Operator: Good morning, everyone. This is the third day of the Bharat Connect Conference, September 2026 edition. I welcome you all to the call of Northern ARC Capital Ltd. Today from management, we have Mr. Atul, the CFO, Mr. Jigar Setha, the Head of Strategy, and Mr. Chetan Panmar, Head of Investor Relations.

Without delaying anything further, I will lay out the flow of the event. First, management will provide a quick overview of the company, after which we will move to the Q&A section. We will first take questions from participants who have raised their hands, followed by questions from participants who have submitted questions in the Q&A section. If time permits at the end, we will take questions from participants who were unable to join this call. Without delaying anything further, I will hand the call over to management. Over to you, sir.

Chetan Panmar – Head of Investor Relations: Thank you, Aryan Capital, for hosting us. We are privileged to be part of this conference. Let me introduce the management team. We have Atul Tibrewala, our CFO. Let me briefly introduce Northern ARC Capital Ltd. and provide some background before we move to the Q&A.

Northern ARC Capital Ltd. is a diversified NBFC. It was set up in 2009 with the intent of helping microfinance institutions raise money. During 2007-08, there was an MFI crisis, and it was difficult for MFIs to raise money. At that point, former ICICI Bank veteran Nachiket Mor started this outfit with the intent of helping these microfinance institutions.

As we progressed, we kept adding other sectors such as MSME, consumer, affordable housing, vehicle finance, and agriculture, which was the latest addition. Throughout this journey, we started with lending from our balance sheet, and we also helped these institutions raise money through the market, where structuring was one of the key capabilities of Northern ARC Capital Ltd. As we progressed, we also started our own funds business, which is a performing credit fund through which we deployed capital and provided capital to these NBFCs.

During this journey, we worked with more than 350 NBFCs. Based on this experience, we started our own direct-to-customer business, with consumer finance being the first segment we entered in 2017. As we were working with NBFCs, multiple fintechs were also part of these relationships. We thought it would be a good business proposition to leverage the leads generated by these fintechs to build our own direct-to-customer lending business.

We started our fintech digital lending business in 2017. Today, we work with more than 35 live partners. This business has scaled, and our AUM is currently around 5,500 crores. Here, we leverage FLDG from our partners, through which we receive 5% FLDG from these fintech partners in accordance with the RBI's digital lending guidelines.

In 2022, we were again working with multiple partners. One of the partners, Smile Microfinance, wanted to exit. We took over that business through a slump sale, through which we acquired 150 branches and approximately 250 crores of AUM. We have built that business, and today it has more than 430 branches and approximately 1,200 crores of AUM. That is our rural finance business.

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The third business is MSME. Here, we have a full spectrum of credit facilities, ranging from loans against property and merchant loans to supply chain finance and some working capital loans. The total book here is around 3,600 crores. Loans against property contribute around 1,700 crores, merchant loans contribute around 1,000 crores, and the balance of around 1,000 crores comprises mid-market and supply chain finance.

Overall, our business is split into two parts. One is the credit solutions business, where we work with NBFCs. Our total AUM in credit solutions is around 6,500 crores. We also have a funds business with an AUM of around 3,000 crores. In addition, we have a debt syndication business, which is our placement business, where we handle volumes of around 12,000-13,000 crores annually and earn approximately 25 bps as placement fees. That is the credit solutions business.

In the direct-to-customer business, our AUM is around 9,600 crores. Overall, our total AUM is around 17,000 crores.

We have been a profitable organization year after year. We have weathered a once-in-a-hundred-year event such as COVID-19, as well as once-in-a-ten-year events such as overleveraging and the IL&FS crisis. Throughout these periods, we have continued to perform and consistently deliver profits year after year. Our 15-year AUM CAGR is around 29%, and during that period, our PAT has grown by around 24%. This is where we stand. I think we can begin the Q&A.

Operator: Thank you, sir. We will move to the question-and-answer round. I repeat, if any participant has a question, they can raise their hand or put it in the chat box. We will first take questions from participants who have raised their hands. Our first question is from Darshil Jhaveri. Darshil, you are allowed to speak and may unmute yourself.

