment has suddenly become easy. A meaningful part of the improvement is because we are selecting better, monitoring better and also collecting better. That is obviously encouraging, but the macroeconomic environment continues to remain complicated.

For us, the important thing is not to conclude that the cycle is behind us and simply go back to business as usual. At the same time, let me also say that cycles come and go, and they are part of the business that we have chosen. The important thing is to learn, monitor, adapt and to move forward.

Against this backdrop, I am pleased to share that our consolidated AUM reached a record high of INR2,925 crores as of June '26, representing a growth of 36% year-on-year. Consolidated disbursements during the quarter were INR686 crores, up 76% year-on-year and represented our highest ever first quarter disbursements. Despite the strong AUM, I want to make it clear that it does not represent a change in our risk posture. Our rejection rates continue to remain relatively high, and we are comfortable with that.

We continue to see healthy traction in our individual loan portfolio, which now accounts for 33% of our overall book and is becoming an increasingly important part of our microfinance business. The objective here is not simply to increase ticket size or move away from traditional JLG-based group lending. The objective is to move progressively towards more individualized credit assessment where we understand the customers' household cash flow, credit behavior and repayment capacity more closely and structure the loan accordingly.

As this portfolio scales, the underwriting architecture becomes even more important. Wherever applicable, we are increasingly relying on, of course, credit history and bureau behavior, but also customer level cash flow assessment and digital repayment mechanisms such as UPI mandates and e-NACH. We believe that gives us a much better understanding of the individual borrower than relying purely on group behaviors or standardized one-size-fits-all credit filters.

Overall collection efficiency for Q1 stood at 96.6%, and we saw a steady improvement throughout the quarter. By June, overall collection efficiency had improved further, which gives us comfort on the behavior of the more recently originated portfolio. Our asset quality has continued to improve over the past four quarters with consolidated GNPA now at 2.76% and NNPA improving to 0.84%. Early-stage delinquencies have also remained largely stable at approximately 99.5% zero DPD flow forwards.

One of the biggest changes that we have made over the last few quarters have been to bring greater independence and accountability into our credit and collection processes. We have strengthened the credit function at the point of origination and separately built dedicated collection teams. This has helped us become more disciplined in borrower selection and bring greater focus to collections.

When we introduced these changes, they came with a meaningful increase in operating cost. We had said at the time that the asset quality had to take priority over near-term operating expenses. I think we are now beginning to see the other side of that investment. The new structure is now pretty well embedded across the organization, and we are seeing better accountability, sharper credit decisions and more focused collection execution. At the same time, as the portfolio has started growing again, our operating cost ratios are beginning to improve as well. Apart from improving asset quality, the independent credit structure has also given us greater confidence to scale the individual loan portfolios.

Our consolidated pre-provisioning operating profit increased to INR77 crores during the quarter from INR59 crores in Q4 FY26. Cost to income improved meaningfully to 44.3% from 51.7% in the previous quarter. Of course, there is still considerable work to be done on operating efficiency. We are not exactly where we ultimately want to be, particularly in the microfinance business, but the direction is, of course, encouraging.

Our objective remains to bring operating costs down through a combination of portfolio scale, productivity improvements and technology without reversing the credit and recovery controls that have helped improve the quality of the book. We have also continued to strengthen portfolio protection through CGFMU scheme. As of 30, June 2026, approximately 94% of the eligible microfinance portfolio was covered under the scheme. That said, I also want to mention that we do not view CGFMU as a substitute for underwriting. The first line of defense always remains customer selection and collections. The guarantee provides an additional layer of protection against tail-end events and over time, should make credit losses more manageable and more predictable through cycles.

On the consolidated financial performance, gross total income for the quarter stood at INR202 crores, up 34% year-on-year and 15% sequentially. Net total income increased to INR138 crores and PPOP, as I mentioned earlier, was INR77 crores. Provisions and write-offs for the quarter were INR20 crores Profit after tax stood at INR45 crores compared with a loss of INR15 crores in Q1 FY26 and INR41 crores in Q4 FY26.

