"Northern Arc Capital Limited

Q1 FY27 Earnings Conference Call"

July 27, 2026

MANAGEMENT: **MR. ASHISH MEHROTRA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – NORTHERN ARC CAPITAL LIMITED**
MR. ATUL TIBREWAL – CHIEF FINANCIAL OFFICER – NORTHERN ARC CAPITAL LIMITED
MR. PARDHASARADHI RALLABANDI – GROUP RISK OFFICER AND GOVERNANCE HEAD – NORTHERN ARC CAPITAL LIMITED
MR. JIGAR SETA– HEAD STRATEGY - NORTHERN ARC CAPITAL LIMITED
MR. CHETAN PARMAR – HEAD INVESTOR RELATIONS – NORTHERN ARC CAPITAL LIMITED

MODERATOR: **MR. CHINTAN SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Northern Arc Q1 FY27 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Chintan Shah from ICICI Securities. Thank you, and over to you, sir.

Chintan Shah: Yes, thank you, Rayo. So good evening, everyone, and welcome to the Q1 FY27 results conference call of Northern Arc Capital Limited. First of all, I would like to thank the Northern Arc Capital management for giving us the opportunity to host their call and also congratulate them for a very strong set of numbers.

Yes, from the management now we have Mr. Ashish Mehrotra, Managing Director and Chief Executive Officer; Mr. Atul Tibrewal, Chief Financial Officer; Mr. Pardhasaradhi Rallabandi, Group Risk Officer and Governance Head; and lastly, Mr. Chetan Parmar, Head Investor Relations. So, without further ado, I would like to hand over the call to Mr. Ashish. Thank you, and over to you, sir.

Ashish Mehrotra: Hey, thank you very much. Thanks, Chintan, for hosting this for us. Good evening, everyone, and thank you for joining us today. It's my pleasure to welcome you to Northern Arc Capital conference call to discuss our performance for the quarter June 30, 2026, first quarter of the new fiscal year. As Chintan said, I'm joined by Atul, our CFO; Pardha, my colleague in risk; and Jigar and Chetan for the conversation today. Let me begin with few key highlights and few observations of what we've seen in the quarter.

I think it's fair to say in the world where the uncertainty has become the norm, shaped by the geopolitical development, evolving liquidity conditions, rapid technological changes, it is reassuring that some fundamental remain intact. Indian economy continues to demonstrate strong resilience. Household and entrepreneur continue to require access to capital to fuel their aspirations, and investors continue to seek high-quality, well-structured assets. Northern Arc remains firmly positioned at the intersection of this demand and supply of credit.

A strategic focus on building a granular diversified retail lending franchise continues to deliver very strong outcomes. I'm pleased to share that our direct lending portfolio has now crossed over INR10,000 crores, a significant milestone that reflect the strength of our customer-centric approach and a disciplined execution.

We're also proud to have received an Outstanding ESG rating by ICRA. This is our first ESG rating with a score of 81, making us one of the highest rated financial institutions and placing us among the select group of few in the highest rating band of Outstanding. This recognition reinforces our commitment to responsible and sustainable growth supported by strong ESG practices.

Let me briefly touch upon the macroeconomic environment. The global economy continues to navigate heightened uncertainty, particularly in light of the ongoing West Asia crisis. This has led to volatility in energy prices, supply chain disruptions, increased risk awareness across financial markets. This dynamic coupled with evolving trade relationships have created near-term headwinds for the global growth and added complexity to the inflation and interest rate outlook here in India.

Despite these external challenges, Indian economy remains resilient, supported by strong domestic fundamental. GDP growth stood at about 7.8% for Q4 '26, reflecting sustained economic momentum. Robust domestic demand continues to act as a buffer against the global volatility. The consumption trend remains healthy across both rural and urban markets, supported by improved disposable income and favourable financial condition.

Government focus on infrastructure and continued policy support is expected to further sustain the economic activity and drive credit growth. The microfinance sector is showing early signs of recovery after a prolonged period of stress. The collection efficiencies have improved, and the lenders are cautiously resuming disbursement following a phase of consolidation. We are also beginning to see early signs of recovery in micro-LAP and some of the unsecured business loan segments. While there are concerns around El Nino, its potential impact on monsoon, the rural economic activity remains stable, supported by healthy reservoir level, government spending on infrastructures and other investments.