Darshil Jhaveri: Good morning. Thank you for taking my question. I wanted to understand how a rising-rate scenario, in which rates are increasing globally and India may also have to raise rates, would affect our business model. Would the cost of funds become more expensive, and would we be able to pass that on? Could you walk us through what it would look like for us in the event of multiple rate-hike cycles?

Atul Tibrewala – CFO: This is a very pertinent question, Darshil. Thank you for asking it. In today's environment, it is very relevant because, for the last 2 years, we had been seeing a downward cycle. However, over the last couple of quarters, we have seen a slight increase in interest rates.

It started with banks increasing the MCLR in very small increments, such as 5 paise every 2-3 months. If you look at the last 6 months, they have already raised rates by 15 bps without the RBI actually increasing repo rates. The banks have been very smart in increasing the MCLR in very small increments.

If you look at market benchmark rates such as G-Secs and T-Bills, they have also increased over the last couple of quarters. They have risen by more than 30-35 bps. Therefore, the trajectory of interest rates, as you correctly mentioned, is upward. We have already seen an increase in market interest rates, although the RBI has yet to formally pass it on through an increase in repo rates.

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As far as Northern ARC Capital Ltd. is concerned, there are two parts, or two legs: the asset side and the liability side. Let me first cover the liabilities side. Most of our instruments are divided between fixed and floating rates. Approximately 40% is fixed and 50-60% is floating. The 40% that is fixed will not be impacted by either an increase or a decrease in rates.

As far as the variable-rate portion is concerned, around 50% of that 60% would be linked to MCLR. The impact there will come when the proposals are renewed. Largely, this will be in March, when we will see some increase in interest rates because most of these MCLR-linked proposals are renewed for us in March. We should therefore see an increase of 10-15 bps as far as MCLR is concerned.

There are also some loans linked to T-Bills and the repo rate. We will see an increase in those loans immediately when it happens. Therefore, 30% of the book is linked to T-Bills and the repo rate, 30% is linked to MCLR, and the balance 40% is fixed. That is the composition of our liabilities.

We enjoyed the benefits over the last 2 years when interest rates came down, and we will definitely see a 15-20 bps increase next year when interest rates start rising.

As far as the asset side is concerned, there are again two parts. One is the B2B lending that we undertake, which is the credit solutions business. There, interest rates are largely floating. We have our own benchmark rate called FPLR, and every month our ALCO takes a call on whether to hold the FPLR or increase it. That book is floating, and we can immediately pass on the increase once we see an increase in the interest rate on our cost of funds.

However, in the direct-to-customer business, the loans are largely fixed. The tenures are also shorter, so the loans are easily repriced when we provide fresh lending to those customers. In that way, we are protected because that book has largely shorter tenures. The average tenure of that book is approximately 12-15 months, so it will be easily repriced through incremental lending. Otherwise, the existing book will remain fixed for the direct-to-customer business. Therefore, in terms of interest-rate sensitivity, we do not see too much of an impact on NIMs because if the cost of funds increases, our lending rate will also increase simultaneously.

Darshil Jhaveri: Fair enough, sir. I also wanted to know about our ROA. I believe we had a 3% target and credit costs of 2.6-2.7%. In the current scenario, are we maintaining that, or would you like to mention any change?

Atul Tibrewala – CFO: We are sticking to the ROA guidance. In fact, our guidance was that we should move from 2.6-2.7% closer to 3% by the end of this year. We are sticking to that guidance and are on track to achieve it. Q1 was good. Q2 is obviously too early to assess, and it would not be fair for me to comment at this stage, but things are looking good. This is what I can say, and we are on track for the 3% guidance that we gave earlier in the year.

Darshil Jhaveri: That is good to know, sir. If there is more than one rate hike, perhaps because of the Fed increasing its rates, how would that affect us? You have mentioned the mix of our cost of funds, but in terms of the businesses, would it become increasingly expensive to give out loans? Would that dampen growth? In a previous cycle, when there were continuous rate hikes, how challenging was it for us to achieve growth?

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Atul Tibrewala – CFO: We will not see any reduction in the growth guidance that we have given. We are sticking to our growth guidance of 22-23% for the year. Since we are at the fag end of September, let me tell you that we are on track.

