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November 20, 2025

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,

SUB: TRANSCRIPT OF THE INVESTOR CALL HELD ON NOVEMBER 14, 2025

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and in continuation of our letter dated November 06, 2025, please find attached herewith the transcript of the conference call held on Friday, November 14, 2025 for Q2 FY 2025-26.

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: 2025.11.20 18:28:54 +05'30'

Uttam Patel
Company Secretary

ARMAN FINANCIAL SERVICES LTD. PhillipCapital

"Arman Financial Services Limited Q2 FY-26 Earnings Conference Call"

November 14, 2025

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on November 14, 2025, will prevail."

ARMAN FINANCIAL SERVICES LTD. PhillipCapital

MANAGEMENT: **MR. AALOK PATEL – JOINT MANAGING DIRECTOR, ARMAN FINANCIAL SERVICES LIMITED**

MR. VIVEK MODI – CHIEF FINANCIAL OFFICER, ARMAN FINANCIAL SERVICES LIMITED

MODERATOR: **MR. AMAN VISHWAKARMA – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Arman Financial Services Limited Q2 FY '26 Earnings Conference Call, hosted by PhillipCapital.

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

I now hand the conference over to Mr. Aman Vishwakarma from PhillipCapital. Thank you, and over to you, sir.

Aman Vishwakarma: Thank you, Muskan. Good afternoon, everyone. On behalf of PhillipCapital Private Client Group, I welcome you all to the Q2 FY '26 Earnings Conference Call of Arman Financial Services Limited. From the Management, we have Mr. Aalok Patel – Joint Managing Director; and Mr. Vivek Modi – Chief Financial Officer.

I now hand over the conference to Mr. Patel for his opening remarks, and we will then open the floor for the question-and-answer session. Over to you, Mr. Patel.

Aalok Patel: Yes. Thank you so much, and a very good afternoon to everyone, and thank you for joining us today.

On behalf of Arman Financial Services Limited, I extend a warm welcome to all of you to our Q2 and H1 FY '26 earnings call. I am joined by our Group CFO – Mr. Vivek Modi and the Investor Relations team from SGA. I trust you all 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 website.

Over the past 5 to 6 quarters, the microfinance industry has navigated a challenging period, marked by elevated credit stress, regulatory reforms and significant write-offs and provisionings. However, now we are beginning to witness the early signs of recovery.

The September quarter reflected a moderation in bad loans ratio and an improvement in collection efficiencies, supported by the gradual restoration of borrower discipline. That said, this stabilization in asset quality has not come without its trade-offs. The tighter regulatory guardrails and prudent risk management practices have effectively curtailed overleverage in the system, but also resulted in a slowdown in fresh disbursements.

Against this backdrop, Q2 and H1 FY '26 have been about steady progress and rebuilding momentum for Arman. The groundwork we laid through disciplined execution, sharper risk controls and structural reforms implemented last year is now beginning to yield tangible results.

We are witnessing positive signs across all key operating parameters from AUM and disbursement traction to asset quality and collection efficiency. Our microfinance portfolio has started showing signs of recovery, while our non-MFI segments, which are MSME, Two-Wheeler and LAP, continued to deliver consistent momentum.

We continued to maintain a calibrated approach in our Microfinance business, while steadily expanding our presence in MSME, Two-Wheeler and LAP segments. Our focus on strengthening portfolio quality, enhancing credit and underwriting processes and driving operational efficiency has positioned us well to capitalize on the ongoing recovery.

While the external environment continues to evolve, the underlying trends in our business remain firmly positive. We are encouraged by the resilience demonstrated by our borrowers and teams on the ground, and we remain confident of continuing this momentum as we move into the second half of the year.

Our consolidated AUM stood at INR 2,130 crores as on September 2025, in line with our conscious strategy of prioritizing portfolio quality and risk discipline over headline growth. While this remains lower on a year-on-year basis, the portfolio is now showing encouraging signs of stabilization and a gradual return to growth.

Impairment costs have been trending down for 3 consecutive quarters from INR 89 crores in Q4 FY '25 to INR 38 crores in Q2 FY '26, reflecting healthier repayment behavior and stronger early-stage controls.

Disbursements during H1 FY '26 stood at INR 865 crores compared to INR 831 crores in the same period last year, largely remaining flat on a year-on-year basis. For the Q2 FY '26, disbursements were INR 475 crores, representing a 26% increase year-on-year and a 21% sequential growth over Q1 FY '26.

Gross total income for H1 FY '26 stood at INR 310 crores, down by 15% year-on-year basis. For the Q2 FY '26, it increased by 5% sequentially to INR 159 crores and down by 12% over the same quarter previous year.

Net total income for H1 FY '26 stood at INR 208 crores, a year-on-year degrowth of 11%. For Q2 FY '26, increased by 11% sequentially to INR 110 crores and saw a degrowth of 6% the same quarter the previous year. Pre-Provisioning Operating Profit or PPOP for H1 FY '26 stood at INR 112 crores, year-on-year degrowth of 31%. For Q2 FY '26 remained flat on a sequential basis of INR 56 crores and saw a degrowth of 28% over the same quarter the previous year.

For H1 FY '26, we reported a loss of INR 6.6 crores. And for Q2 FY '26 registered a profit of INR 8 crores compared to INR 14.6 crores loss in Q1 of FY '26. Operationally, asset quality metrics have shown visible improvement. Overall collection efficiency improved to 95.6% in September, supported by stronger borrower discipline and improved field level monitoring.