Apart from the profit numbers, it is encouraging to see that profitability has improved alongside AUM growth, better collections, low fresh delinquencies, improving asset quality, and some early improvements in operating efficiency. That combination is much healthier than a recovery, driven only by lower provisioning. Our consolidated NIM remained healthy at 17.4%, while annualized return on average AUM was 6.4%. Return on equity was 18.9% for the quarter, annualized, of course.

On capital and liquidity, we remain comfortably positioned. Capital adequacy stood at 33.6% for Arman stand-alone and 38.8% for Namra Finance. As of June 2026, our consolidated shareholders' equity was INR979 crores. We also maintained a healthy liquidity position with INR286 crores across cash and bank balances, liquid investments, and undrawn CC limits. In addition, we have INR335 crores of undrawn sanctions from existing lenders, providing us with sufficient headroom to support our funding requirement and growth plans.

Moving on to the key financial and operational performance of stand-alone. AUM for the quarter stood at INR758 crores for Arman, registering a 26% year-on-year and 4% sequential growth. Disbursements during the quarter improved to INR156 crores with MSME segment driving the growth. Gross total income for the quarter stood at INR66 crores, up 30% year-on-year, while PPOP stood at INR24 crores. Profitability also improved with PAT at INR15 crores, up 17% year-on-year and 48% quarter-on-quarter.

Moving on to the key financial and operational performance of Namra Finance, our microfinance subsidiary. Namra AUM grew 39% year-on-year and 8% sequentially to INR2,167 crores as of June 2026. Disbursements during the quarter stood at INR530 crores. This growth also reflected in operating performance. Gross total income for the quarter stood at INR138 crores compared with INR101 crores in Q1 FY26, registering a 35% year-on-year growth. PPOP increased INR52 crores, up 64% year-on-year and 26% quarter-on-quarter.

The improvement in operating performance along with lower provisions translated into a meaningful improvement in profitability with PAT at INR30 crores compared to a loss of INR28 crores in Q1 FY26. We also saw an improvement in the underlying economies of the portfolio. NIMs improved to 15.37% during the quarter, supported by better yields and growing share of individual loans in the portfolio mix. On asset quality, GNPA has improved significantly from its peak of 3.8% to 2.59% currently.

This is encouraging and reflects the steady improvement we are seeing in collection and repayment behavior across the portfolio. Overall performance across both businesses remain healthy with stable growth, improving profitability and continued improvement in the portfolio quality.

Looking ahead to the remainder of FY27, our approach remains largely unchanged. We want to grow, but we want that growth to be careful, calibrated, and supported by quality of the underlying portfolio. We will continue to recalibrate growth based on what we see in collections, early delinquency trends, borrower cash flows and, of course, overall macroeconomic conditions.

There have been geopolitical uncertainties, some of which we discussed last quarter, disruptions arising from the situation in West Asia and weather-related uncertainties during the quarter. Given this operating environment, I had actually expected to see some marginal softening in the repayment behavior. Thankfully, so far, this has not shown up materially in our numbers.

Of course, I would not conclude from this that there will be no impact because macro events can sometimes affect our customer segments with a lag. But at this stage, the portfolio has held up better than I had expected, and we will continue to monitor the situation very closely over the coming quarters. Overall, I believe we have entered FY27 from a considerable stronger position than we were 12 months ago.

Importantly, that strength is not just reflected in asset quality or profitability. We have also come through this cycle with a more disciplined underwriting framework, a stronger collections architecture, and better understanding of where we need to continue improving as an organization. Our priorities, therefore, remain very straightforward: protect asset quality, maintain underwriting discipline, improve operating efficiency, grow responsibly, and continue building a sustainable lending franchise.

With that, thank you, and I would like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ronak Chheda from Awriga Capital Advisors LLP. Please go ahead.