The interest-rate environment is not something that has developed overnight. As I said, from April onwards we have been seeing a spike in rates, although not in the form of repo-rate hikes. We have definitely seen an increase in T-Bills, G-Secs, and other market-driven rates.

On the lending side, we have also started pushing rates. As CFO, my job is to push the business team, and we have already started doing that to improve rates for both the B2B and direct-to-consumer businesses. Obviously, there will be resistance from the business team, which is natural in every organization, but my job is to push them, and that is what we are doing.

There will definitely be some improvement in lending rates, and we are already seeing that in some of the names to which we lend. We have been able to increase the rate in some cases. That sensitization is already present within the organization to improve lending rates because our cost of funds will also increase due to the expected increase in the repo rate, with one hike predicted in October and another in December.

We are predicting at least a 50 bps increase in repo rates. This will translate into some increase in the cost of funds, which should be close to 15-20 paise over the next 6 months. At the same time, our lending rate should also increase.

Darshil Jhaveri: Fair enough. As a final point, what credit cost are we currently seeing?

Atul Tibrewala – CFO: We will maintain our credit cost. The guidance we had given was 2.6-2.8%, and we will remain in that range despite the direct-to-consumer business increasing its overall share of the business.

Last year, direct-to-consumer accounted for approximately 50-55% of the business. We are now already at 65%, and hopefully we should reach 70% by the end of this year. Nevertheless, we are maintaining our credit-cost guidance of 2.6-2.8%. Q1 was good, and hopefully Q2 should also be good.

Darshil Jhaveri: That is all from my side. Thank you.

Atul Tibrewala – CFO: Thank you, Darshan.

Operator: Thank you. We will take our next question from Nitin S Dharmavat. Nitin, you are unmuted.

Nitin S Dharmavat: Thank you for the opportunity. Am I audible?

Atul Tibrewala – CFO: Yes, Nitin, very much.

Nitin S Dharmavat: Going back to the previous set of questions, could you also highlight the risk-management strategy at our company and explain how we would have handled a similar situation in the past? We have a history of almost 17-18 years, and such scenarios are not occurring for the first time. How did we handle them?

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I understand that our business mix has changed over time, but our risk-management practices would also have evolved. Could you please highlight that as my first question?

Atul Tibrewala – CFO: As you correctly mentioned, our business mix has undergone a dramatic change over the last 6-7 years. Earlier, we were largely a wholesale lending entity, mainly focused on the credit solutions business driven by lending to FIs, or financial institutions.

The risk-management policy required for that business would be very different from what is required for a direct-to-consumer business. The focus was earlier on the institutional side, where the entire policy was framed around lending to wholesale entities or wholesale lending to FIs.

Over the last 4-5 years, however, we have undergone significant change in terms of our profile, mix, and diversification. Along with that, we have also made significant changes in our thought process, the way we manage risk, and the way we underwrite portfolios.

We have different policies for MFIs and for our MSME LAP business. At the enterprise level, we also have a common enterprise-risk framework. We have been managing this quite effectively over the last few years. It is driven by the products and also by the way we channel our businesses.

We also make changes based on the advice we receive from the RBI because we are subject to inspections by the regulators every year. Whatever advice they provide, we make the necessary changes to our risk framework.

We also have our own internal risk-based framework. The internal audit team is responsible for it, conducts the audit every year, and presents the report to the audit committee once a year.

We have taken many steps in this area. We also have our own scorecards and monitor our portfolio very closely. The way we monitor an IR book or the credit solutions business is very different from the way we monitor the direct-to-consumer business.

The IR business is largely entity-driven, whereas the direct-to-consumer business is monitored and managed through granular portfolio data. Significant changes have taken place, and we have also learned over these years.

I believe we have one of the best frameworks in place as far as credit costs are concerned. Our credit costs are significantly lower compared with the industry. Our GNPA and NPA levels have also been among the lowest over the last 15 years. We have been managing our risk quite effectively.

Nitin S Dharmavat: My second question relates more to the current quarter. Where is growth coming from? In which sectors are we seeing growth in credit, and where do you see some slowdown in credit requirements? Have you seen any stress in segments such as MSME or individual lending?