Asset quality has started to show steady improvement supported by disciplined measures we have taken in place over the last few quarters. Our consolidated GNPA stands at 3.69% and NNPA of 0.53%, reflecting signs of normalization.

As on September 30, capital adequacy was 38.73% for the stand-alone entity and 57.78% for Namra Finance, its wholly-owned subsidiary; both well above regulatory requirements. And we also have healthy liquidity position with INR 238 crores in cash and bank balances, liquid investments and undrawn CC limits.

Now moving on to the subsidiary:

Namra Finance. Our MFI subsidiary ended September 2025 with an AUM of INR 1,507 crores. This is, of course, lower year-on-year, but now showing encouraging signs of stabilization over the last 2 months.

Collection efficiency improved in September with zero bucket strengthening to almost 99%. The portfolio created after September 2024 has a 99.4% zero DPD repayment rate, which is as per our expectations.

Disbursements for Namra Finance during H1 FY '26 stood at INR 605 crores compared to INR 625 crores in the same period last year for 6 months. For Q2 FY '26, disbursements were INR 335 crores, representing a 25% increase year-on-year and a 24% sequential growth over Q1 FY '26. This is despite the log-ins versus disbursements percentages still being only about 20%.

Gross total income for H1 FY '25 stood at INR 209 crores and for Q2 FY '26 stood at INR 107 crores with a sequential growth of 6% over Q1 FY '26 and down by 22% over Q2 FY '25.

Net total income for H1 FY '26 stood at INR 132 crores, down by 22% year-on-year basis. The Q2 FY '26 increased by 18% on a sequential basis to INR 72 crores, with a degrowth of 15% over Q2 FY '25. PPOP for H1 FY '26 stood at INR 67 crores.

PPOP for Q2 FY '26 grew by 14% sequentially to INR 36 crores and down by 38% over Q2 FY '25. Reported a loss of INR 28 crores in H1 FY '26, and close to breakeven for Q2 FY '25 with a marginal loss of INR 90 lakhs. Sequentially, we have narrowed down the losses.

In Microfinance, GNPA stands at 3.77%, improved by 96 basis points and NNPA stands at 0.26%, an improvement of 39 basis points compared to H1 FY '25. Key driver for this improvement has been the governance and process reforms we have implemented last year, the separation of credit underwriting from recovery functions, which is now operational across 196 or 50% of the branches.

This structural change has strengthened accountability, enhanced risk oversight and ensured greater consistency in collection performance. The early results from these branches under a new framework have been encouraging, reinforcing our confidence in the long-term benefits of this model as we continue to scale it across the network.

As of September 2025, about 67% of our microfinance portfolio is covered under CGFMU guarantee scheme, providing an additional layer of comfort and risk protection. Overall, we believe the worst of the credit cycle is behind us, and the portfolio is now positioned for a more stable and sustainable footing.

Coming to our stand-alone business, which is MSME, LAP and Two-Wheeler. The non-MFI business continues to perform in line with expectations and remains our growth engines in these testing times. AUM grew by 29% year-on-year to INR 623 crores with disbursements for H1 FY '26 rising to 26% to INR 260 crores compared to H1 FY '25.

Disbursements for Q2 FY '26 has grown by 34% on a year-on-year basis to INR 140 crores and saw a 17% growth on a sequential basis. Total gross income for H1 FY '25 stood at INR 103 crores, registering a year-on-year growth of 20% over H1 FY '25. And for Q2 FY '26 stood at INR 52 crores, grown by 21% over Q2 FY '25. It remained flat on a sequential basis.

Net total income for H1 FY '26 stood at INR 77 crores, registering a year-on-year growth of 20%. For Q2 FY '26, it stood at 22% on a year-on-year basis to INR 38 crores over Q2 FY '25, remaining flat on a sequential basis. PPOP for H1 FY '26 stood at INR 44 crores, registering a growth of 8% year-on-year compared to H1 FY '25. PPOP for Q2 FY '26 grew by 8% as well over Q2 FY '25 numbers to INR 20 crores and down by 12% on a sequential basis.

Profit after tax for H1 FY '26 stood at INR 21 crores, registering a growth of 4% over H1 FY '25. For Q2 FY '26, profit grew by 12% on a year-on-year basis to INR 9 crores. On asset quality, GNPA stood at 3.86% for MSME, 4.99% for Two-Wheeler. And for LAP, it was 0.16%. Collection efficiency in September stood at 95.4% for MSME, 95.8% for Two-Wheeler, and of course, MFI book, which we discussed earlier, was 95.6%.

We continue to strengthen our presence and deepen our reach. We now operate across 11 states with a network of 509 branches serving over 6 lakh customers. During the first half of FY '26, MSME and LAP disbursements maintained healthy momentum, while we intentionally moderated microfinance disbursements to INR 605 crores as a part of our strategy to stabilize the portfolio and ensure asset quality sustainability. While this calibrated approach may have tempered near-term growth, it is reinforcing the long-term resilience and strength of our business model.

As we look ahead to the second half of FY '26, we expect the momentum to strengthen further with improvements becoming more visible and broad-based across our businesses. We anticipate continued stabilization in the microfinance asset quality, sustained strength in collection and further moderation in credit cost.

We are well positioned to benefit from improving rural sentiment and a more supportive policy environment. The groundwork we have laid through disciplined execution, sharper governance and structural reform is now beginning to translate into tangible results.

As we move forward, our focus remains on building scale with quality, delivering durable, profitable and sustainable growth, while continuing to create long-term value for all our stakeholders.

Thank you very much. And Muskan, we can now open the floor for questions.