Talking of Northern Arc particularly for the quarter, the quarter was characterized by external uncertainties we spoke about, warranting calibrated and prudent approach. Despite this, we continue to build a very strong momentum. We reported a profit after tax of INR114 crores for the quarter, a strong 41% growth on a Y-o-Y basis, underscoring the resilience of our diversified business model and a disciplined execution of our strategy.

Our assets under management grew by about 26% on a Y-o-Y basis to INR16,855 crores, outpacing industry growth. This was driven by the significant growth coming in a direct lending business, which now contributes 64% of our overall AUM in line with the stated strategy.

Our direct-to-customer portfolio grew by more than 50% on a Y-o-Y basis. The MSME finance continued to be an important engine of growth, secured LAP business contributes predominant share of MSME. MSME AUM expanded by about 40% Y-o-Y to INR3,761 crores.

In rural finance, we achieved highest ever quarterly disbursement of INR328 crores, reflecting steady momentum. AUM in this segment grew first time after many quarters of consolidation by 26% Y-o-Y, taking to INR1,203 crores. Collection efficiencies remain robust at about 99.6% in June '26, the key states such as Tamil Nadu and Karnataka demonstrating strong continued momentum both in terms of the dispersal and in terms of collection efficiency.

Importantly, approximately 94% of our MFI book is now covered under CGFMU, providing strong credit protection. Combined with our branch network and improving collection, this gives us confidence to scale the business prudently. Like I've said earlier, let me reiterate all our loans are individually underwritten, whether sourced through group or through directly, using our own proprietary scorecard called NuScore, and that gives us a lot more comfort, and that's the approach we continue to follow.

In our credit solution segment, we continue to benefit from a strong and expanding network of over 373 originating partners. The quality of this network remains high, around 90% of our partners are rated BBB and above. Approximately 95% of them maintain capital adequacy upward of 20%. This provides robust foundation for sustainable growth.

Our fee-based business, which includes placement, and fund management, remain a key differentiator and giving us unique power to our credit solution business. While placement volumes were subdued during the quarter due to the broader credit moderation, we are beginning to see improving traction across the key segments such as MFI, MSME and consumer finance.

Our performing credit fund continues to scale. We've received SEBI approval to launch two new funds. One is the diversified debt fund and the second is the Northern Arc's Saving Plus Fund, providing strong visibility for growth. In June, AUM stood at INR 2,988 crores.

Further, we continue to see strong traction on our retail platform. AltiFi has registered customers of over 1 lakh subscriber. The volume on the platform has more than doubled on a Y-o-Y basis, increasing from INR146 crores to over INR315 crores or so, reflecting growing investor participation and engagement on the retail bonds platform. Together, these developments enhance capital efficiency, diversify revenue streams and enable us to facilitate a large flow of credit beyond our balance sheet.

Risk management remains center to our strategy. Our underwriting frameworks leverage over 50 million data points and more than 30 plus proprietary models supported by a dedicated team of 100 plus professional risk specialist on ground that cover 25% of the districts. This enables us to generate early risk indicators and maintain portfolio quality. We continue to follow a conservative provisioning approach, writing off unsecured loan on 90 days past due date.

While this may lead to higher near-term credit costs, it significantly strengthens the balance sheet over time. Our GNPA improved to 1% as of June 2026 and credit cost moderated to 2.6% in Q1 2027 within our guided range which we've given earlier.

Company is increasingly embedding AI capability across the function. Over the past years, we have developed a suit of in-house AI-enabled tools across lending, risk, operation and markets using AI natives and agentic approach. The key initiative includes our AI-enabled LAP journey for our retail branches, and solutions across bureau reporting to ensure seamless onboarding and fulfillment of our retail LAP customers. These capabilities do enhance operational efficiency and agility while augmenting our credit underwriting and collection capabilities with all material credit decisions continuing to remain within our credit officers.