Atul Tibrewala – CFO: I currently have data for the last 2 months as far as the portfolio is concerned. We have not seen any deterioration in any of our direct-to-consumer businesses.

As Chetan mentioned at the beginning of the call, we operate in three businesses: consumer finance, MSME, and microfinance. We have not seen any significant deterioration in the portfolio in

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any of these three businesses, continuing from where we were in Q1.

As far as business is concerned, microfinance has definitely picked up. We had slowed down last year when there was an overleveraging-led crisis. We had reduced monthly disbursements from 100 crores to approximately 30 crores.

However, the portfolio is now performing very well. We have implemented many new measures. We have also taken the CGTMSE guarantee, and we have now complied with the MFIN overleveraging guidelines. We are now back to approximately 110-115 crores of monthly disbursements in MFI. MFI is therefore growing quite well for us.

At the same time, we are not seeing any impact on the MSME portfolio. We had apprehensions in Q1 when the war was affecting the MSME book, but the portfolio has held up quite well. We have not seen any challenges.

We were monitoring the impacted sectors very closely, including food and beverages, chemicals, and other sectors, but the portfolio has held up quite well.

Consumer finance continues to outperform. Growth there is also quite good, and we are not seeing any challenges in terms of portfolio quality.

If you recall, in December 2023, the RBI had several concerns regarding the pace of consumer growth. However, our customer profile is largely urban, and we are not seeing any challenges in our consumer portfolio.

All three sectors I mentioned are growing for us, and Q2 should be good. I do not know whether I can say anything beyond that. Chetan?

Chetan Panmar – Head of Investor Relations: I think you have summed up everything.

Nitin S Dharmavat: You have given a very fair and elaborate answer. Thank you very much, Mr. Tibrewala. Thank you, Chetan.

Operator: Thank you. We will take our next question from Vishal Gupta. Vishal, you are unmuted.

Vishal Gupta: Am I audible?

Atul Tibrewala – CFO: Yes, Vishal.

Vishal Gupta: Good afternoon, gentlemen. Congratulations on such good numbers and prospects. I have a few questions regarding the future.

My first question relates to depreciation. We can see that depreciation is either stable or increasing. Have we planned any capex that will be commissioned over the next 1-3 years?

Second, apart from the current products we offer, are we planning to add more value-added products over the next 2-3 years that could generate higher gross or EBITDA margins compared with our current products?

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Atul Tibrewala – CFO: Depreciation is very small for us. We do not have too many fixed assets. I believe the line item you are seeing is amortization. We have technology-related costs that we amortize every year. The technology capital cost that we incur is amortized over a period of 5 years, if that is what you are referring to.

Otherwise, depreciation would be minimal and would largely relate to furniture, fixtures, and laptops. Beyond that, I am not aware of any significant fixed assets that an NBFC would have. I have been in the NBFC industry for 25 years, and there are hardly any fixed assets in an NBFC. We also do not own any properties.

Vishal Gupta: My question was whether we are planning any significant capex or other investment so that, after 2-3 years, we could have new products or services that could be commissioned and reflected in our books. Or are we simply planning to continue with our existing services?

Atul Tibrewala – CFO: The only capex that comes to mind is technology-related costs. Apart from that, there is nothing significant.

Technology is changing, and we are keeping ourselves updated. We are trying to implement new LOS and new LMS wherever possible. We are also spending some amount on our bonds platform and on our funds platform. We are also spending on the M-POS platform, which is used for co-lending.

I believe the platform is the only area where we will definitely see an increase in spending. We have also been doing this over the past 5 years. This is a continuous process.

Apart from technology, I do not see any major expansion in our infrastructure-related costs. If you look at our branches, they are very frugal and very small, and we do not incur much cost when opening a new branch.

To summarize, the major capex cost will be technology. We have been incurring this cost over the last 5-6 years, and it will continue going forward because we also have to keep ourselves updated with new technology requirements.

From an infrastructure perspective, we do not see significant expenses for the branch network. Jigar, if you would like to add anything—

Jigar: The other important point to consider is that, compared with manufacturing companies or similar entities, in the lending business the only thing we spend on is growing the book. That is where our capital gets invested. We do not spend a great deal on capex.

