Asset Reconstruction

Operator: Ladies and gentlemen, good day and welcome to Asset Reconstruction Company (India) Ltd. Q2 and H1 FY '27 Earnings Conference Call. As a reminder, all participant lines will be in 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 the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. Without taking any more time, I will now hand it over to Mr. Phanindranath Kakarla for his opening remarks. Thank you, and over to you, sir.

Phanindranath Kakarla – CEO & MD: Good morning, ladies and gentlemen, and welcome to the earnings call of Arcil for the second quarter and half year ended September 30.

At the outset, my warm wishes to all of you for the festive season.

I am Phanindranath Kakarla, CEO and MD of Arcil. Joining me is Mr. Pramod Gupta, our Chief Financial Officer, and Strategic Growth Advisors, our Investor Relations advisors.

You may have noticed the image on the cover of our presentation. Kintsugi is the Japanese art of repairing broken pottery with gold, so that the restored piece carries more value than before. That is a fair picture of our work. We take assets that are broken and restore their value, guided by the same approach: buy with discipline, resolve with urgency, and deploy capital with a clear focus on returns.

This half year also marked a milestone for us. In September, Arcil became India's first listed ARC. Since then, we have had multiple investors and more than 1 lakh shareholders, and we take seriously the transparency that comes with being a listed company, including being clear about how our business should be read.

Given our recent listing, it has only been a few weeks since our first call, so I will keep the context brief and spend most of my time on what this half year tells us. Pramod will then take you through the numbers in detail.

The scale of the opportunity has not changed; in fact, it is likely to grow. CRISIL estimates total stress across banks and NBFCs at about 23.7 lakh crores in FY '26. About 15.9 lakh crores of it, or two-thirds, is NPAs and written-off loans, which is what stressed lenders actually sell. The remaining 7.8 lakh crores is special mention accounts. Over the last couple of years, we have seen that banks and NBFCs have also started selling special mention accounts. In fact, in the retail book across the industry, close to over 25% of the accounts being sold by number of accounts are special mention accounts.

Corporate written-off loans alone account for about 6.4 lakh crores, and retail and MSME account for the remaining approximately 9.5 lakh crores. This pool has been growing by around 1 lakh crore a year, while ARCs buy below 10% of it, which is our own internal estimate each year. That gap and the growing stressed asset market are the industry's runway.

As India's first and largest private ARC, we are well equipped to use that runway. We price with discipline. Our AUM is about 14% of the 1.4 lakh crore of dues we manage. In this half year, we

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acquired assets at about a fifth of their dues. We draw on more than two decades of resolution experience and relationships with more than 140 lending institutions. Our technology platform serves more than 3.29 million retail borrowers, supported by 15 offices across 12 states.

With net worth of over 3,300 crores, debt to equity of 0.37 times, and capital adequacy of 70.5%, our balance sheet clearly has room to grow.

These trends are visible in our market position. Between FY '24 and FY '26, our share of industry AUM rose from 11% to 15%, and our share of industry acquisitions rose from 6% to 17%.

Compared with the half year of last year, our AUM grew 21% to 20,274 crores. Acquisitions rose 18% to 1,707 crores, and recoveries rose 21% to 2,135 crores. Total income rose 48% to 516 crores, and profit after tax rose 54% to 290 crores.

The half year also shows the pattern we described on our first call. Acquisitions build through the period. Q2 acquisitions were nearly 4 times those of Q1 and 43% higher than the same quarter last year. Recoveries crossed 1,000 crores in both quarters, even though the timing of individual corporate resolutions left Q2 below the strong Q2 last year. The ECL provision taken in Q1 has been partially reversed.

That is why we ask you to look at our business over longer periods. Resolution cycles are long, corporate recoveries are lumpy, and acquisitions are seasonal, concentrated in the second half as lenders review asset quality ahead of their year-end. A half year smooths some of that variation; a full year smooths it more.

We have also made progress on collection as a service, which puts the platform we built for our own retail book to work for banks and NBFCs. We have started pilots with a couple of lenders, and we expect to scale it through the second half.

We go into the second half, seasonally our strongest period for acquisitions, with a healthy pipeline. Our priorities are to grow our corporate book, particularly mid-sized assets with sound underlying value; to increase the share of retail and SME; to scale collection as a service for banks; to evaluate stressed microfinance portfolios selectively; and to keep investing in technology and analytics to lift recovery outcomes.