Ronak Chheda: Yeah hi. Firstly, congrats to the team on the results. Aalok, in your opening remarks, you mentioned that things are not really behind us in terms of the cycle. But if I were to take a devil's advocate position here, actually it's not reflecting in the data which we presented or even your listed peers have published on the collection side, on the X-bucket numbers, on the par numbers. What is it that is making you still cautious? Is it the scar of the last cycle? Or is there some data points which keeps you worried at night. Just wanted to pick up your thoughts on this one first.

Aalok Patel: No, surprisingly, all the data points are favorable. Perhaps it is a little bit of PTSD. But the macros on the ground level just don't seem to be as -- I mean, I have no data to back it, just my own observations on level that as far as income growth, which you would expect to see in the rural has not been happening for a while.

Inflation is increasing. Jobs are there, but not the jobs that people want. So those kinds of factors kind of, I don't know, judgmentally, I wouldn't say scare me, but of course, concern me slightly. But apart from that, the data is favorable, the numbers are favorable. Everything is good. So I have no reason to be pessimistic at all. But this is just something that we have to keep in the back of our head and be careful. That's all.

Ronak Chheda: Fair. Just on the asset quality again. You said asset quality will take precedence over the near-term investments in opex. You're also talking about recalibrated growth. You want to focus on the quality of the growth rather than the volumes, the rejection rates continue to be high. Just in this backdrop, how do you envisage this all plays out over the next two years to three years? I mean what is the kind of expectation from a credit cost performance, which you would expect saying that this was all worth it in the end. What is that goal on the credit cost, which you expect out of the entire shift of focus towards better quality book? If you could just comment.

Aalok Patel: I have commented on things like that, and I have always really been wrong on it because when cycles shift, it's never like, oh, you go from 2% credit cost to 3% and you're like, okay, another 1%, who cares, right? I mean my balance sheet supports it and why should I sacrifice growth today in exchange for maybe a 1% better credit cost a year down the road.

Unfortunately, it does not work like that. When things go out of control, they go out of control very, very quickly. And so we made a lot of mistakes, but we are quick learners in that sense.

So, again, I don't want to -- maybe I sounded more pessimistic than I should have in hindsight in my opening remarks. I am not talking about growth opportunities being there, but being scared. I'm not scared. I'm still confident. It's just I don't want the same euphoria that happened post-COVID, where everyone, including myself, went little crazy and just started disbursing left and right. That's all I was trying to communicate.

Ronak Chheda: Fair. Thanks. And last question I come back in the queue is on the stand-alone book on the MSME side. Now that most of these MFI players are also talking about individual loans, talking about cash flow-based underwriting, do you see segment become crowded over time and probably people will start losing their credit filters to chase growth? Just how are you seeing the competitive intensity on that side of the business?

Aalok Patel: I mean, there are good players doing good business right now. I don't think anybody is going crazy in terms of sacrificing quality in exchange for growth, at least not yet. Of course, people have short memories, six months, 12 months down the road, some pressure, investor, promoter pressure, whatever it may be, will take over and people will start saying that, well, that was a year ago, that was two years ago, things have changed. Let's just tweak this filter, are we being -- let's reduce the scoring here. What do we gain, what do we lose? Those kinds of decisions are very common, and I'm not immune to it myself.

So yeah, I think it's basic human behavior that life goes on sometimes and you forget the bad stuff and then you start becoming slightly more optimistic. And by the time the next cycle hits, hopefully, you are not in a bad shape.

Ronak Chheda: Perfect, perfect. Thank you. I will look for thought. Best of luck to the team.

Aalok Patel: Thank you.

Moderator: Thank you. The next question is from the line of Karthik from UNIFI Mutual Fund. Please go ahead.

Karthik Srinivas: Thanks for the opportunity, and congratulations on a good set of numbers, sir. I just had one question. Just on the recovery on write-offs and bad debt. So how are we seeing that trending because most of the listed peers have also recorded good recoveries in their portfolio. I just wanted to understand how is it for us and how is it going forward?

Aalok Patel: Bad debts recovery, Vivek, you have.