From that perspective, we are generally capex-light. In terms of the product proposition, which was the other question you were referring to, we currently have multiple products in operation. There is sufficient headroom to grow within these products.

Nevertheless, if there is an opportunity to do something inorganic, that is something we continuously evaluate. At the same time, we recognize that we have sufficient material and enough opportunities within our existing products, and that provides us with enough avenues for the next 3-5 years.

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Vishal Gupta: Understood. Thank you very much.

Operator: Thank you. We will take our next question from Varun Gandhi.

Atul Tibrewala – CFO: Hello. Hi, Varun. Please go ahead.

Varun Gandhi – Analyst: Hi, team Northern ARC Capital Ltd. My question is mainly about your origination partners and the economics of that business. You have partners such as MobiKwik, Paisalo, and others that originate loans for you. I want to understand the mechanics of sourcing customers through that channel, as well as through your actual direct-to-customer business, where you build a sales team and reach real customers.

Atul Tibrewala – CFO: I will walk you through the economics, Varun. The direct-to-customer partnership business is not very different from what we do at the branches. The only difference is that there is no physical branch. The application is submitted through an app pushed by the partner, which acts more like a BC or DSA for us, similar to any other DSA we may have at a branch.

Taking the example you mentioned, MobiKwik would be responsible for sourcing the case, acquiring the customer, filtering the application, and pushing it to our nPOS platform.

The platform then performs the entire underwriting process, including the credit engine, bureau score assessment, KYC, customer onboarding, and the penny drop to the customer's account. If everything meets the requirements, we disburse the amount directly into the customer's account.

We own the customer. The customer belongs to us, we maintain the customer's records, and we sign the agreement with the customer. MobiKwik's role is largely that of an originator and an agent that provides FLDG if the case becomes delinquent. That is MobiKwik's only role.

Collections also come into our account every month. We conduct the collections, the NACH is in our favor, and we collect the entire amount. We then pass on whatever is payable to MobiKwik by way of the service fee.

The economics work as follows. Suppose the yield we want on the transaction is {? 15% ?} after adjusting for risk. If the net yield after risk adjustment is {? 15% ?} and the customer's IRR is {? 25% ?}, we collect the customer's IRR of {? 25% ?} every month from the customer and pass on {? 10% ?} to MobiKwik as a service fee.

If there are delinquencies beyond 90 days, MobiKwik absorbs them by drawing on the FLDG. We earn a risk-adjusted return of {? 15% ?}. That is why this business has consistently generated an ROA of more than {? 4% ?} over the last 4-5 years.

I believe this is a very good business. It is scaling up, as I mentioned, and it requires a very robust technology platform, which we have developed in-house. It is working quite well. This business has been growing at more than {? 30% ?} CAGR for us. This is how the business works, Varun.

Varun Gandhi – Analyst: The {? 10% ?} earned by MobiKwik for sourcing the partner and managing the loan—although they are not really managing the loan—seems high. Do you think it is excessive? I understand it is the industry standard, but what are your thoughts on earning {? 10% ?} of the loan

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value? The {? 25% ?} was only an example I gave to derive the numbers.

Atul Tibrewala – CFO: The {? 25% ?} was only an example I gave to derive the numbers. The yields can be higher as well. For example, since you mentioned MobiKwik, we have seen yields as high as {? 32-33% ?} at MobiKwik.

They end up making a good return, and they do not take risk beyond the FLDG. Their only risk is the FLDG, and their operating expenses are very low, as I mentioned. I believe they generate a good ROA, so it is a win-win for both of us.

Let us look at other examples that are also in the listed space. There are two entities in this segment. One is already listed, and the IPO of the other, Money View, was completed yesterday. Money View's data is also in the public domain.

Kissht, or ON EMI, is another entity, and both are among our largest partners. In both cases, we make a net return of {? 15% ?}. In both cases, the yield to them is close to {? 30% ?}. They therefore end up making a {? 15% ?} spread, or {? 15% ?} in service fees, for the {? 5% ?} FLDG they provide to us. Their operating expenses are very low, as I mentioned. It is therefore a win-win for both of us.

Management {? Chetan ?}: They make around {? 6-7% ?} in fee income on a net basis.