With that, I will hand over to Pramod. Thank you.

Pramod Gupta – Chief Financial Officer: Thank you, Phani, and good morning, everyone. I will take you through our performance for the half year, touch briefly on the second quarter, and then cover our balance sheet and our consolidated results. Unless I say otherwise, all comparisons are with the first half of FY '26.

As of September '26, our AUM stands at 20,274 crore, up 21% from 16,784 crore as of September 30, '25. Corporate, retail, and SME represented about 66%, 25%, and 9% of our AUM, respectively, against about 69%, 24%, and 8% earlier, as retail continues to grow its share. Dues standing under management rose 20% over the same period to about 1.4 lakh crore from 1.17 lakh crore.

During the half year, we crossed retail AUM of 5,000 crores for the first time.

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We acquired 1,707 crore of stressed assets in H1 compared with 1,445 crore in H1 FY '26, an increase of 18%. The build through the half year was marked: 353 crore in Q1 and 1,354 crore in Q2, with Q2 up 43% on the 949 crore of Q2 FY '26. Arcil invested 718 crore of its own capital in H1 acquisitions, an investment ratio of 42%. Recoveries for H1 were 2,135 crore compared with 1,765 crore in H1 FY '26, an increase of 21%. Q2 recoveries were 1,069 crore compared with 1,339 crore in Q2 FY '26, a quarter that included large corporate resolutions. That is the lumpiness of corporate recoveries at work and why the half year comparison is more meaningful.

SR redemptions for H1 were 1,583 crore compared with 1,500 crore in H1 FY '26, and our cumulative SR redemption ratio remains at about 52%, up from 50.8% as of March 31, '26.

Revenue from operations for H1 was 512 crore, up from 337 crore in H1 FY '26, and total income was 516 crore, up 48%. The strongest line was fee and other income, which rose 82% to 227 crore from 125 crore on the back of large AUM and higher resolutions. Other operating income, essentially investment upsides, was 122 crore compared with 87 crore in the previous half. Write-backs, comprising the recovery of security receipts, fees, and expenses written off in earlier years, contributed 129 crore compared with 37 crore earlier. As we noted earlier, these recoveries recur every year, but timing can vary. Net unrealized mark-to-market gains were 26 crore compared with 72 crore in H1 FY '26.

On the expenses front, expenses and finance costs were 43 crore compared with 7.5 crore, reflecting borrowings drawn to fund acquisitions. Impairment, depreciation, and amortization were 13 crore compared with 4 crore. This is the ECL provision made in Q1. A part of that was reversed in Q2. Employee expenses were 39.2 crore compared with 30.8 crore in H1 FY '26, net of a 3.5 crore reversal of an excess provision for the previous year. Other expenses were 25 crore compared with 18.3 crore.

Profit before tax for H1 was 390 crore, up 54% from 254 crore. Profit after tax was 290 crore, up 54% from 189 crore, a PAT margin of about 56% against 54% in H1 FY '26. Our diluted annualized EPS comes to around 18.5 rupees.

On an annualized basis, [trails off]

Management: Return on equity for the half year was 18%, and ROA was 12.6%, compared with 14% and 10.6%, respectively, for FY26. These are annualized for the half year, which included strong write-backs. They are best read alongside our full-year returns.

For the second quarter, compared with the same quarter last year, total income was 240 crore, up 8% from 222 crore, and profit after tax was 146 crore, up 23%.

As of September 30, 2026, our net worth stands at 3,337 crore compared with 3,079 crore in March 2026. Our net owned funds are at 2,882 crore compared with 2,540 crore a year earlier.

Capital adequacy was very comfortable at 70.5%. Our borrowings rose to 1,224 crore from 1,100 crore as of June 30, 2026, as we funded Q2 acquisitions, taking debt to equity to 0.37 times, which is quite moderate. That leaves us well placed to fund the second half, which is seasonally our stronger period for acquisitions.

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Finally, our consolidated results: for H1, consolidated profit stands at 219 crore against standalone profit of 290 crore. Consolidated income stands at 496 crore compared with 516 crore.

As explained earlier, the reason for the difference between the standalone and consolidated financials is a timing issue. The gap between standalone and consolidated financials is about 84 crore and 71 crore, which means consolidated financials exceeded standalone in Q2.