Vivek Modi: Karthik, bad debt recovery, it's been pretty encouraging here as well. But kind of give you a slightly detailed answer. The recent write-off that we've seen in the last, let's say, 24 months include about INR185 crores of write-off pool that we've done an ARC transaction on. We sold about INR185 crores of pool under an ARC in March 2025.

There this year, we've seen a recovery, which is almost close to about 10%. And the overall recoveries in the write-off has been about 3% to 4%, which is on a comparative basis seems to be a good recovery, and we're still not over with it. There is a growth period of another at least 12 months to 18 months left before these accounts kind of completely go sale.

Karthik Srinivas: Got it, sir. Sir, my second question is on the liquidity. So sir, since last year, we have been a little high on liquidity because for obvious reasons. We just wanted to understand when will this go -- I mean, when will you start having lower liquidity and moving into a more disbursement phase? Are you eyeing that phase now or you still want to understand the dynamics better and then before you move to that zone?

Aalok Patel: I think our liquidity is already sufficiently low. I would not necessarily call our liquidity high. I mean probably on average, we are maintaining what we make, about INR300 crores?

Vivek Modi: INR300 crores, which is like about 1.5 months of repayment requirements, repayment obligations and maybe maintaining one month's disbursement requirement so to say, so which is I think a standard requirement that we've been following.

Aalok Patel: I would not necessarily call our current liquidity position as high. I would say it is probably not low either. It's probably Goldilocks, that's right.

Karthik Srinivas: Got it, sir. That’s it from my side. Thanks. Thanks so much, and all the very best.

Moderator: Thank you. The next question is from the line of Rohan Mehta from Ficom Family Office. Please go ahead.

Rohan Mehta: Thank you so much for the opportunity. So before I ask the question, I'll just give some context on three points. So on yield, one of the larger peers, they are being about a 50 basis point cut in the lending rate this particular year. And another peer, they have stopped raising rates and they may pass those gains back to the customers. So this is on yield. On funding, your current incremental borrowing cost is at 11.7%, and that has been coming down from the 12%-odd levels, but purely on the level at which you borrow is higher versus the peers. Of course, it also depends on the size of the book.

And the third point is your opex. So if I annualize your opex, it comes to about 8.5% versus the target that you are aiming at about 7% for FY27. So with that context in mind at about 25% to 30% AUM growth that you have guided, what is the FY27 outlook on each of those three points, which I earlier mentioned, which will yield, your funding cost and your opex? And according to you, which is the one that will contribute the most towards profitability? Right now, which one do you see has the most lever? And just one more thing on the cost front, are you focusing more on...

Aalok Patel: Wait. Stop. I've already forgotten the first two-thirds of your question. Let's go one step at a time. What was your first question?

Vivek Modi: Do we envisage reducing the coupons, the ROI in the coming…

Aalok Patel: Why?

Vivek Modi: His contention is that some of the larger ones have kind of hinted that they might bring down.

Aalok Patel: So if I understood your question, listen, there are largely four components in doing this business. There is interest income, interest expense, you have your opex and your credit cost, right? So I think you are asking about all four at this point. So specifically on the yields, I think the only thing that really protects you is your top line when everything hits the fan. And already, we are being watched by as many people as possible to keep the rates reasonable, specifically, RBI and we are always justifying of what rates we are charging and how much we are charging.

Now the other side of the coin is as far as the customers, are we losing customers because we are charging too high? Is it affordable to the customers? So these are all kind of questions that we have to consider. If we reach a point where we are making too much money, I'm okay with reducing rates, but I've not given it much thought at this point. So that's, I think, the first line item.

The second, I think you were talking about interest expense, the debt cost. So yes, that has been marginally coming down. I think if you are comparing to the peers, a lot of it has a function of size as well. But that being said, it's a constant endeavor. Obviously, we possibly could do better in reducing it even further. I believe we are approaching rating agencies and stuff at this point also for upgrades. So hopefully, that should meaningfully reduce it by, I don't know, Vivek, 20 bps, 30 bps at least on the plate.