Moderator: Sure sir. Thank you so much. We will now begin the question-and-answer session. The first question is from the line of Prithviraj Patil from Investec. Please go ahead.

Prithviraj Patil: Thanks for the opportunity. So, I had a couple of questions. Sir, first question was on the capitalization. So, I see that number has a higher capitalization than the holding company. So, just wanted to know, do we expect to go back to the prior growth rates in the Microfinance business or do we look to diversify the number of book going forward? That's the first question.

Aalok Patel: That's actually a good question. So, as the portfolio declines, the overall capital adequacy will appear to be better. So, this was money that was pumped down from the holdco into the subsidiary. Now as the portfolio picks up again, I think both those numbers will kind of become more normalized or equivalent as the portfolio increases. Not given it much thought of what we will do in case it doesn't grow or anything like that. Right now, the hope is that things will resume back to normal.

Prithviraj Patil: Okay. And the second question that I had was on the unsecured MSME portfolio. So, you mentioned that 67% of our MFI portfolio is CGFMU insured. So, have we taken any CGTMSE or insurance on our MSME portfolio?

Aalok Patel: Yes. Another excellent question. So, it's in the works right now.

Vivek Modi: Yes. Just an update on that. CGFMU cover itself is applicable to NBFCs also. And for the unsecured loans that are under a threshold limit of INR 2 lakhs can be covered in the CGFMU, though there is a separate category for getting registered there. , Arman has been given the registration for the same somewhere in September itself. we hope to start subscribing to it as we move in Quarter 3.

Aalok Patel: Slightly more expensive for non-MFI book. Now let's not get into why that is the case. I mean, it is what it is. So, we will have to think a little bit more about the MFI portfolio, whether we want to cover it or not. Right now, it seems that we are in favor of doing it. And so that registration got approved, as Vivek said, just in September. And so anything that we want to cover for this quarter, which is Q3 that we don't really have to decide until January or February.

Vivek Modi: Yes, exactly, Q3 of FY'26.

Aalok Patel: So, we will make that call in the next couple of months, whether we want to do it or not.

Prithviraj Patil: Got it. Thank you. And just squeezing in one last question on the LAP portfolio. So, I just wanted to know our ATS has increased and the yields have come down on the LAP portfolio. So, I just want to know how are we thinking of growing this portfolio going forward.

Aalok Patel: So, obviously, the yields on the LAP, considering that it's secured, it's going to be lower overall. But hopefully, the OpEx should be lower as well and the risk should be lower as well and the credit cost should be lower as well. So, we have been talking about creating LAP for a while. I think finally, this last credit cycle made us realize that it's important to diversify the book. So, yes, in comparison to, let's say, pure unsecured MSME, the yields look much, much lower. But hopefully, a well-diversified portfolio will create a more healthier company and healthier balance sheet.

Vivek Modi: And additionally, I think OpEx will, over a period of time, be much lower for the secured LAP. from that standpoint, I think NIM is more important than just the yield.

Prithviraj Patil: Yes. So, no, my question was that the yields had come down sequentially over the past couple of quarters and the average ticket size had increased, I think. So, I just wanted to know have we recalibrated that portfolio.

Aalok Patel: Sorry. No. So, in the LAP pool, basically, the higher the ticket sizes, obviously, the interest will come down.

Vivek Modi: The larger tickets will have lower interest rates.

Prithviraj Patil: Okay. So, it's not because we are seeing stress in the lower ticket size. It's not because of that, that we have recalibrated the portfolio, right?

Vivek Modi: Partially, yes and no, because these are early days in LAP. And till the time we kind of reach a 5,000- 10,000 customer base numbers, you will have to kind of keep yourself a bit felxible on these yields as long as you do not go below the threshold limits of, let's say, 18%. I will not do any case below 18%. So, a threshold there has to be defined. But largely, as we move from, say, about INR 3.5 lakhs to INR 4 lakhs average ticket when we started it off to about INR 5 lakhs to about INR 7 lakhs today. you are doing slightly larger tickets, and obviously, that market is finding acceptance at more completive rates.

Aalok Patel: And the customers are price sensitive. I mean, it's not like micro or MSME where I have complete ability to control pricing. There is a lot of competition. And so, every case is important to us to close. And so, there is some bit of negotiation that we also allow.

Prithviraj Patil: Thank you.

Moderator: The next question is from the line of Ronak Chheda from Awriga Capital. Please go ahead.

Ronak Chheda: Hi, thanks for the opportunity. Hi Aalok. It's really heartening to hear that things have improved. So, I just wanted to get more color on the growth part of the book now. So, in the previous cycles, whenever we would come out of a crisis, Arman typically would step that paddle on the growth and the numbers would really be a little aggressive than the Street. And in your commentary, you mentioned stable growth. So, is this different this time? Are you approaching this cycle a little differently?

Aalok Patel: See, the previous credit cycles were slightly different, where they were caused by external events, whether it was de-mon or COVID. This time, it is slightly different. And what I personally feel is the lesson to be learned is that go calibrated, don't go crazy. Honestly, I don't know what the growth pattern will look like.

Typically speaking, whenever we are recovering from a crisis, we are well positioned to grow faster than many of our peers. So, on average, there might be a few companies, maybe better run companies who are doing better than us, and that's fair. But many times, there are many more companies who have still not come out of the crisis. Their liquidity is low. They are managing leadership issues, liquidity issues, attrition issues, many other things.