Standalone remains the measure of what accrues to our shareholders and the basis of our regulatory ratios, CAR, and net owned funds. It is how we run the business. We would therefore ask you to focus on our standalone results when assessing Arcil's performance, and the reconciliation is given on slide 22 in our presentation.

To summarize, compared with the first half of last year, acquisitions rose 18%, recoveries rose 21%, and profit after tax rose 54%. The half year showed the seasonal pattern we described. We would ask you to judge us on these standalone numbers and over longer periods.

We enter the second half with a strong balance sheet and a healthy pipeline. Our approach is unchanged: buy with discipline, resolve with urgency, and deploy capital with a clear focus on returns.

Once again, thank you for joining us early in the morning. We now open the call for questions. Thank you.

Operator: Thank you very much, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Murli from Oman Investment Advisors. Please go ahead.

Murli – Oman Investment Advisors: Hi, good morning, management. The main point is that this time you have some other operating income, whereas last time you had recoveries. Some components are large chunks in every quarter. How should we look at this on an annual basis? The fee is consistent, but how should we look at the other components, sir?

Management: I think this is what we have been talking about. The ARC industry still has large corporate assets, and that means recoveries are lumpy. But given our large corporate book itself of about 13,000 crores of AUM, we will continuously have one or the other asset that will keep getting resolved. I think that is what you should be looking at rather than analyzing any single recovery, because, given our large portfolio of corporate assets, we will continuously have assets being resolved. Given the size of those assets, there will always be one or two large assets on a regular basis that will show up. I think that regularity is what you should be looking at, rather than looking at individual large items.

Murli – Oman Investment Advisors: Yes, okay. Secondly, on the strategy of entering the microfinance industry for recoveries, how would it be different from a normal bank or NBFC? Do you think we will have some better opportunity there?

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Management: Look, I think microfinance is a very large part of the entire credit book in the country. Therefore, that is something we should be looking at as an ARC, and we are looking at it. But it has very specific drivers in that industry. Therefore, as I said in my speech, we are looking at it very selectively as of now, to understand the market and the opportunity that is there. The opportunity is obviously there because of the sheer size of the market. But how we enter and all that is more about our own experimentation to understand the market and move ahead.

Murli – Oman Investment Advisors: Excellent. Any guidance on the AUM trends by year-end, or perhaps 2-3 years down the line?

Management: We are not giving any guidance on any specific numbers. We can only talk about our historical performance and the regular growth trajectory that we have been having.

Murli – Oman Investment Advisors: Okay, thank you. Thanks a lot.

Operator: Thank you. A reminder to all participants: you can press star and one to ask questions. The next question is from the line of Rikin Shah from IIFL. Please go ahead.

Rikin Shah – IIFL: Hi, good morning, sir, and thanks for the opportunity. I had a couple of questions. First, it is good to see that the fee income momentum is sustaining, and what we are also seeing is that, versus recoveries, upside income has come through. I know that this upside income can be quite chunky and difficult to predict, but on a full-year basis, is there something that you would like to guide us on regarding how that sustains? That is my first question.

My second question is on acquisitions. I appreciate that the first half is usually slower, but Q2 has already seen very good acceleration, almost up 40% year-on-year in Q2. Would you want to hazard a guess as to how the full-year pipeline looks compared with full-year FY26? That is my second question.

Lastly, on impairment on financial instruments, there was an ECL write-back in this quarter versus provisions in the last quarter. Could you explain why this write-back could have happened and how we should think about this line item on a sustainable basis? Thank you. Those are my three questions.

Management: Thank you, Rikin. I will answer the first two questions, and for the third one, I will pass it on to our CFO, who will answer that.

Again, on these lumpy items, I will repeat that you should look at the regularity of such lumpy items coming in for us, because, as I keep saying, our corporate book is still 13,000 crores. While the share of retail and SME is growing, our corporate book is still a large part, close to 65% of our overall AUM. Therefore, we will regularly have such lumpy recoveries. I think the regularity of those lumpy recoveries is what you should be judging us on. Over the past few years, if you have seen our records, our regularity has been fairly consistent, and I would hope that is the way it progresses.

On acquisitions, again, we are not giving any guidance. Traditionally, if you see last year, about 60% of our acquisitions were in the second half. That seasonality is a feature of the market itself. The market is driven by that, and that seasonality will continue. However, we evaluate every opportunity that comes along, and given our own liquidity position and capital position, we are well established

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to take advantage of any increased activity that might take place in this field.