The important thing is that while everybody in the industry, minus like, let's say, the top 10 players who are facing issues related to liquidity, I cannot recall the last time that we needed money and we couldn't find it, right? Reducing interest cost obviously becomes the biggest endeavor.

As far as opex, I've already mentioned in previous meetings and in my opening remarks, yes, it is high, and it's high for a reason. We have added the BCM structure. We have separated collection team. And over and above that, we are also subscribing to CGFMU.

But I think that number that is at 8% was probably closer to 9% last quarter, and it will probably reduce further in the next quarter as well. So opex is not increasing as fast as AUM. So from a percentage standpoint, that should start coming down further in the coming quarters. And the goal is to get it down to 7%, which is what I had stated earlier, I don't know if it was one quarter or two quarters ago by the end of March. So we are well on track to do that. I think what was his third point

Vivek Modi: That's three. I mean, are we missing out on something on that?

Rohan Mehta: Right, right. Thank you for the clarification. So my last question is on so when I look at the MSME par level, I'm talking 31 to 90. So that has marginally moved up from 0.7% to 0.9%. And if I take a look at also LAP, the GNPA has doubled and considering that there's an LTV of 65% maximum. So my question to you is, has there something seasonally changed in terms of competition or in terms of the quality of the collateral?

Aalok Patel: No. There are some issues going on in Telangana. I think that

Vivek Modi: Other states have been consistent, but Telangana, we are seeing a bit of slightly higher stress, which is again, I think sectoral, I think everybody has been reporting some concerns in Telangana. And that's why you see about 10, 15 basis kind of upward. I'm sure there are other reasons also.

Aalok Patel: Yes, there are other reasons.

Rohan Mehta: Right, right. Any particular segments or pockets apart from states like where you see there is too much exuberance rather than yield demand or any initial signs that you see upfront?

Aalok Patel: None that I can think of on the spot.

Rohan Mehta: Sure. Thank you so much and wishing you all the best.

Aalok Patel: Thank you.

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

Sonal Minhas: Yeah. Sir, my first question was with regard to the provisions that we have. If you see them quarter-on-quarter, we increased the provisions from INR17.2 crores to INR19.5 crores. Just wanted to understand some bit of subjective commentary on where some extra provisioning has been done on a quarter-on-quarter basis. That’s one.

And the second question is that just like other NBFCs and other institutions, if you can add a chart or a table on your gross NPA additions, slippage and the similar schedule for provisions that will just help us round this up 360 degree. Thanks.

Aalok Patel: Provisions have increased by INR3 crores.

Vivek Modi: You are talking of provision increasing Arman, in absolute terms?

Sonal Minhas: Yeah. So provisions at the consolidated level have gone up from INR17.2 crores to INR19.5 crores. Just wanted to understand that? Yeah.

Vivek Modi: You are talking of a P&L number, right?

Sonal Minhas: Yes.

Vivek Modi: It's primarily, I think.

Aalok Patel: The portfolio would have grown.

Vivek Modi: The portfolio would have grown. That's where.

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Sonal Minhas: Okay. Is it linked to increase in the NPA for the LAP portfolio?

Vivek Modi: No. In fact, NPAs have kind of come down but it just has

Sonal Minhas: NPAs have come down.

Vivek Modi: Come down but overall the portfolio has expanded by about INR200 crores in microfinance and about INR100 crores in Arman standalone. So, as the portfolio grows just that number will go up.

Sonal Minhas: Okay. If you could just take care of the request on the schedule or disclosure for NPAs as well as provisions that will just help us understand the maths in the number terms.

Aalok Patel: You want a disclosure on what exactly? A table on how the NPA was arriving?

Sonal Minhas: Opening, closing of NPAs and opening, closing of provisions. Yeah.

Aalok Patel: Okay. Fair. Oh, okay. We will try to build it in.

Aalok Patel: Vivek, he is talking about the total provisions and write-offs on a P&L number, not the balance sheet number.

Sonal Minhas: The balance sheet number as well because the balance sheet number leads to the P&L number basically.

Aalok Patel: As far as Q4 of 2026, which is what you are seeing, that was substantially lower because we had over-provided during the rest of it. For the full year, it was INR150 crores.