And so we have sort of an ability to grab market share. So, that will be the goal this time where hopefully, we can repeat that. So, there might be a temporarily accelerated growth on the AUM. But in the long run, I think the lesson learned here is that, don't go too crazy. I don't think there is any industry in the world that can sustain 35%, 40% growth indefinitely. And a slow and calibrated approach is probably more of a long-term goal here.

Now that said, the great part about India is that people have very short-term memories. So, good or bad news, it may be that in a year or two, people will forget whatever happened and kind of go back to the usual antics, myself included. So, who knows? Let's see.

Ronak Chheda: Thanks for this. My second question is on the asset quality, especially on the MSME side, where some of the listed companies have flagged off some asset quality issues due to the spillover from MFI. Are you seeing that stress in your markets where you are present on the MSME side?

Aalok Patel: Yes. Yes, of course. And so I think...

Ronak Chheda: And is that improving?

Aalok Patel: I don't think it's improving. It's probably at this point, I would call it, stable. But I said it in the last con call and I said it in the previous con call also. So, at least for 3 quarters that MSME is not immune to the overall macroeconomics of the rural segment, especially for us.

So, the term MSME is actually very broad. When somebody says MFI, they know exactly what you are talking about. MSME is micro, small and medium. So, it can be urban, it can be rural, it can be secured, unsecured, whatever it is. So, there are many flavours of MSME.

The kind of MSME that we are doing, which is small ticket rural MSME loans, unsecured. That is obviously not going to be immune to whatever is happening in MFI. But as I said for whatever reason, the damage which was there in MSME is significantly lower than MFI, theory for that, but I will kind of hold on to that thought. But definitely, there is stress there, not as much as MFI, and it's something that we are tracking closely. And that's why it's important, carried away in any of our business.

Ronak Chheda: Thank you. And Aalok, just one last question is on the yields, because some of the peers have taken a hike on the yields, trying to capture the risk for the business. Are you also looking at that vector where to price the risk better, you might have to take a hike on your yields? Any thoughts there?

Aalok Patel: So, that is something on the table. However, we have avoided it so far because pricing is very sensitive to regulators and many other external stakeholders. And so as much as we can manage without raising the pricing, I think that will be a better strategic decision. But it's not off the table. If it comes, I am hopeful.

Ronak Chheda: Thank you so much for answering my questions. Best of luck to your team.

Aalok Patel: Yes. Thank you.

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

Sarvesh Gupta: Good afternoon, sir. And thanks for giving the opportunity. Sir, continuing on the previous MSME question. So, we are seeing higher NPAs and higher credit costs. So, how do you see it settling, and if you can give some color on the provisions that we have undertaken in this book across the stages.

Aalok Patel: Vivek, can you help him with different stages, he's asking about MSME.

Vivek Modi: So, on the MSME front, I think the GNPA number, 3.8% or something. So, carrying about 90% provisions on thoseAs compared to that, again, the good part is that largely 1 to 90 buckets have come down marginally in the last quarter. So, these are more or less stable. But even if that continues to be close around 3%, then there is a scope for improvement. And in that stage, which we would probably call a Stage-2, the provision coverage would be about 45% to 50%.

Yes. So, I think in the presentation number 32 as well, so 30 to 90 movements for the different divisions are there. GNPA numbers, movements are there.

Sarvesh, I hope that answers.

Sarvesh Gupta: Yes. And do you expect these numbers to hold on to these levels? Like you mentioned that it will stabilize at these levels. And also, you have not grown it much. So, MFI disbursement growth rate is 20%, but here in MSME, we have maybe done only 12% - 13%. So, do you still see this number inching up and that is why the disbursement growth rate is lower or going forward, how do you...

Vivek Modi: The unsecured MSME growth rate as compared to the overall growth rate for Arman is slightly lower. Are you trying to say that?

Aalok Patel: So, the AUM grew at 29% year-on-year, right, on the Arman level.

Sarvesh Gupta: Yes, sir, I was mentioning about disbursement growth rate, which was 12%, 13% only. So, do we see more coming in? That is why we are holding on this?

Aalok Patel: 12%, 13%. So, disbursements also was 34% on a Q2 same period previous year. I guess these must be splitting...

Vivek Modi: So, that's what I was trying to reach out. Sarvesh, are you trying to say the unsecured MSME is lower?

Sarvesh Gupta: Yes, unsecured MSME disbursement growth rate, sir. 86% has gone to 99%, right?

Vivek Modi: Yes. So, from that standpoint, you are partially right in spotting that, that as we kind of embark upon our journey on the secured LAP. a lot of our good customers who performed well in their earlier cycles kind of move upwards into secured LAPs, plus a lot of customers, as long as we were not doing LAP, we would have probably converted them into high-ticket unsecured MSME earlier before we had started LAP. To that extent, the growth numbers taken together for the LAP and MSME would really give a true picture for the field operations rather than just looking at only the unsecured MSME.

Aalok Patel: So, MSME, I think we are looking at the whole picture. LAP is also technically MSME only. It's just secured. So, anyway, I think just unsecured MSME grew 14%. Yes. I mean it is what it is, right? We are not pushing so hard.

Vivek Modi: So, Sarvesh, to further add to that, what is also happening is that geographically, this year, we have taken our footprint to North. We have opened a few branches in UP in the last quarter, and we will try to expand our footprint as the year goes by in that geography. So, to a certain extent, the MSME will get a good bump up, because of the geographical outreach getting increased.

Aalok Patel: Yes. But again, the strategy is to kind of look at the overall secured and unsecured. When we say secured, the LAP taken together as how much is the growth in total rather than just singling it out.