Management: Just to add, Rikin, as far as write-backs are concerned, you saw that in Q1 we had large write-backs of 125 crore, and in Q2 this was lower. Overall, on an H1 basis, we have 140 crore of write-backs. As we explained earlier, write-backs continue to be part and parcel of our overall revenue. Because of regulatory stipulations, we take write-offs. In the past, we have taken write-offs of assets that could not be realized within the stipulated period, and our efforts continue in the system to recover them. Therefore, this write-back would continue to be part and parcel of our revenue.

Of course, it has been large in H1, so going forward, we do not expect this to be as much in H2, but it would continue to be a part of the revenue item going forward.

Just to add on investment upside, it has been in the range of 200 crore plus consistently for the last 2-3 years. That is the outcome of our sustained investment in 100% cash assets, where we buy on an all-cash basis, and that portfolio has grown considerably. Therefore, we hope to have a consistent flow of investment upsides going forward.

As far as the ECL provision reversal is concerned, it is a quarter-to-quarter phenomenon. In a particular quarter, if the receivables increase, it incidentally goes up, which we saw in Q1 and which has now partly reversed in Q2. Overall, in the macro picture of our revenues and expenses, it continues to be an unsubstantial part, about 15-20 crore. This is how ECL is done based on the RBI regulation. Thank you.

Management: Thank you.

Management: Yes.

Rikin Shah – IIFL: Thank you, {? Pramod ?}. Those answers my questions. Thank you so much.

Operator: Thank you. A reminder to all participants: you can press star and one to ask questions. The next question is from the line of Kunal Shah from {? Carnelian Capital ?}. Please go ahead.

Kunal Shah – {? Carnelian Capital ?}: Hi. With our fee income growing 82% against AUM growth of 21%, what is driving this divergence, and how much of this income is sustainable?

Management: I think fee income comes directly from the acquisitions we have had, and that is why, as we continue to focus on acquisitions and increase our acquisitions, it is directly a result of the AUM we are managing. That is what it is. I think it is directly proportional.

Management: Also, the fee income comprises collection fees and other items that we earn. It is part and parcel of the business. On one side, it is connected to the AUM; it is also a factor of the collections we make. Therefore, it is a mix. Fee income is a mix of both these things. As you see, fee income has now stabilized at around 115-120 crore in a quarter. That is one of the structural changes in our revenue stream. Thank you.

Kunal Shah – {? Carnelian Capital ?}: Okay, sir. Thank you.

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Operator: Thank you. The next question is from the line of Sameer Bhise from DAM Capital. Please go ahead.

Sameer Bhise – DAM Capital: Hi. Congratulations on a strong set of numbers, sir. I wanted to get a sense of how you are seeing the next 3 to 6 quarters, given the way the macro is shaping up, and especially whether you see more opportunity in terms of new acquisitions, particularly on the retail and SME side. There are probably some initial signs of stress emerging. We do not know how it plays out, but generally, how do you evaluate this environment for your business, both in terms of acquisitions and the resolution of existing pools? Some sense there would be helpful.

Management: I think there have been some signs of stress for some time. There has been a divergence between macroeconomic factors and the growth of the credit industry and the performance of the credit industry over a period of time.

Swami: But I think we have positioned ourselves with a strong balance sheet and liquidity to take advantage of any such opportunities that may arise. As you have seen, we are very lightly leveraged. We are at only 0.37 times, and our capital adequacy is 70.5%. This places us in a prime position to take advantage of any new stress that may emerge in the industry. While I say this, I think the current stress that exists, which we talk about, of a little over 23 lakh crores, including written-off assets, is still large enough for ARCs to grow at a good pace.

Opportunities will come with cycles. We make sure that we are always available and keep ourselves strong to take advantage of these cycles. While we continue to focus on the core stress in the system, given the growing credit market, there will always be some stress growing in the market. Therefore, while the core remains strong, we also keep ourselves ready to take advantage of any cycles that come.

Sameer Bhise – DAM Capital: Sure. How are you also seeing competitive intensity, if any, particularly after looking at your delivery over the last couple of years or 3–4 years? Are you seeing any increase in competitive intensity from other ARCs?