Overall, we've started 2027 on a strong footing, supported by healthy disbursement momentum, improving credit trends. While we remain vigilant to external risk including geopolitical development, weather-related uncertainties, we are confident in our ability to navigate these challenges. Our diversified business model, disciplined risk approach and strong execution capability position us well to sustain growth while maintaining profitability and asset quality.

With that, I'd like to hand over to Atul to take you through our financial results in greater detail. Atul, over to you.

Atul Tibrewal: Yes, thank you, Ashish, and good evening, everyone. Let me walk you through the financial highlights of Q1 FY27. We achieved an important milestone this quarter with our direct-to-customer AUM crossing INR10,000 crores, reinforcing our strategy of building a granular and diversified retail portfolio.

Our total AUM stood at INR16,855 crores, reflecting a Y-o-Y growth of 26%. The D2C segment contributed 64% of the total AUM, with MSME finance at 23%, consumer at 34% and MFI at 7%. The net interest income grew by 32% Y-o-Y to INR394 crores. The NIMs improved by 44 basis points Y-o-Y to 9.3%.

Despite a challenging liquidity environment, our cost of fund remains stable at 8.46% for Q1, lower than 8.5% in FY26 and 50 bps lower than Q1 FY26. Incremental cost of fund also remains stable at 8.69%. The total revenue, including fee income, grew by 28% Y-o-Y to INR416 crores.

Operating expenses remain well controlled with the opex ratio being stable at 3.6%. Pre-provision operating profit grew by 27% Y-o-Y to INR263 crores. Asset quality continued to improve with GNPA at 1%, NNPA at 0.5% as on June 2026. Credit cost was reduced to 2.6% in line with our guidance. Profit after tax increased by 41% Y-o-Y to INR114 crores. ROA improved to 2.7% while ROE increased to 11.5%.

On the liability side, we continue to diversify our funding base with a focus on long-term sources. Liquidity remains strong with surplus liquidity of approximately INR1,300 crores and a liquidity coverage ratio well above 150%. Total borrowings stood at INR12,440 crores with 62% linked with variable interest rate, positioning us well in a declining interest rate environment.

Our funding mix remains diversified with 27% from offshore and DFI partners and 73% from the domestic sources. Tangible net worth increased by 15% Y-o-Y to INR4,056 crores. Our debt-equity ratio improved to 3.1x, reflecting a strengthened balance sheet. Capital adequacy remains comfortable and well above the regulatory requirement, providing sufficient headroom for future growth.

Thank you so much, and we would like to open the floor for Q&A.

Moderator: Thank you very much. The first question is from Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Yes, hi. Congrats on the good set of numbers and thank you for taking my question. My first question is for Atul. Basically, see, I can see that provisions this quarter were around INR110 crores. And in your notes to account, you have written that the ECL estimates have been revised taking into account the macro events. And there is a provision of INR66 crores. So, did we make any prudential provision in this quarter? Like does this INR110 crore number include any prudential provisions also? Hello?

Pardhasaradhi Rallabandi: We had an overlay of around INR 66 crores as of March 2026. The number continues to remain at around INR 66 crores as of June as well. So, this INR 110 crore doesn't include any overlay per se. However, in certain segments, we have been a little more prudent and conservative and have taken some good book provisions.

Digant Haria: Yes. So, the next question is on this only. Seeing our credit solutions, it has decreased quite a bit this quarter. And we would have expected that because of personal loans and MFI, the outlook for both is improving. But I see that provisions in this segment have spiked, it's almost 1.5%. So, what happened here? Or if you could just explain this part.

Pardhasaradhi Rallabandi: There is no incremental stage 3 asset that has moved in this quarter in Intermediate Retail (IR) business. The volatility on the IR AUM that you see is normal in every Q1 of the year. So obviously there is a denominator degrowth. Further, we had flexibility, and we have been conservative to provide a bit more on the good book than what we normally would.

Digant Haria: Okay. But you're saying there is no deterioration that you see and this is...

Ashish Mehrotra: No, not a single account.

Digant Haria: Okay. Perfect. And Ashish, one question is on this

Yes. So, I'm saying that in MSME, if I look at all other lenders, lot of them have reported slight increase in stage 3 or stage 1, stage 2. Whereas we have shown a remarkable improvement in MSME. So, this is a welcome step. But I just wanted to know like, how much of this is the small LAP portfolio and how much of this is the merchant -- the digital merchant where improvement has happened?