So, I mean one of the previous callers also was, I say MSME has performed significantly better than MFI, and I have my theories why, but I won't get into it. See why it has performed better is because we took a sort of a calibrated approach to growth without a lot of pressure. So, we were more concentrating on quality. And so, where the opportunities were there, we grew. We were never really pressured that we will need to do so much growth.

And so to a certain extent, that protected us over multiple cycles, I should say. And so, I am not really, really going to push disbursements in MSME. Of course, and also the fact, as you mentioned, that segment is also under some level of stress. So, right now is not really the time to push so hard on the disbursements.

Sarvesh Gupta: Okay. And sir, same question for the MFI also. So, now we have grown our disbursements this quarter. And so do you think that the environment is now clear for you to press the accelerator from here on? Or are you still waiting for some more data points to emerge to give you the clarity for the same?

Aalok Patel: How does one push the disbursements? I mean even today, I am trying to disburse, if there is a good customer who wants a loan, my job is to give him that loan. The only way you can really bump up the disbursement is kind of go easy on the underwriting or change your underwriting strategies here and there, stop being so much selective. So, we are monitoring those data points, based on scoring and qualitative and quantitative factors of how they are performing.

But I don't think I am ready yet to say, things are great and time to hit the accelerator. No. I mean this crisis has always been about two steps forward and one step back. And so yes, in the last quarter, we have taken two steps forward, but who knows when the next step back will be. So, no, I don't think we are ready to floor it at this point. But I am a lot more comfortable to go faster, let's just put it that way.

Sarvesh Gupta: Okay. And sir finally, on your cost-to-income ratio, which has also gone up partially because you are building out this. So, when do you see these metrics normalizing?

Aalok Patel: Only when the growth returns. Because, the company has been put through enormous stress.

Vivek Modi: I mean, the sector itself has...

Aalok Patel: The sector has gone through enormous stress. So, cost to income is a function of income and cost. Now income is declining because AUM is declining, and also because people are not paying. But it's very difficult to control those costs, because you need people to go out and collect the money. If I have 400 branches, I cannot say that the portfolio has declined 20%, so let's reduce the staff by 20%, right? So, that's one part. Second, I needed more people to collect the money. That's the second part. Third part is we have started BCM structure. So, that will add some operating costs as well. Fourth part is we are battling attrition, which is obviously something that we have talked about in the past. So, at this point, very difficult to control operating cost, much easier to grow interest income, I feel at this point.

Sarvesh Gupta: Thank you. And all the best.

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

Srinath V.: Aalok, I missed the first 10, 15 minutes. So, if I repeat something, sorry. I just wanted to understand about a year back, maybe a little less, we put a credit officer in the MFI business also. So, wanted your feedback on how you are feeling about that measure, and the book that is originated after that move in those branches or any anecdotal feedback you have on what has been the on-ground performance after this measure?

Aalok Patel: Yes. So, we compare BCM versus non-BCM disbursements. So, largely, I think there is 40% lower delinquencies in the BCM originated cases versus non-BCM originated cases. So, there is clearly a correlation. Now whether the cost of the BCM justifies, that is the later date, that I am not going to think about at this point. But definitely, there is an advantage. And that advantage is increasing as the experience increases.

Srinath V.: So, would it be fair to assume that with the credit officer, outcomes are somewhat similar to MSME outcomes from a collection perspective or loss perspective?

Aalok Patel: That's an interesting question. I have not thought of it along those lines. But yes, I don't see why it shouldn't be similar overall. But let me tell you, having BCMs at this point is not only about reducing the overall credit cost. Having that extra function available allows me to venture into other products as well that we are doing it in both IL and higher tickets and everything.

So, the microfinance of tomorrow is not going to be guardrail based. It's not going to be one-size-fits-all base. So, if you borrow INR 2 lakhs, it is good. INR 2,01,000 automatically customer becomes bad. No. I don't believe that. I think there are good customers at even INR 5 lakh outstanding and there are bad customers at even INR 50,000. So, you cannot create one rule to underwrite every single MFI customer in India.

And so, the BCMs, I feel will serve more, it will allow better strategic calls later on. And today, already, we are doing it in IL loans and other things where customers that we find who are 750-plus credit scores, 8-year history, never a single day late, good business. Why should I reject that customer? I mean that's an amazing customer. But you need that ground level people to give you that confidence, right? Otherwise, until that conflict of interest exists between operations and credit, you will never be able to make that decision sitting at FO okay, whether that guy is good or not. You will just have to create kind of a one-size-fits-all approach.

Srinath V.: Got it. So, let me kind of summarize and reimagine this in my mind. So, basically, we will have branches. The branches will have a credit officer, and they may work on multiple product lines, I am not naming a product, let's say, INR 50,000 ticket size, INR 1 lakh, INR 1.5 lakh, INR 2 lakh, INR 2.5 lakhs. So, larger ticket sizes, they will be able to lean in on all of these products and add a layer of protection to the book. Is that how all of this will get reimagined like 3, 4, 5 years later?

Aalok Patel: See, absolutely. I think overall, so debate is still going on even within the industry about the JLG model itself. A temporary stress was there. Now you can conclude whether the JLG model is broken, over diluted, whatever term you want to use. The debate is going.

And I think some people you will find more optimistic, some you will find pessimistic, even amongst the listed status. But what I feel is, I don't think anybody will deny that the microfinance industry made amazing progress and myself included, the company included, made amazing progress under JLG. For 15 years, the company has advanced under the JLG structure. But for 15 years, it's been a one-trick pony, right?