Sonal Minhas: Got it. Okay. So it is not really comparable.

Aalok Patel: It is not really comparable.

Aalok Patel: The INR17.2 crores and INR19.5 crores you were mentioning, that is a P&L. Okay.

Number in provisions and write-offs.

There was too much stuff going on last year, so it's not really very comparable from Q4 to Q1.

Sonal Minhas: Okay. All right. Thank you.

Aalok Patel: Sorry, I was a little confused. I was thinking of the balance sheet numbers.

Sonal Minhas: All right. Thank you.

Moderator: Thank you. The next question is from the line of Keshav Karwa from White Pine Investment Management Private Limited. Please go ahead.

Keshav Karwa: Hi, sir. Thank you for the opportunity and congratulations on a good set of numbers. Sir, I have two questions. One is on how were the July collection trends? Did you see any stress in any of the books as such?

Aalok Patel: Marginally, there were issues related to rain in Gujarat and stuff like that, but that has subsequently been covered up. So it is hard to assess, to be honest, with basis point differences. Was July slightly lower than June? Yes, marginally in terms of repayment rates of on a static pool basis and in zero DPD, I believe there was three basis points difference

Vivek Modi: There was severe downpour in South Gujarat, similarly north U.P., parts of Bihar. Those are more cyclical in nature, and I think they are being taken care of.

Aalok Patel: Yeah. Nothing that concerns me immediately.

Keshav Karwa: Okay. Second is on credit costs. Are we still maintaining the guidance at 3% or planning to improve it further for the rest of the year?

Aalok Patel: Did we give such a guidance?

Vivek Modi: No. We did say that we expect the credit cost to remain about 3% to 3.5% going forward. I think that's not a guidance that you would like to say that way, but then -

Aalok Patel: If you probably include the cost of the CGFMU, then yes, probably 3% sounds about right, maybe 2.5%. 2% if we are lucky. Let's see how the year progresses. No. I am not sure. I have no idea, to be honest.

Keshav Karwa: Okay, sir.

Moderator: Thank you. The next question is from the line of Siddartha Venkatesh from Vayu Capital. Please go ahead.

Siddartha Venkatesh: Hi, sir. Thank you for the opportunity, and really congratulations on the great set of numbers. My question is broadly on the industry perspective. So, we are seeing players diversifying away from JLG-based lending to more sorts of individual lending. There is this talk that JLG model is going to become unsustainable. I just wanted your commentary on how you are seeing this JLG lending and what is the ground level for Arman. In the next two, three years, how do you see this JLG book split versus your more individual split? That is my question.

Aalok Patel: As far as JLG, I have made my feelings quite clear for, I think, at least the last eight odd quarters, maybe six quarters. JLG, yes, I won't use the term broken and stuff, but earlier it used to provide sufficient risk mitigation where you could replace it with individualized credit assessment, if that kind of makes sense.

Today, with changing scenarios, with multiple cycles, with easy availability, with multiple players, most importantly, culture of the emerging new generations and stuff like that, it was no longer providing the kind of risk mitigation that we were used to, let's say, 10 years ago. And so therefore, it's okay to still do group-based lending. It still offers some advantage, especially, in terms of opex, if you are dependent on cash collection because instead of going to one place, you can go to -- or instead of going to one place to collect from one customer, you can go to one place and collect from multiple customers.

So there are definitely advantages to still not completely dismiss JLG. But in my humble opinion, and there are many in my peer groups that are more experienced to disagree with me also, nothing wrong with that. That using JLG and not doing individualized credit assessment or relying too much on JLG's ability to mitigate risk is not sufficient in today's day and age. And so my opinion is that you have to do an individualized credit assessment.

What I mean by that is that you cannot have a one-size-fits-all credit policy that under INR2 lakh is a good customer and over INR2 lakh outstanding is a bad customer and INR12,500 is the magic EMI that we should be servicing, you know, stuff like that, like one-size-fits-all. So unfortunately, the business has become more complicated. And therefore, just like any other lending product, each customer will require their own assessment. I hope that sufficiently answers your question. I think now going all over the place.