Swami: The competitive intensity has always been present in the same industry. We have performed well so far and have been growing our market share. I think the industry itself is moving toward retail. Over the last couple of years, the industry, like us, has grown far more in the retail space. That is where our investment in the retail space, whether in technology, people, or building out our CAS platform, will stand us in good stead as we take on the competition.

We should also focus, while competition is present, on how much we can grow the ARC industry to address the stressed assets. We are very focused on that. That runway itself is very large. As retail stress grows, the investment we made ahead of time in technology, people, and processes is going to stand us in good stead in this market. You will see that through our increased collections from our retail pool and our ability to increase acquisitions of retail assets.

Sameer Bhise – DAM Capital: Yes, sure, sir. Thank you, and all the best.

Operator: Thank you. The next question is from the line of Himanshu Taluja from Aditya Birla Sun Life. Please go ahead.

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Himanshu Taluja – Aditya Birla Sun Life: Hi, sir. Good morning, and congratulations on the quarter. I have a few questions. Given that a large part of the book in our AUM is still corporate in nature and incremental acquisitions are more in the retail and SME space, could you give us some color on the assets being acquired in both SME and retail?

Secondly, given that we have a much stronger franchise in the corporate segment, how well are you protected in retail and SME from newer acquisitions? Will we see any negative surprise or write-off story in the newer acquisitions in the future? These are the first two questions, and then I have a few more. Thanks.

Swami: We are well established in all three segments, whether corporate, SME, or retail. On your question about corporate, as fresh NPAs are small, what do we see? I do not think we see too much there. We are present and will take advantage. Currently, the market has moved from fresh NPAs in corporate to written-off assets.

We have seen this coming for some time, and therefore, we have built the capabilities to take advantage of it, which is why we have been growing. Even last year, about 45% of our acquisitions were corporate.

Pramod: Retail.

Swami: Corporate. Therefore, we are well established there. We have a strong acquisition team, and we continuously look to grow that book.

In retail, the market has structurally changed. There are many more retail assets available for ARCs, and we are taking advantage of that.

On your question about any negative surprises from write-offs, write-offs actually happen 8 years after acquisitions from a regulatory perspective, although we can recover beyond that. Our own estimates are that over the next 3 years, you will see a very small amount becoming more than 8 years due. It is very small.

Pramod: If I can give the number, and...

Himanshu Taluja – Aditya Birla Sun Life: Pramod sir, if you can help us, given that this is the first time an ARC has typically been listed for us and we are still learning about this business model, how should we see and understand the quality of the portfolios that you acquire in retail and SME? Which are the key metrics that we should track to understand the quality of the newer acquisitions?

Pramod: If I can add, Swami can add subsequently. Himanshu, we started the retail business way back in '20. We have a very strong franchise in place, through which our ability to underwrite at the right price plays a very critical role. Second is our resolution capabilities. The fact that we have a pan-India presence and a well-established network for our own collection and services gives us an edge in collection.

If you look at the unsecured book we picked up, the acquisition price is in the single digits. The secured book is in the mid-40s. Therefore, we have a very good margin in place. When you have good recovery capabilities and there is no actual risk involved, and as Swami said, we do not see

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any write-offs, frankly, because the entire cycle has moved to 3 to 4 years. We recover our entire capital. We do not see any risk or write-off going forward in retail, SME, or even the corporate book.

Swami: If I may add to that, there are a couple of things you should look at. The mark-to-market that takes place every quarter already incorporates the possible write-offs that could arise. Therefore, I do not think there will be any surprises. As a management team, we work very strongly to ensure that there are no surprises on that.

Himanshu Taluja – Aditya Birla Sun Life: Can we get the breakup of the newer acquisitions that are taking place? What is the mix between corporate, retail, and SME?

Pramod: Corporate is about 700 crore, and the remaining approximately 1,000 crore is in SME and retail.

Himanshu Taluja – Aditya Birla Sun Life: Okay, sir. Fair. Given that the incremental thrust is more toward cash investments versus structured formats, how should we see the mix of fee income and upside income in your revenue mix evolve over a period of 2-3 years? Can you help us?

Pramod: Cash deals typically give us upside, which is a little back-ended. It starts from the second to third year, and our other AUM principally gives us management fees based on the AUM, as well as on collections. Our average investment in acquisitions is currently north of 40%, exactly 42% currently, compared with 33% last year, so it is growing.