Ashish Mehrotra: So, in both the portfolios, the LAP, our average ticket size is about 12 to 15 Lakhs. In there, we've seen a significant improvement in the overall collection efficiency while the X bucket will have some seasonality, but the overall portfolio quality looks much better like I said also in the opening comments.

So about 50% of that is LAP business. And merchant lending contributes about INR1,000 crores. Both the credit performance and leading & lagging indicators look reasonably strong. And we'll continue to build that business month-on-month. Focus is to get a high-quality balance sheet growth there.

Digant Haria: Right. Okay. And you know, like the next question is on -- our branch, you know, our brick-and-mortar business, which is the MFI and small LAP. You know, like where do you see this scaling up this year? And are we planning to add any new products in this, you know, the physical world kind of lending business?

Ashish Mehrotra: Yes, we see the stabilization of MFI and the improvement in the LAP performance. We don't do the small ticket LAP of less than INR5 lakhs. So, our average customer, as I said, is in the INR12 to INR15 lakhs segment, which is better quality customer.

We are at 430 branch network, and we will add another 50 to 60 branches this year. We've added 230 people in the sales in quarter 1 itself. So, idea is to get more sales per store, per branch.

Like I spoke about building AI in the journey to automate some of the processes, trying to do 90% of turnaround within 3 days. So, all that is being done to get better productivity per store and also get better collection consequently to see better-quality balance sheet growth. We've begun to grow MFI also as I said earlier. So, both should see healthy growth in the coming quarters.

Digant Haria: Okay. And then, given that this year, credit cost in small LAP and microfinance will be lower. Would you want to give guidance on loan growth and ROA for FY27?

Ashish Mehrotra: Yes. So, we've already given and we will hold to our estimate of what we've given. Our guidance on the blended credit cost is about 2.6% to 2.7% range, and we are holding on to that. Our target ROA is to get closer to 3% in this year. So, we are pretty focused on the numbers, and you should see a quarter-on-quarter improvement to reach the guidance position we've set earlier. We'll continue to work towards it.

Because our focus is to just have a disciplined execution of our strategy of what we've been saying for last 6 or 8 calls. And as we continue to execute strategy, continue to build the fee franchise, we will get there. You will have a movement within quarters on the fee and other lines, but we know where we want to get to and how do we get there by quarter-on-quarter basis. So, we're pretty sharply focused on it.

Digant Haria: Okay. Thank you. I'm done with my questions.

Moderator: Thank you. Next question is from Kaushik Agarwal from Haitong. Please go ahead.

Kaushik Agarwal: Yes, hi, sir. Thank you for the opportunity and congratulations for the quarter. Sir, I have couple of questions. So just continuing to the last response that you gave, that you are targeting close to 3% ROA for this year. So, I can see that for this year, we have delivered around 2.7. So, what will drive this 3% ROA that you are targeting? That is one.

Secondly, on the margin piece, I wanted to understand what happened during the quarter, there is a 50-bps sequential decline in NIMs. This is as per the reported numbers that you have given. So, what led to this dip in the margins during the quarter? And on the lending side strategy, what I picked up is that on the intermediate retail you would be broadly degrowing this book. So large part of the growth will be coming in from your D2C segment.

And within that, I can see that consumer finance is growing out quite robustly. So, what gives you confidence in terms of growing so aggressively over there? And broadly, if you can share some data points in terms of -- this book is divided among how many DSAs, like digital DSAs, and is there any concentration risk over here? So, these are the 2 questions.

Ashish Mehrotra: So, let me try and answer them in seriatim. It's not that we are degrowing the credit solution business. That business will continue to grow at about 8% to 10% year-on-year on full year basis. We are expanding funds. Our objective is to provide credit solutions when we work with our Origination Partners. The solution can come from funds, or it can come from balance sheet depending on funds finding the right set of thematic opportunities to invest in.