I think strategically you have to think, okay, what's really next? Are we saying that the only product in microfinance available to you is a group-based lending? I don't think so. So, situations like this, credit cycles like this really make you think, okay, what is the long term for the industry, if you look at 2 years, 3 years, 5 years down the road, even 10 years down the road. What would the industry look like?

And what I personally feel is that given what I see in the rural segment, what I have seen how rural was in, let's say, 10 years ago or even 7 years ago and what it is today, I do believe you need to be adaptable and agile, and you cannot rely on only one product.

And so with BCMs being there, I believe it will give more flexibility and it will create the right credit culture on the ground level to experiment and implement different products, whether it's individual loans, high ticket, low ticket, whatever it may be.

Srinath V.: Got it. Perfect. Two data keeping questions. One is the individual loans that we are reporting in the PPT, this would be nothing, but an MSME loan originated by the MFI team, right? It will mimic those kind of ticket sizes and credit profiles. Would that be a fair understanding?

Aalok Patel: I think it's probably a fair understanding. Vivek, do you disagree?

Vivek Modi: So, yes, fair understanding. Additionally, we are also experimenting with the thought that many a times, we are losing JLG customers because center formation are not happening. Okay. So, I mean, till what time can you keep on reducing the center sizes. But if these are great customers, fourth, fifth cycle customers, then I earlier used to let them go. But now to this, we are kind of trying to address that through an IL, individual loan. these are individual loans qualifying assets. And then there could be individual loans, nonqualifying, which are the way you suggested.

Aalok Patel: So, there is going to be, for the next couple of years, some level of overlap and confusion. And believe me, sometimes I am as confused as you are. But I think that is just the reality. But even MFIs today, I said this again, and I will say it again, you have your traditionalists who have grown up on the ground and are still gung-ho on JLG. You have the realist who said it was great, but what's next? I don't know where I fall in. I am actually scared to pick one side or another. So, I am trying to choose both and see what happens.

Srinath V.: Perfect. Perfect. Thanks guys. Thanks for the very detailed answers. I will get back in the question queue. Thank you.

Moderator: Thank you. The next question is from the line of Amit Mantri from 2point2 Capital. Please go ahead.

Amit Mantri: Hi Aalok, what is our current and incremental borrowing cost? And the second question, what percent is the PAR 1 to 30 book for the microfinance business?

Aalok Patel: So, PAR 1 to 30 at this point will be about 1.1%, something like that.

Vivek Modi: About 1.5%. 1 to 30 will turn out to be approximately 1.2%, 1.3%.

Aalok Patel: About INR 20-odd crores. Last month before that, it was 1.3%. So, yes, somewhere around that line, I think. And your first question was...

Vivek Modi: Incremental cost of borrowing, all costed out turns out to be around 12%.

Amit Mantri: Okay. And the current on-book aggregate would be how much?

Aalokbhai Patel: On-book portfolio, consol.

Vivek Modi: On-book portfolio for micro is approximately INR 1,060 crores. As far as Arman is concerned, INR 621 crores is on-book only.

Amit Mantri: No, I was asking what would be the current borrowing cost of the current book basically, your current borrowing...

Vivek Modi: The overall cost of borrowing is about 12.5% or thereabout.

Amit Mantri: Okay. Thank you very much.

Aalok Patel: I don't think I quite understood his question.

Vivek Modi: So, this was about the borrowing cost. So, incremental borrowing cost.

Aalokbhai Patel: Borrowing cost of off-book or on-book. On-book separately is...

Vivek Modi: No, the total book.

Aalokbhai Patel: Total book. Okay.

Moderator: Thank you. The next question is from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: Hello. Thank you for the opportunity. Sir, just wanted to understand how are the trends shaping up in October and November. Because I remember in Q4 also, we had seen very good recovery, but then Q1 was slightly subdued and Q2 has been strong again. So, just wanted to understand how Q3 shaped up so far. That was the first question.

Aalok Patel: Yes. So, that's what I said also, I think, a couple of questions ago that this crisis has always been about making two steps forward and one step back. So, we have taken two steps forward. Diwali was good. Festive was good. September, October, growth were high in terms of disbursement, demand was quite high. Despite having overall log-in versus disbursement was only 20%. So, only 20% of log-ins we are still disbursing, which is very, very low. Still the disbursement, I think, in MFI was 140.

Vivek Modi: Almost 140. One of the highest in the last 6, 7 months that we had seen.

Aalok Patel: So, it's quite good. Overall, as the disbursements pick up with the denominator effect, you keep getting benefits of better repayments, well, operating costs also because AUM increases. So, as long as this continues, I am optimistic that things should get better by as early as beginning of Q4. So, it depends on how November, December pans out. But now that the festive season is over, let's see if there is any pent-up kind of hidden skeletons or something in the economy, I don't know, but I am optimistic at this point.

Vivek Modi: Again, just to add to that, Aalok. This quarter 3 would also be pitched against a very low quarter 3 numbers for the sector last year. So, to that extent, I think October being good gives us a kind of a bump up for the quarter 3. So, that way, from a comparative basis, Y-o-Y basis, quarter 3 could turn out to be technically much better.

Aalok Patel: I think once we reach, Vivek, in MFI, if we are reaching, let's say, about INR 180 crores of disbursements in a month, I will be happy. I think that's a good number at today's operational thing. So, we are at INR 140 crores. We need to reach INR 180 crores, good, bad, whatever it is, I don't know, you make the call.

Vivek Modi: So, in that way, I think that number kind of connects to the first question that somebody asked in terms of the capital adequacy being very high so that will be--

Anant Mundra: Got it, sir. Thank you for the detailed answer. The second question was on the SRs that we have. So, how is the recovery going there? And like what is the current outstanding SR? And what was the provision that we carry against it?