Varun Gandhi – Analyst: Understood, Atul. My last question is about the customers acquired through these channel partners. Do you sell them loans a second or third time? If so, does that happen on Northern ARC Capital Ltd.'s capacity or on the channel partner's capacity?

Atul Tibrewala – CFO: As of now, it happens only on the channel partner's capacity, but we are also building our own capacity. At present, it is through the channel partner, but we also cross-sell. We earn insurance and other cross-sell income from these customers, and this is working quite well.

Varun Gandhi – Analyst: What is stopping Northern ARC Capital Ltd. from reaching out to these clients to whom you have already disbursed loans? You have the data and the credit analytics.

Atul Tibrewala – CFO: We have all that data. As of now, we are not doing it directly and are not sourcing them directly. That is the only difference. We are getting the business sourced from the partners, but all other activities are being handled by us.

We also have our own collections infrastructure. In the past, we have seen one or two partners not performing well in terms of their collection or recovery mechanisms. We took over the portfolio that belonged to us and conducted the collections ourselves. We did a very good job, and we are still doing so.

That infrastructure is in place. However, it is more capital-efficient and cost-efficient to operate in this manner because we also receive FLDG from these partners. For the first {? 5-6% ?}, we do not have to bear any risk.

This model is working quite well. At the same time, we are open to evaluating and considering starting this on our own at some point. However, currently we are not looking at it.

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Varun Gandhi – Analyst: I see. The next step in the strategy would be to target the cream of the pyramid, correct?

Atul Tibrewala – CFO: Absolutely. We currently have enough on our plate. We have the MSME LAP business and microfinance. Let these businesses also stabilize. Our direct-to-customer business is only 5 years old. We will need some time to stabilize the existing businesses before entering something new. Otherwise, you would say that we are trying to do too many things.

Varun Gandhi – Analyst: Understood, sir. Thank you, Atul. Thank you, Chetan. I appreciate your answers.

Operator: Thank you. We will take our next question from Apar Bansal.

Apar Bansal – Analyst: Am I audible?

Atul Tibrewala – CFO: Yes.

Apar Bansal – Analyst: Could you please provide your risk-mitigation assessment regarding IT customers in the South? People there are at risk of losing their jobs and becoming NPAs on their loans. They are not able to service property loans properly. Is there any risk in that sector?

Atul Tibrewala – CFO: Your view is contrary to our data. If you look at our concentration, the South is a very important geography for us, both for MSME LAP and microfinance.

Tamil Nadu, in particular, is the best geography as far as credit is concerned. That is one reason why so many NBFCs are concentrated in that part of the country. It is a core strength for us. We also started out from Chennai, although we are currently headquartered in Bombay. We have not seen too many issues in the South.

We did face one challenge in Karnataka in February 2025, when an ordinance was issued for MFI. A similar ordinance was also issued in Tamil Nadu. Tamil Nadu was not impacted, but Karnataka definitely saw a significant change in customer behavior, with customers stopping their payments.

Although this guideline was not specifically intended for MFIs, we nevertheless saw challenges at that point. We slowed down MFI activity in Karnataka, which also coincided with the overleveraging crisis that was prevailing at the time.

The credit culture is very different between Tamil Nadu and Karnataka. That was very clear because the same guideline and ordinance were introduced in Tamil Nadu, but Tamil Nadu was not impacted at all.

Similar guidelines were also introduced in Bihar. We have a significant presence in Bihar for our MFI book, but we are not seeing any challenges there either. Therefore, it is geographically specific and also depends on the credit culture.

Apar Bansal – Analyst: Trivandrum, Karnataka, and Tamil Nadu are facing some issues because many small NBFCs and banks have moved into the SMA-1 bucket. That is why I was asking whether there was any risk.

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Atul Tibrewala – CFO: We have no presence in Kerala at all. We do not operate in Kerala. I already mentioned that we did face challenges in MFI in Karnataka.

In Tamil Nadu, surprisingly, there have been no issues, touch wood, in any of the books we have. In Tamil Nadu, it is more climate-driven. In November and December, there is a great deal of rain and flooding in and around Tamil Nadu. During that time of the year, we definitely see some collection-related issues, but they are very temporary.