We have a full credit solution franchise which also includes the most powerful institutional placement business with 16 years of track record. With funds, 9 years of performing credit track records and AltiFi, which is a retail bonds platform, another 4 years of high-quality track record. So, I think we've got the full compositional right when we talk to our obligors on the other side.

Our objective is to grow the business in a calibrated manner with a very sharp focus on growth. I think the movement on the yield, because some part of the growth happened towards the latter part of Q1 in June 26. Hence you did not see the full realization of yield. We are not very worried, and we will hold to the overall FY27 guidance of NIMs number. There could be movement within the quarter, but the overall numbers will continue to come in line or better than what we've said. And I think that's our endeavour.

As we continue to expand the direct-to-customer business, you should see improvement in the NIMs on a Q-on-Q basis. There could be movement on a specific quarter, but that's where you see over the last five years, our NIMs has expanded from 5.5% to about 9.4% in FY26 and I think that's where that's the number is and you should see that improvement coming in.

The second part of the improvements will come in on two big lines, which is essentially on a loaded NIM basis, which is coming on the fee line. One is a funds management business. We've now launched two funds. One is 2,000 crores diversified debt, 1,500 plus greenshoe of 500 crores. Another is a Savings Plus Fund. Both will provide high-quality growth in the fee income. We make about 110 basis points. So as the funds AUM grow, you should see expansion in the fee income.

The placement business, you know, given the pipeline we are sitting on, both with regards to securitization and assignments, so I think we should see a strong Q2 and a Q3 on that. And the overall fee composition will continue to expand. We are holding on to the guidance we've given earlier that the fee will constitute about 80 bps to 100 bps in our overall revenue line. So that's where you will see expansion in the loaded NIM.

Our opexwill remain at about 3.6% level. We are holding to that number quarter-on-quarter while investing at the early stage in building more capacity, pushing for more sales per store and so on and so forth. Like I said, we've almost added 250 people on the production line of the existing branch network. Further, we've added digital partners which will continue to see a rapid expansion.

And we want to ensure that it is pretty well balanced between the MSME and the consumer within our direct-to-customer business. In the MFI, it's a very calibrated growth. It's starting from a small book, but you should continue to see that growth with better set of performance. So, we are confident to what we've said, and we should be able to hold and maybe deliver better than that. That is my response. I hope I've covered all the four or five areas on which you had questioned.

Kaushik Agarwal: Yes, sir. Sir, thank you. Sir, just on the consumer finance piece, I think just wanted to check like what gives you the confidence in terms of growing like aggressively over there. I understand this is mostly you have this DLG cover over here, but also wanted to understand is there any concentration risk over here? In terms of the channel through which you're sourcing is there any specific partner on which your book is highly concentrated?

Ashish Mehrotra: We work with almost 30 plus digital partners. We also work with about 50 plus on a direct side. So, it is pretty well diversified. You know, diversification is key to our risk both at a sector level, and let's call consumer as a sector, then at the product level, then at a geography level, then at a district level, then concentration at an obligation partner level. So, it's pretty well diversified.

These are to my mind the core guardrails with which we adhere to and that's the only thing which is non-negotiable in Northern Arc. These guardrails we've set for the diversification and the quality of book. And that enables us and gives us an agility to dial up, dial down as we see opportunities in the market.

Our growth on consumer is actually good because we worked across the segment with multiple players. And you know, the cohort level performances are fairly strong. At a cohort level we track loan-by-loan performance, partner-by-partner performance, we are tracking better than what we anticipated to be and I think we should continue to hold that.

Moderator: Thank you. The next question is from Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes, good evening, sir, and thank you for taking the question. Just in extension of what you just answered. So, if we look at the growth this quarter and sorry, I joined in a little late, so some of my questions could be repetitive, please let me mark in and look at the transcript. So, but this D2C growth that we are seeing 10% kind of a Q-on-Q growth, within that bulk of it driven from consumer where we've called out, we have 19 live partners backed by FLDG.

So, can you just help us understand are all these 19 live partnerships that we have, all of them provide 5% FLDG? And the other thing is, I mean, doesn't this worry you a little bit that at a time like this when I would say we're in the middle of the war, despite that nothing kind of seems to show anything negative on the asset quality front and across lenders. Don't you think some of that stress, whatever that could be, could be moving into some of these segments like let's say consumer loans, gold financing? So, your thoughts on that, please.