It is growing on both sides. We are selectively acquiring cash assets and building our cash book, but even in normal SRs, our average investment is higher than the stipulated 15%.

While our investment is growing, our fee income would continue to grow as we have seen over the last 2 years. On average, it has increased from 200 crore to a current run rate of 450 crore of management fees per annum. Similarly, upside income will increase because of our large cash acquisitions. Put together, fee income and investment upside income should be about 70-80% of our overall revenue.

Swami: Just to add, while some part of the market is moving toward cash, over the last 2 years, close to 70% of our acquisitions are still on an AUM basis. While there is this sort of mix in the market, I think it will stabilize at a certain level. It gives us both an upside, similar to how you work in an AMC, and also regular fee income. It is a combination of fee income and an upside based on performance. I think it gives us a good mixture.

Himanshu Taluja – Aditya Birla Sun Life: Sure. Just one last question. Given that the second half typically remains better from an acquisition point of view, as you said, should one expect the P&L and profitability to remain operationally strong? Even though newer acquisitions do not play a key role from a P&L point of view, I am trying to understand how the second half typically plays out from a profitability point of view.

Swami: You are right that acquisitions do not immediately play a role in profitability, but they do give an indication of future profitability. I want to restrain myself from giving any guidance on the second half. We can only talk about historical performance, and that is what you should be looking at from our perspective as well.

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Himanshu Taluja – Aditya Birla Sun Life: Yes, sure. Thanks a lot, sir.

Operator: Thank you. The next question is from the line of Pulavarthi Sai Kiran from Pulavarthi Finserve. Please go ahead.

Pulavarthi Sai Kiran – Pulavarthi Finserve: Hi. Thanks for taking my question. I was looking at slide number 11, where you have given us market share and the industry size. What caught our attention is that the industry size more or less remained stagnant, both in terms of AUM and incremental acquisitions, while Arcil was able to gain share. Could you help us understand how you look at industry-level growth and, at the same time, what is helping Arcil gain market share incrementally? Thank you.

Swami: Hello. I think it has been a strong performance from Arcil over the last few years in increasing market share. At the same time, NARCL has also come in to take a large share of the market for very large assets. Between the two of us, we have grown well in the industry.

I think it is our focus and our ability to continue focusing on all asset classes. That is the one thing. We are one of the few ARCs that focus on all asset classes, and that is what moves us ahead of some of the competition, which is highly specialized in specific asset classes.

Pulavarthi Sai Kiran – Pulavarthi Finserve: Is it related to pricing, structure, or anything else, or do you think it is generally the case?

Swami: I think it is the expertise we have built over a period of time and the experience that allows us to price appropriately. Our people are very experienced in structuring deals such that they are a win-win for both the seller and us. Those factors play important roles that are not visible but are very important, and that is a major factor that also plays a role here.

Pulavarthi Sai Kiran – Pulavarthi Finserve: Great. Lastly, in terms of industry growth, could you provide us with any guidance, or explain how you think about industry growth? Thank you very much.

Swami: As I said, over the last few years, perhaps the industry has not grown, but that is the AUM share. It has not grown, but it is also important to note that across the industry, a fairly large amount of redemptions have taken place over the last few years. You should consider the size of the industry as a combination of both. It is not just that factor. Some ARCs have written off fairly large amounts of their AUM over the last couple of years. That has also caused the industry size to appear somewhat depressed from a growth perspective.

Management: I think it is not a structural issue. It is a combination of a couple of things that have happened: large recoveries that have taken place and some large write-offs of AUM in some ARCs. We do expect, as I said on my call, that the ARC industry is currently handling only about 10% of the stressed asset market. To be honest, that is our own estimate, and across the industry we are all focused on increasing that share.

Pulavarthi Sai Kiran – Pulavarthi Finserve: Thanks for that. Really helpful.

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Operator: Thank you. A reminder to all participants: you can press star and one to ask questions. The next question is from the line of Heet Khimawat from IIFL Capital Services. Please go ahead.

Heet Khimawat – IIFL Capital Services: Hi. Thank you for the opportunity. I have a couple of questions. Earlier, a participant asked where the asset quality cycle for the industry is turning, and we are seeing a few banks and NBFCs calling out stress in agricultural portfolios and gold loans. We are seeing some stress being called out. I wanted to understand, as an ARC business, if a poor asset quality cycle comes in, how does it help? Is it that we get better pricing when acquiring new portfolios? If we are entering a cycle where asset quality is going to deteriorate for lenders, do you see this as a big opportunity in terms of pricing acquisitions better and also resolving them? How do you contextualize that? That would be the first question.