Siddhartha Venkatesh: Yes, yes. Thank you, sir. That's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Srinath from Bellwether. Please go ahead.

Srinath: Hi, Aalok. Am I audible?

Aalok Patel: Yes, yes. Hi, Srinath.

Srinath: Yeah. Congratulations on the fantastic set of numbers, . Generally, wanted to get a feel that, you know, last time in 2023 towards the end we did about INR530 crores of disbursement with like something like 275 branches, 280 branches. Now we are at 400 branches, 425 branches. So with this current infrastructure and whatever extra people we have put for credit, do you think our current infrastructure can take us to like INR700 crores, INR750 crores, kind of, disbursement whenever that happens, but just do you have the infrastructure to support that kind of scale?

Aalok Patel: INR750 crores per month or per quarter?

Vivek Modi: Per quarter.

Aalok Patel: Per quarter. Yeah, 100%. This is more than sufficient.

Srinath: Perfect.

Aalok Patel: So as I mentioned, Q1 was slightly slower on the volumes than I expected, but that's okay. I mean that's not really unexpected. But, you know, with everything, kind of, being deleveraged and stuff like that, I was expecting slightly higher volumes. But that's fine. We cannot force these things. Obviously, the team has also been more on collection mode than growth mode for the past two years. So that will come back in the next couple of quarters. So I'm not too worried about that. So, but, yeah, I think the current infrastructure can I mean, we have already done it.

Vivek Modi: Quarter 4 was INR700 crores-plus like that.

Srinath: Let me -- I only spoke about microfinance, not the total business. Just microfinance.

Vivek Modi: Yeah, yeah. So Srinath…

Aalok Patel: Just microfinance was how much?

Vivek Modi: Quarter 4 microfinance alone wasINR38 crores. That was for CGFMU

Aalok Patel: The R&R was for DJFM

Aalok Patel: Yes. So it's definitely doable.

Srinath: Got it. So we have the kind of infrastructure to support growth. It's just about how credit and how the profiles flow to you and how comfortable you feel? Is that a fair understanding?

Aalok Patel: That is, I would say, a fair understanding, yes.

Srinath: Perfect. Can you spend a little time on the...

Vivek Modi : Srinath, just to correct the number, I think, Slide 30 in the presentation itself, disbursement for microfinance number for Quarter 4 was INR738 crores.

Srinath: Yeah. Sure, sir. If we can broadly give some understanding of how the LAP business is doing geographical expansion, credit experience, the experience of dealing with these loan papers, you know, the hypothecation, and also by now, I would have felt that this business could have reached like a INR40 crores, INR50 crores disbursement per quarter. So where are we? How do you assess our progress in the product? So complete 360 on this product would be great.

Aalok Patel: So it's not a bad product. I mean, we have seen enough files now and done enough business. But, you know, it's not an easy product for us. I mean we are unsecured people, right? We are microfinance. We like to open branches and people come to us to borrow money.

LAP is a slight change in our normal culture where, you know, in the secured side, there's a lot of competition and the tax are very, very high. Getting the documents prepared is also a bit of a hassle.

And so, I agree, things could have looked better. That said, these things take time. You know, MSME when we started it in 2018, for two - three years things were negligible in terms of disbursement. Then eventually, we found our footing and things expanded. So we cannot force these things. It will take its own time.

But, as I mentioned, this is not our normal cup of tea. I'm still comfortable with it. But there's a lot of competition for LAP loans and secured loans in general in the market. Everybody wants to do it. Even MFIs want to do it and SFBs want to do it and banks want to do it and FinTechs want to do it. Everybody wants to do it. So there's a lot of competition.

Srinath: So basically here, more than the profiles and our infrastructure, the issue is that there's basically three guys wanting to lend to the same person and therefore, that is the main issue in scaling up this product?

Aalok Patel: Correct. I would say the main issue is probably competition.