Ashish Mehrotra: Actually, you're right. If you actually look at the entire retail pool growth in the industry, given we work with all of them with about 370 plus partners, and when you look at the overall credit growth, the 70% of the growth is coming from gold. And that's because the gold prices have appreciated over three years by about 3x from INR60,000 to INR1,50,000.

Given the small loan base, percentage may not be the great way to look at it. Our MFI business after we've been dialling down and moderating for now about six to seven quarters, it for the first time grew by about 19% on a quarter-on-quarter basis. Our consumer grew by about 15% quarter-on-quarter. Our MSME retail grew by about 1%.

So, I think the overall growth is pretty well moderated across the three sectors. The consumer looks bigger because of growing Digital Partners and it's easier to execute. Rest of the stuff, there is a brick-and-mortar and there is a lot of hard work for before it starts culminating into growth. We've added about 250 people between the LAP and the MFI to push towards greater productivity and to push toward expansion in it. So, I think all that puts us in a pretty strong position to continue to build on this momentum we have. The advantage we have is that we start from a small base, 10,000 crores is a small base on a direct business.

I think we continue to do so. The idea is how do we grow our credit solution business, how do we grow our funds and how do we build a stronger fee franchise and that's also the focus area. I think both of them will continue to stay very sharply focused and I think this growth is sustainable quarter-on-quarter basis.

Abhijit Tibrewal: Got it, sir. And before I ask my second question, just a small follow-up. Have you already commented on what led to this Q-o-Q decline in the intermediate retail credit solutions business?

Ashish Mehrotra: Yes, we've commented. The growth in the Q1 tends to be slower because you had higher volume disbursement across the sectors in Q3 and Q4. So Q1 tends to be slower as people borrow heavily for Q3- Q4 post festival season onwards and subsequent to which start tapering off. And I think the current pipe looks very good.

So, it'll continue to grow 8-9% on a full year basis and the funds will then provide the incremental impetus. The idea is how do we build more on the on the bonds and on the placement business. So that I would look at it at a credit solution level, total volume, and then look at it at that volume moving between placement, funds, bonds and then balance sheet to ensure, you know, better economics on a return on capital basis.

Abhijit Tibrewal: Got it. Okay. Thanks for that. And then the last question that I had was on this D2C portfolio. This book has now crossed 10,000 crores for us, contributes 64% of the AUM. As this mix continues to increase, how should we think about the trade-off between growth, margins and operating expenses? So, what I'm just trying to understand is this D2C, do you see it structurally becoming more profitable over the next two, three years?

Ashish Mehrotra: Of course, that's the underlying thesis. If you look at it today, some of those mature businesses make 4% plus ROA. Yes. So, my big piece of the flow will also be as we get larger sales per branch in LAP and as the Pragati productivity goes up because of the sharper better underwriting and fulfilment, that'll ensure that, you will get to see better output per employee. That's where it is because you were very conservative, you tighten the policy, you wanted to have tighter selection of risk on the segmented you wanted to play.

As the things stabilize and you test your scores, you have an ability to see how I look at better throughput at a customer level and at a at a salesperson level. So, there is also a productivity gain net-net which I'm hoping we will get as we go through the rest of the three quarters. So, the jaw should continue to open if, you know, if that's the sharper answer.

Moderator: Thank you. Next question is from Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Hi, and thank you for the opportunity and good evening. I just have two very small questions. One, I look at your incremental cost of funds, that's 8.7 and then on the book it's 8.5. So, do you expect that this cost of funds will converge to about 8.7 by end of this year? I'm just asking from a modelling point of view, that's the first question. And should I ask my second question also?

Ashish Mehrotra: Yes, yes, please. So, we can take Atul on call first and then we come to the next one.

Atul Tibrewal: Hi Raghav, we have seen the spike of 50 bps in the benchmark rates in the last 6 months in the background of the prevailing geopolitical conditions. We have also seen the movement in the hedge cost, which has gone up by 75 bps in the last six months. And obviously, the banks have also been increasing their MCLR though by small margins, but it has gone up by close to 10 to 15 basis points.