Apar Bansal – Analyst: Thank you, sir. I wish you the best.

Atul Tibrewala – CFO: Thank you, Apar.

Operator: Thank you, Apar. We will take our next question from Ninad Jadhav. Ninad, you are allowed to speak. I have unmuted you.

Management: Hi, Ninad.

Ninad Jadhav – Analyst: Hello?

Atul Tibrewala – CFO: We can hear you now.

Ninad Jadhav – Analyst: My question is about the net gain on the derecognition item. For FY26, it was around {? 136 crores ?}, compared with {? 41 crores ?} in FY25. Could you provide some insight into this and explain how you see it developing? Do you expect it to make the same contribution to your guided ROA for FY27?

Atul Tibrewala – CFO: We started selling some of our portfolio only in FY25. We are not very large in securitization. We have a significant amount of priority-sector assets, and we also try to test the market.

Our DA book is not more than {? 600 crores ?}. We are therefore a very small player in DA. It is also important to remain relevant and continue testing the market because we have PSL assets.

The reason for selling the portfolio is to manage the treasury because we receive a very low cost of funds if we are able to sell PSL assets. We sold some of our microfinance book and some of our MSME book. These are largely short-tenure books.

Even if income is recognized upfront, over the next 8-12 months it would also have been booked on an amortization basis. Therefore, it would not have had too much of an impact as far as FY25 was concerned.

In FY26, we also carried out some sell-down of our LAP portfolio. We sold close to {? 150-200 crores ?} of our LAP book. The gain there is slightly higher because of the nature of that book. Its tenure is significantly longer, so we recognized some amount of gain.

Atul Tibrewala – CFO: However, in Q1 we did not do anything. This is not going to be a strategy; it is more accounting in nature. We have no choice but to account for the income upfront.

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For us, sell-down is more of a treasury activity than a profit-related or ROA-related activity. It is more accounting in nature, and I do not expect that level of gain in the current financial year. In fact, Q1 was very muted, and Q2 is also not going to be very high.

Ninad Jadhav – Analyst: That was all. Thank you.

Operator: Thank you, Ninad. We will take our next question from Devesh Trivedi. Devesh, you are unmuted and allowed to speak.

Devesh Trivedi: Hello, thank you for the opportunity. Our current leverage is around 3.1 times. How do we expect it to develop going forward? If leverage increases, what would be the comfortable level, and what ROEs are you targeting?

Management: Our current debt-to-equity ratio is 3.1. We last raised equity in FY25, when we raised close to 1,000 crores. Since then, we have been growing quarter on quarter and have been highly profitable. We are adding close to 100 crores of profit every quarter.

The current level of 3.1 is quite comfortable. The regulators and rating agencies are comfortable up to around 4-4.1. Given the profits we are generating and the growth trajectory we have set for ourselves, I do not think we will need any capital for the next 7-8 quarters.

However, we will definitely have to raise capital sometime toward the fag end of FY28. For the next 2 years, we are well positioned as far as capital is concerned.

Capital has never been an issue for Northern ARC Capital Ltd., as can be seen from our history. We have been able to raise capital when we did not need it, which is when you receive a good valuation.

If you raise capital at the last moment and start looking for funds then, investors will price it accordingly. Our fundraising history has therefore been quite good. When required, we will undertake the next round, but currently we are very comfortable for the next 2 years.

Devesh Trivedi: What ROEs are you targeting?

Management: We ended last year at 11%. This year, based on the ROA target we have set, we should be closer to 13% plus, followed by approximately 15% next year.

Devesh Trivedi: Thank you.

Operator: Thank you. We will take our next question from Utsav. Utsav, you are unmuted and allowed to speak.

Utsav: Am I audible?

Management: Yes, Utsav, you are audible.

Utsav: This is a follow-up on the fintech tie-ups you explained. I wanted to understand how we are taking a high-risk asset onto our books by lending to a customer base that is comfortable with a yield of around 30%, while the partner sourcing the business has only 5% FLDG and receives the

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bulk of the margin we make.

How does this economics work? Should we expect this customer base to eventually face a negative cycle once the cycle turns? Currently, we all know that the cycle is very favorable in terms of credit costs. I wanted to hear your thoughts on this.