Srinath: Perfect. Perfect. Cool. Thanks a lot guys and hope this year even with your opening statement it is sparkles. Thank you.

Moderator: Thank you. The next question is from the line of Prathyush, an Individual Investor. Please go ahead.

Prathyush: Thank you, Aalok sir and Vivek sir for the opportunity. I have two questions. Firstly, for the ROA, in the previous con call, you had guided about 4.5% to 5% ROA. And this time in the investor presentation, you mentioned 5% to 6%. And this quarter, we've actually done 6.4%. So is there any structural upside that you will see in the ROA?

Aalok Patel: Okay. So yeah, it's a little higher than previous one. See, ROA is a function of leveraging also. So as the leveraging goes up, that number naturally comes down and then ROEs tend to go up. When I say such things, sometimes I just say it, I mean, there's not a lot of thought and calculation that goes.

Neither I give table saying that, well, at this leverage it should be this percent and then debt equity ratio of this, it will go down to that. I mean, I don't give any guidance on ROAs, very frankly. So where did we put 5% to 6%?

Vivek Modi: So historically, we've been able to deliver something like 5% to 6% ROA.

Prathyush: Okay sir. Sir secondly,…

Aalok Patel: Okay. So -- I'm sorry, I'm sorry I didn't answer your question. Yes, ROAs were fairly good this quarter. Do I have any guidance to give towards ROA? Well, ROA is a function of many, many things, including leveraging, including the four things which I mentioned a lot of those things are in flux.

So it's very difficult for me to give guidance. All I can do is say it historically we have done about 4.5-odd percent maybe on a fully levered basis. Today, the operating costs are slightly higher than what we are used to. So on a fully operate, let's say, a 20% capital adequacy, you might be at 3.5%, 4%, but difficult for a person like me also. Of course, we have simulations and we have business plans and a lot of things. But it's very difficult to predict these things.

Prathyush: Okay sir. Sir, one more thing in the microfinance JLG versus the individual business loans, can you quantify in terms of yield or gross NPA, how is it different? And is there actually a significant benefit that you're able to see in the individual business loan as compared to microfinance JLG model?

Aalok Patel: So without getting into specific numbers and percentages and things like NPA, I can tell you two or three things. Number one, as of today, individual is performing better than JLG. So Vivek, I hope you agree with that.

Vivek Modi: Yes, absolutely.

Aalok Patel: The second part is that as far as individual loans are concerned, the biggest issue is the opex. And so we have to make sure that we are able to collect a significant portion directly from their bank accounts. When we run the eNACH and the UPI mandates for the individual loans, about 68% to 70% clears, by the end of the month, we manage clearing about 85% through cashless and the balance, whatever, 14%, we are going door-to-door and collecting cash.

So right now, opex is also largely under control for individual as long as we are able to maintain the cashless collections in the individual side. I mean, it's a new product. Everything does well in the first year or two. So I cannot definitively say that individual is better than JLG, but definitely, without giving long-winded disclaimers, I like it better personally.

Prathyush: Okay. Got it and just one last thing, on the solar loan part, this is a new product. So in terms of yield or in terms of the expected gross NPA, how would this fare in relation to the other products you have? Is it in line with the yield of MSME or LAP? How does it play?

Aalok Patel: No, no, no. So solar is just an idea at this point. So we are not doing significant volumes. We are probably doing around INR50 lakhs a month at this point in selected areas. So far, there have been no defaults. So NPA is zero. And as far as the ROEs or ROIs are concerned, we are doing it at what are we doing about average of 18% to 20%.

So it's kind of a low risk, low return product.

Prathyush: Okay. Got it, sir. Thank you so much.

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

Aalok Patel: Yeah. Great. Well, thank you, everybody, for joining and being part of this call. And we hope we have answered all your questions. Thanks, Shreepal and Equirus for hosting the call. And if you need any additional information, please feel free to contact us or the Investor Relations team. Thanks again for your time. Sumit, please, you can disconnect the call.

Moderator: Okay. Thank you. On behalf of Equirus Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.