Aalok Patel: I still don't understand all of that. Vivek, you go ahead. I still don't understand.

Vivek Modi: Firstly, the entire SR that we invested in to begin with in March '25 was about INR 31 crores. On the pool, there has been a recovery of about INR 8.5 crores in the last 6 months. And obviously, the structure requires trust fees and all those things after accounting for that. The INR 31 crores of SRs today, as of September stand at about INR 25.5 crores.

And to that extent, I think the recovery on the pool is fairas we would have wished to. The pool also went through that first rating process and the rating that has been assigned to the pool is RR1, which means that the expected recovery from the pool is going to be 100% to 150% of the book value. So, it's going in the right direction to a certain extent.

Anant Mundra: So, do we carry any extra provision? So, it's INR 25.5 crores on the books as well. Do we carry any extra provisions against that or it's at INR 25.5 crores?

Vivek Modi: Technically, there is no requirement, a, we feel that the recoveries on the pool has been fairly good, so they are not required.

Aalok Patel: If I had to carry a provision, why would I do this transaction in the first place?

Vivek Modi: Aalok, he's right in a way, because...

Aalok Patel: I still don't completely understand all that.

Vivek Modi: No. So, the rating itself does not require it, a. The other way around is that this pool of INR 185 crores, which was sold in March '25 was the write-offs, which are early write-offs done in 2024, '25 itself. We have seen some really good recoveries out of it, and from technical side of it, we have not required to make any additional provisions on that.

And these were completely written off pools. And from that standpoint, at least we don't see any additional provisioning required at this point of time. If at all there is a necessity, we will not shy away from doing any such provisioning, if and when required.

Anant Mundra: Got it. And if I may just squeeze in one final question. Sir, have you released any provisions that we were carrying in Stage-2, sir? Like what was the provision that we were carrying in Stage-2 of the MFI book in Q1 versus what are we carrying now? Like have we reduced the provision, increased, is it stable? Could you give some idea on that?

Vivek Modi: So, typically, what would happen is that Stage-2, this could be a slightly longish answer, but still kind of bear with me. Of the entire book that we have created, there is about 67% of the book which is coming from the CGFMU. CGFMU has a guarantee cover of 72.5%. On that, the provisioning requirement would really drastically come down, because 72.5% is covered. Hence, whatever books that have been originated and got into part of the CGFMU, your provisioning requirements will come down.

Anant Mundra: Got it. But on a like-for-like, the non-CGFMU portfolio would be similar, right, the Stage-2 cover that we have?

Vivek Modi: Other ways Stage-2. So, Stage-2, my provisioning requirement, depending on markets, I am just giving you a broader scenario that if my Stage-2 coverage is about 45%, so what requires to be provided for keep on carrying similar kind of cover.

Anant Mundra: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Girish Shetty from Girik Capital. Please go ahead.

Girish Shetty: Hi Aalok. Congrats on a good set of numbers. So, just wanted to understand on your MSME portfolio, like when we see the yield from MSME of 34% versus MFI of 20%. Does this indicate a more riskier customer or how should we look at that product?

Aalok Patel: If time has taught us anything, they are probably less riskier than the MFI customers. So, no, it's not a function of risk, it's a function of supply and demand and what the customer can tolerate and many other factors. Fortunately, it started as being a function of risk. But today, the customers that we deal with really are not very, very price sensitive.

And so, people have been asking me this question for years, and I have always said that I am simply a Gujarati entrepreneur and if I charge a certain amount, I will. But if competition comes in and I am forced to cut rates, I am not afraid of that either.

Girish Shetty: Because just intuitively I was thinking. If I am a customer, my ability to repay or how much I make from that business and then pay out 35% interest, is that feasible for the customer?

Aalok Patel: See that logic does not really work at the micro level, because you are not accounting for their labor that goes in. And this question used to come to me all the time about even microfinance customers, what kind of small enterprises are they running, where they can afford to pay you 24% or 25% or whatever it may be. And the answer I used to always give is that if somebody buys INR 10,000 worth of inventory today of vegetables, and they walk around all day and sell INR 11,000 worth of that. So, they made INR 1,000 that day. So, that's a 10% return in a day.

Again, these are all the poor fishmonger stories and stuff that used to go. Of course, you are right. On a macro scale at the Arman level or even at large scales, this equation doesn't work because what kind of businesses give you returns of 34% would be able to offer the interest back. But at the micro level, the returns are high now.

Girish Shetty: And just one more question on your ROA, like you have given in the presentation your cross cycles ROA, right? You went to a peak of 5.8%, 5.9% ROAs as well. But now your company now has been diversified, like you have MSME, you have individual business, loans, the LAP products have come in. How should we look at in a normalized or even at peak, what can be the ROA, even with your insurance that you have done now and the spending in setting up the collections...

Aalok Patel: Your voice is not completely clear, but I mean just to whatever we heard of.

Vivek Modi: Are you asking about ROA?

Girish Shetty: Yes. So, any way with your new structure in terms of company well diversified, does your ROA get impacted? In the past, it had gone up to a peak of 5.8%, 5.9% kind of an ROA. How should we look at it now going forward?

Aalok Patel: I wish I had a good answer. I mean, I would say, hit a good guess and go with it.

Vivek Modi: Aspirationally, we have always been kind of trying to look at an ROA of anywhere between 3% to 4%, so which is realistic. Some years could have been mega years, like 5.8%. But largely, I think on a consistent basis, our ROA of 3.5%, 4% is doable, and I think acceptable generally by the regulators also here.