Management: Thanks. I think that is very interesting. The agricultural and gold loan segments are something in which ARCs do not participate at the moment. Hopefully, at some point we will, but at this moment, neither of those is something in which ARCs participate.

Given that, your question is a good one. Traditional wisdom says that it is good for ARCs to be in a down cycle. It is good from an acquisition perspective because there is much more supply, and it gives us purchasing power; the power is in our hands. But if there is a downturn, resolutions reduce, and that is a factor to consider. ARCs work on large acquisitions during down cycles and resolution during the upcycle. I think that is a very significant part of the ARC cycles.

While there might be increased stress, the current market itself is very large, and that is providing us with a very consistent base for growth. I keep coming back to this because ARCs have been an invisible but very critical part of the entire credit ecosystem. With our listing, the industry has started becoming much more visible. ARCs have grown so far, and their profitability is based on the existing base, which is already very large: a little over 23 lakh crores of stress in the market. That gives us a great base to grow.

Any cycles are opportunities, and at Arcil, we keep ourselves prepared for any such cycles and opportunities that may arise.

Heet Khimawat – IIFL Capital Services: Sure, that is helpful. Secondly, a data and bookkeeping question. We have the share of acquisitions, recoveries, and investments that you are making incrementally across the corporate, retail, and SME segments. Could you also help us understand the structures in which the new acquisitions and recoveries are taking place? By that I mean, is it cash, is it more structured, or is it ordinary SRs? Some color around that would be helpful.

Management: A lot more of our acquisitions have been in the structured space, given that structured transactions are a win-win for both the seller and us. That has started emerging as a preferred option between sellers and buyers across the industry. It has started diversifying into cash deals and largely structured SR deals. That is where the industry is going.

For our acquisitions over the first two quarters, a substantial majority have been in the structured space.

Heet Khimawat – IIFL Capital Services: Okay. Is there any number that you would like to share, sir?

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Management: [laughs] No, I think we will just say a substantial majority.

Pramod: Heet, you should take comfort from the fact that, of the 1,700 crore that we acquired, our average investment is 42%. Even in structured deals, we have been proactively investing more. That is the way the industry is moving toward us.

Heet Khimawat – IIFL Capital Services: But Pramod sir, if you are investing more in structured deals, that does not help you, right? You are not a part of any upside in structured deals, and in that case you are just blocking more capital and investing more while not getting any upside income. I wanted to understand why that would be the case.

Pramod: Heet, as we explained before, a structured deal gives us fees on a regular basis. A good amount of our IRR is recovered on a regular basis, whereas in cash deals we get a large proportion of investment upside in the later part of the periods. Therefore, it is a mix that we are working upon, and it is working well.

As you see, our retail composition and SME composition are growing. I think it is good. Even in structured deals, the fee income is so large that we are not dependent on the upside. We can still get upside even in structured deals in the later part of the deals, but structured deals give us a continuous flow of revenue. That is how structured deals help us, and we get a consistent flow of upside. That is how cash deals help us.

Heet Khimawat – IIFL Capital Services: Sure. Thank you. That is it from my side. Thank you.

Operator: Thank you. As there are no further questions, we will hand it over to the management for closing remarks.

Management: Thank you all. I know this call has taken place very shortly after the first quarter, so from a strategic perspective, there is not much to add. It is simply more of the same, and we expect the rest of the year also to be more of the same, as strongly as we have been doing in the past.

Again, this half year shows acquisitions building through the year, as we continue to repeat, recoveries that are strong over the half year even as they vary from quarter to quarter, and earnings that will reflect both acquisitions and resolutions. As you follow our progress, we would ask you to look at our standalone results, which show what Arcil earns for its shareholders, and to look at them over longer periods rather than quarter by quarter.

We enter the second half, our seasonally stronger period for acquisitions, with a healthy pipeline, a strong balance sheet, and the capabilities to take advantage of the opportunities. If you have further questions, please reach out to our Investor Relations team or to Strategic Growth Advisors. We look forward to speaking with you again next quarter. Wishing you and your families a joyous festive season. Thank you.

Operator: Thank you. On behalf of Asset Reconstruction Company (India) Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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