Management: When we work with these fintech players, we take risk-based pricing into consideration. We have worked with all these fintechs for a long period of time, so we understand the type of customers they source. Based on that, we also understand the level of credit losses that may be incurred.

Given that we already have 5% FLDG in place, which is regulated, we undertake risk-based pricing to ensure that our net yields are protected.

In this way, we ensure that the pricing and structures we create with each partner allow us to remain profitable at the levels we intend to achieve. Even in direct retail lending, a customer with a low credit score would be priced higher and a customer with a high credit score would be priced lower. That is risk-based pricing. We follow a similar approach.

Utsav: A yield of around 30% is even somewhat lower than the MFI business. I am sure that such a customer would obviously have a lower CIBIL score.

Management: We do not compromise on the CIBIL score. As we mentioned at the beginning of the call, there are certain gating criteria for onboarding a customer. One of them is the bureau check, and we have a minimum score that a customer must have before we onboard that customer.

The customer profile is very different from that of an MFI customer. An MFI customer would be a rural customer and may not care as much about the CIBIL or bureau score. An urban customer, however, is very concerned about the score and would not want it to be affected because the same customer may eventually take a housing loan, vehicle loan, or two-wheeler loan.

The customers we lend to are largely urban, as I mentioned at the beginning of the call. Nevertheless, delinquencies can be higher.

We have a data analytics team that analyzes the types of businesses these partners operate and the loss estimates we will eventually have for the type of lending we undertake. We are protected up to 5%.

However, as you mentioned, there may be some partners where losses are higher. Suppose losses for one of those partners are 7%. The question then is how we protect ourselves.

Our aim is to ensure that we earn a risk-adjusted yield of 15%. Fifteen percent is only an example; it could be 15.5%, depending on the partner. But suppose it is 15%. Our aim is to ensure that we earn a risk-adjusted yield of 15% from that partner.

If the FLDG is not sufficient to cover the losses, then, as Jigar mentioned, the shortfall is adjusted through a higher pricing expectation from the partner. In this case, instead of 15%, the required yield would be 17% if losses were higher by 2%. We would ultimately earn a risk-adjusted yield of

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15%.

Utsav: Out of the approximately 6,000 crores in D2C, which I believe is the consumer finance business, how much is sourced in-house and how much is sourced through these partners?

Management: The 6,000 crores of partnership business is entirely sourced through partners. Of the consumer finance book we have, 95% is sourced by partners.

Utsav: What is the vintage of these loans? How have you seen the loans originated by partners perform over the last couple of years?

Management: We have been doing business with most of these partners for more than 5 years. As I said, many of the names you may not have heard of became public only later.

For example, with Kissht, we were the first lenders to its balance sheet. We onboarded Kissht approximately 5-6 years ago. Kissht is essentially ON EMI. We first started lending to the entity and then added it as a partner, through which it began originating and sourcing cases for us.

Kissht is now one of our largest partners. Money View is our second-largest partner, and its IPO was also successfully completed last week or a couple of days ago.

These are names we have been working with for a long time. Many of the new names you will now hear about are also entities with which we have been dealing for the last 5 years.

We have a very good vintage and a very good history with them. We have seen them progress well over the last few years. We have supported them and helped them meet their liability requirements because some of them also lend from their own balance sheets.

Some of them have an NBFC under the technology company. We are therefore working very closely with them, both on their liabilities and on our partnerships.

Utsav: I believe, based on your previous statements, that 15% ROE is somewhere—

Operator: Utsav, I am very sorry to interrupt, but we are really short of time. I have my next slot at 12:00. For any further questions, I can see that Ninad, Harshit, Darshil, and Amitabh have raised their hands. They can get in touch with our team, and we will connect them with the management of Northern ARC Capital Ltd.

I have my next slot at 12:00, so we will need to end this call. Thank you very much to the management, Chetan sir, Atul sir, and Jigar sir for their time. It was a pleasure hosting this call. I am Juhi Menwani, and I will sign off. I look forward to more such conversations and interactions. Thank you very much, sir. Thank you.

Management: Thank you very much. Thank you. It was nice meeting you. Thank you. Goodbye.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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