Aalok Patel: Yes. So, projected numbers are always funny. I always say, what do you want to hear? I can explain it however you wish. But the fact of the matter is that there are too many things in flux. I can give you a good range, let's say, 3% to 4.5%, but let's see things will get stable. And I think you will have a better idea probably as early as fourth quarter where new realities are setting up.

Girish Shetty: Thank you, sir.

Moderator: Thank you. The next question is from the line of Sheelkumar Shah from Sameeksha Capital. Please go ahead.

Sheelkumar Shah: Could you share the collection efficiency for the month of October?

Aalok Patel: Zero DPD or overall?

Sheelkumar Shah: Overall.

Aalok Patel: So, overall non-written off is, I think, it's shared, 95.8%.

Vivek Modi: 95% was till September.

Aalok Patel: Okay, with October.

Vivek Modi: With October, largely it will turn out to be in similar lines, not too crazily above or below.

Aalok Patel: 20 bps higher maybe. Definitely higher, not lower. Definitely higher.

Sheelkumar Shah: Okay. And on the bookkeeping side, the tax number appeared high. So, what's happening there?

Aalok Patel: That was my first question when I got the provisional financials to do.

Vivek Modi: Sir, what happens is there is a deferred tax that kind of keeps on building up, because when you are doing provisionings. So, if you have very high provision numbers at a point of time, the entire provision is not allowed as tax. So, you develop a deferred tax asset. But let's say, if you were to write it off or the provisions were not required anymore, then the provision reversal would lead to a situation where there will be a deferred tax liability, the reversal will happen. Hence, your PBT numbers are generally much better than the PAT number.

Aalok Patel: Yes, that's true actually. We have been talking about PAT, but we should be talking about PBT, because PBT looks a lot better than the PAT.

Vivek Modi: But again, Aalok, you can't really run away from the deferred tax kind of a situation, because that kind of helped you earlier. Now to that extent. we will have to see.

Sheelkumar Shah: Understood. And if I can squeeze in one more question. What is the breakup of provisions?

Aalok Patel: Breakup of provisions. What does that mean?

Vivek Modi: I mean in terms of stages?

Sheelkumar Shah: No, not stages, but maybe write-offs, standard dilutions, recovery.

Aalok Patel: Out of the total impairment he's asking what is provisions and write-off.

Vivek Modi: So, the total write-offs and provisions, if you have any other questions, you can come up with that while I try to hunt out the number.

Sheelkumar Shah: That was my last question. Thank you.

Vivek Modi: So, I will come back to your answer in a minute.

Moderator: Thank you. The next question is from the line of Amit Goyal from Dream Big Wealth Managers. Please go ahead.

Amit Goyal: Good afternoon, sir. I have a small question. You can also call it advice sort of. Sir, in the future, in the next coming 2, 4 years, I think there will only be two types of companies. One which use AI for their business, and one which doesn't use AI for their business. Even using AI, one employee can do work of 10 employees. So, slowly and steadily AI will be affecting all of the businesses in the future. So, just wanted to ask whether you have any planning of incorporating AI into your business flows and models for financial decisions?

Aalok Patel: So, I think you could be right. I take AI as an amazing tool as good as the Internet. But as long as you require people on the ground to knock on doors, AI is not going to do that. Where it can help us is on stuff like evaluations, back-end processes, IT, tracking. And to many extent, we have been doing that. I will just give you an example. We tried 3 times unsuccessfully to use ML-based algorithms, machine learning-based algorithms to create a model to evaluate customers, right? It seems like a no-brainer. We have 15 years of data, what kind of customer performed well. But even in those cases, the Gini coefficient that they say were super weak. I was not able to get it. And over the long run, I have learned that you cannot model human behavior.

So, with due respect to you, sir, I think you are right about AI being a very important factor in our daily lives in the coming years. I think there are right places to use it in my business today. And wherever those places are, we will use it.

As the technology evolves, if there are other places to use it, I am committed to using that as well. But certainly, I am not going to jump the gun, and do anything without being convinced that it's the right move.

Amit Goyal: My best wishes to you, sir. And I seriously hope that you try one more time, and you are able to finally crack the AI model, because as we can see that in the next 2 to 4 years itself, AI will help you a lot in decreasing your cost and increasing your efficiencies. Best wishes to you, sir.

Aalok Patel: Thank you, sir.

Vivek Modi: Before we just take the next question...

Aalok Patel: I think that's the last question.

Vivek Modi: I mean, that could also be there. But the earlier question there was the breakup of the provisions. So, for the consolidated, the write-off was about INR 134 crores for the H1. And there were reversals of credit losses to the extent of INR 29.62 crores. And that kind of makes up for the entire provision cum write-off of INR 104.78 crores.

Aalok Patel: Good. So, we took provisions in the past.

Vivek Modi: I mean that's the exact reason why the deferred tax.

Aalok Patel: Okay.

Moderator: As that was the last question for the day, I now hand the conference over to Mr. Aman for the closing comments. Over to you, sir.

Aman Vishwakarma: Yes. So, on behalf of PhillipCapital, we thank all the participants for your valuable time and especially the team of Arman Financial Services. Before we close the call, I would like to hand over the conference to Mr. Patel for his closing remarks. Over to you, sir.

Aalok Patel: Thank you, everyone, for being part of the call. I hope we have tried our best to answer all your questions in a candid way. And if you need any more information, please feel free to contact the Investor Relations team. I appreciate everybody's time, and have a good afternoon.

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