So overall, there has been a trend of increasing borrowing rates. But we have been able to maintain our cost at around 8.5% consistently for the last three quarters. Our incremental cost of fund, ranges between 8.6% to 8.7%. We have not seen too much of an increase on that front as well.

But there will be some debt which will come up for repricing in the next couple of quarters there we might see increase of close to 5 to 10 basis points. So overall, Raghav, I don't see any major changes in the cost of fund. It should remain range-bound at around 8.5% to 8.6% level.

Liquidity though has become quite tight. We are seeing challenges on that front but as far as Northern Arc is concerned, we are very well capitalized. We have good amount of liquidity in form of Bank balance and undrawn sanctions of close to INR1,300 odd crores. So, interest rate and liquidity both are comfortable for Northern Arc.

Raghav Garg: See, I understand that. If you look at -- actually look at last three quarters, the yields have come down, and the cost of funds has been stable. Now, with cost of funds going up, there could be further decline in spread. Is that the way to think about this? I understand there is a credit cost lever...

Atul Tibrewal: No Raghav, look at our yield trend. Yields have gone up except for quarter one yield, the yields for past few quarters have been consistently going up. It is only in Q1 where we have seen a slight decline in the yields, which Ashish mentioned in the previous questions

Ashish Mehrotra: Most of the credit solution disbursement was towards the back ended.

Raghav Garg: Understood.

Atul Tibrewal: So, the cost of fund is consistent, the yields have been going up. So, we are in line to reach a 9.5% NIM in the next quarter and close to 10% by the end of this year. So, we're pretty confident about it. If you look at our NIMs, it has been only increasing quarter-on-quarter, and we are very hopeful of reaching close to 10% by the end of this year.

Raghav Garg: Understood. And my second question is that your Tier 1 is about 21% as of March '26. At what point do you come to the market for raising capital? Is there a thought process right now behind this or not?

Atul Tibrewal: I think capital adequacy as I mentioned is very comfortable at 22.7%. We have enough headroom for growth. Debt-equity is just 3.1x. The comfort level for the rating agencies, for the regulator, for the lenders is 4-4.5x. So, I don't see us hitting the equity market in the next two years.

–Further, we are highly profitable. We add good amount of profit to the net worth every quarter. I don't see the need of any equity raise for the next two years to take care of our 22%-23% growth target that we have.

Raghav Garg: Understood. The only reason I asked is that if I look at since FY22, I think the Tier 1 has not gone down below 20%. And hence, I was just trying to place some cues on that front.

Atul Tibrewal: I think it should remain in that range, Raghav.

Ashish Mehrotra: Other way to look at it also, if you're able to grow the funds to what we are planning to grow, while you see the overall throughput going up without requiring so much of incremental capital.

Atul Tibrewal: Good. Anything else?

Raghav Garg: Understood. That's all from my side.

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

Chintan Shah: Thank you for the opportunity. So just on the fintech lending, fintech partnerships, I think this is a business probably which we have been doing pretty well in terms of yields, ROA, etc. And but probably other peers, NBFC peers, most of them have not been able to scale this business successfully without taking any hit on the credit cost front. So, how are we looking at this business? Could it reach to a certain scale and then probably plateau or is there scope for expansion? So, some thoughts on that, yes.

Ashish Mehrotra: I think this business should continue to grow. We work with multiple partners without any concentration risk at a partner level or concentration of higher volume on a single partner. Our commitment on this actually goes to the genesis of Northern Arc. And our genesis to Northern Arc is a comprehensive credit solution business.

We work with people at a very early stage. We take small exposure by dipping our feet. We test their performance, we get to know them better, we get to know their proposition. Then we work with them more closely by supporting them in their liability need. Then we try and bring other lenders to participate to provide them to grow.

If we continue to see good performance, we also offer our funds team to look at it if that marries with their investment mandate depending on funds investment thesis and fund size approval.

We like them more, we continue to offer them tech, data, securitization and other services. We continue to work with them and when we find there is an opportunity of our target client model versus their target client model at the price band we like to play, then we also participate in enabling them to fulfill more people who coming through their door, coming to them and providing them a comprehensive convenient financing solution.

The customer goes to many platforms about 30 such people whom we work with. They push the application to Northern Arc, Northern Arc underwrites that application, Northern Arc engages with that customer, Northern Arc take the repayment instruction from that customer, sanctions them the loan, communicate the disbursal and present for collection.

So, it is a fully well-embedded complete process. If somebody is looking at it as a short-term growth, may not work. Ours is deep commitment with our partner which goes for 5, 10, 15 years. In most of the cases, we were the first lenders to them, some of them now hit capital markets or in a process of hitting capital markets.

They all know the Northern Arc's value and Northern Arc's commitment in the partnership is in their success and their success lies Northern Arc success. So, it's a fully embedded model. We've been doing this now for seven or eight years. And I think we continue to grow.

We continue to manage it very sharply and today, we had the board meeting, and I did show to them saying how quick we are to react to dial down when we have to dial down. And the word I used in the board is that we do not shy away by demonstrating the strength of character to say no when we think it is not right, when we see that the cohort is not performing as per our expectation. We work with partner very seamlessly.

I think that's the nature that we are good at it in what we do. And we should continue to hold and stay very sharply focused in ensuring that the end customer has a very seamless experience and our service principles and the partner service principles remains the same. I think that's the core of it and that's why you see a sustainable growth in it.

Chintan Shah: Sure. Thank you for detailed answer and I think this is very comforting. So just one more thing on the margins. So, as we mentioned, margins are likely to scale to 10%. But so, one thing phenomenal is that our cost of funds has been quite stable like 8.5% since the past four quarters despite the liquidity West Asia crisis, etcetera. So now the 10% delta margin from currently 9.3%, is it going to come from the yield?

So, what is exactly -- how are we expecting the yields to pan out? And just one last question on the provision thing. So, are we expecting any provision reversal from Aviom Housing or Kinara Capital or any other provision reversal expected for this year?

Ashish Mehrotra: Let me take both. I think the yield should continue to see some bit of an expansion as we continue to grow our business. And that should continue to happen.

If could see a change in quarter depending on, when did you disburse the loan if the larger part of disbursement on the credit solution side happened towards the mid of June, , you will not see the full earning fructifying and reflecting in the yield or the NIM.

So, I think that's the one part of it. The second part to your question is so as that expands, so the NIM should continue should see a bit of an expansion and I'm holding on to the number Atul has said.

So, if you look at it, you will see some bit of movement on quarter-on-quarter basis, but towards the end, we should get to close to 10%. The big part is how do you increase the loaded NIM from 9.8% that means the fee has to grow from 50 basis points to about 70 basis points, 80 basis points. That's the big play we are working towards very sharply.

And I think that's the sense we have. So, I'm not going to be too much current. Calibrated growth in the credit solution business and focused growth in direct-to-customer business across the three sectors of MSME, consumer and Rural.

Further, we actually also hold an overlay of sizable amount of provision which we did not release on DLG changes because I thought given the current uncertainty, it prudent to hold that additional provision. We continue to hold it.

Aviom is in a sense more than adequately provided. We hold almost 75% because there are two-pronged approaches to it which we said in the first call when that incident happened, which is between what value we have assigned as part of the direct assignment and unsecured IR book. The retail book of that continues to be provided pretty aggressively following our approach.

The unsecured IR book is fully provided. We don't have anything on Kinara. I think that's all done. That was securitized, taken over, fully done and dusted. That's where it is. So, I think we should see some bit of upside as settlement happens, but right now I don't want to comment on it. It'll be unfair for me to comment on an individual account level.

Chintan Shah: Thank you for the detailed answers. Thank you and all the very best for the coming quarters.

Ashish Mehrotra: Thank you very much.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference over to the management team for closing comments.

Ashish Mehrotra: We just wanted to thank you for joining us today evening. Thank you all and we will see you next quarter. Thank you.

Atul Tibrewal: Thank you.

Moderator: Thank you very much.

Ashish Mehrotra: Thank you. Thanks, Chintan. Thank you all for being a great moderator, Chintan. Thanks for supporting us.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.