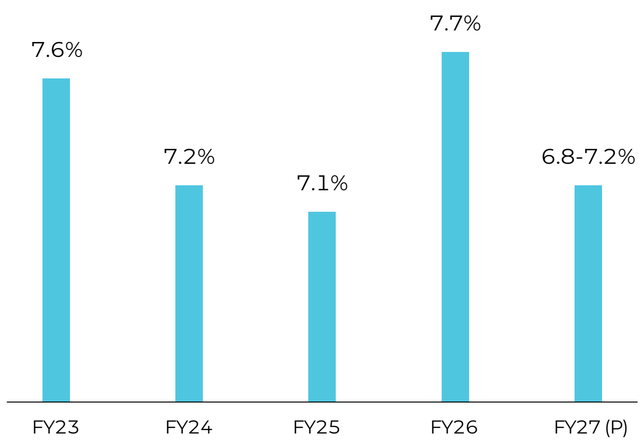
# Management Discussion & Analysis

## Indian economy

India continued to remain one of the world's fastest-growing major economies consistently across FY26, supported by resilient domestic demand, rising household consumption, rapid urbanisation, increasing formalisation of the economy and sustained investment activity. Expanding disposable incomes, a growing middle class and improving business confidence continued to underpin economic activity across sectors, while increasing credit penetration further supported consumption, entrepreneurship and private investment. According to the Provisional Estimates released by the Ministry of Statistics and Programme Implementation (MoSPI), India's real GDP grew by 7.7%, while Gross Value Added (GVA) expanded by 7.9%, reflecting the resilience of the country's domestically driven growth model.




(Source: PIB [FRE], PIB [SAE])

**Key Numbers that Matter:**

| Key macro indicator | Private consumption expenditure | CPI inflation | Credit to GDP |
|---|---|---|---|
| Metric / Value FY26 | 61.5% of GDP | 3.4% (FY26) | 53% |

**Private Final Consumption Expenditure (PFCE)** accounted for **61.5% of GDP**, the highest level since FY12, reflecting the strength of India's consumption-led growth model. Lower inflation, rising real incomes and improving consumer confidence continued to support household spending, while the Union Budget 2026-27 reinforced growth through a capital expenditure outlay of INR 12.22 Lakh Crore, accelerating investments across infrastructure, manufacturing, logistics and energy. Complementing these measures, long-term initiatives such as Viksit Bharat 2047 continued to strengthen India's structural growth prospects through a focus on infrastructure, digitalisation, energy transition and ease of doing business.

Despite a supportive domestic environment, global economic conditions remained uncertain. Geopolitical tensions in West Asia, particularly towards the end of FY26, heightened concerns over disruptions to global energy markets and trade routes, posing upside risks to crude oil prices and imported inflation. Such developments underscored the vulnerability of emerging economies to external shocks, with potential implications for input costs, exchange rate volatility and business sentiment.

Notwithstanding these external headwinds, India's macroeconomic fundamentals remained robust. The Government adhered to its fiscal consolidation roadmap, achieving its fiscal deficit target of **4.4% of GDP** for FY26 while maintaining strong public investment. Inflation also moderated with average **CPI inflation** easing to around **3.7%** during the year, However, amid geopolitical tensions following the US-Iran conflict, India's CPI inflation increased to 4.38% in June 2026, crossing the RBI's 4% medium-term target for the first time in around 17 months. We will closely monitor the impact of the recent increase in CPI inflation on the overall economy and assess its implications for our business.

India also continues to offer one of the world's largest structural credit opportunities. While over **96%** of households have access to banking services, credit penetration remains relatively low, with the country's **credit-to-GDP ratio** at around **53%** and credit card penetration at only 5% of the population. Although commercial credit outstanding increased to **INR 65.8 Lakh Crore**, only **41%** of India's **8.7 Crore** registered MSMEs have accessed formal credit, according to the latest joint report by TransUnion CIBIL and SIDBI. This significant financing gap presents a compelling opportunity for technology-enabled financial institutions to expand formal credit access across underserved retail and MSME segments, supporting India's long-term economic development.

### Outlook

The outlook for the Indian economy remains positive and stable. For the upcoming FY27, real GDP is expected to grow between **6.8% and 7.2%**. This demonstrates India's ability to maintain strong momentum even during times of global uncertainty.

This growth will likely be driven by continued government spending on infrastructure, a steady increase in private sector investment, and a strengthening manufacturing base. Additionally, the services sector is expected to maintain its consistent expansion. Supported by a stable economy and steady policies, India is well-prepared to manage global challenges while ensuring that economic progress remains inclusive and sustainable over the long term.

India's domestic consumption outlook remains supported by favourable macroeconomic conditions, improving rural incomes and strengthening urban demand. According to the Economic Survey 2025-26, strong agricultural performance has supported rural consumption, while tax rationalisation measures have contributed to improved urban demand, reflecting broad-based consumption momentum across the economy. India continues to be a consumption-driven economy, with increasing access to formal credit supporting household spending and consumption activity across segments. The growing role of credit in facilitating consumption, alongside rising financial inclusion and expanding credit penetration, is expected to continue supporting domestic demand in the medium term.

(Source: PIB)

Looking ahead, the potential emergence of **El Niño** conditions during the FY27 monsoon season warrants close monitoring, given the possible implications for agricultural production, food inflation, rural incomes and demand. At the same time, geopolitical tensions in West Asia may contribute to near-term volatility in crude oil prices, inflation and financial markets. Despite these external uncertainties, India's resilient domestic consumption, diversified economic base, strong macroeconomic fundamentals and conducive policy environment are expected to provide a meaningful buffer and support sustained growth momentum.

## Industry overview

### Non-Banking Financial Company (NBFC) sector

India's Non-Banking Financial Company (NBFC) sector continues to play a critical role in expanding credit access and supporting financial inclusion across underserved segments of the economy. Over the years, NBFCs have emerged as important intermediaries within the financial system by catering to customer segments that are often beyond the reach of traditional banking channels, particularly in MSME finance, consumer lending, rural finance, affordable housing and vehicle finance.

The NBFC sector maintained healthy growth momentum during FY26, supported by rising credit demand, increasing formalisation of the economy and greater adoption of digital lending. According to CRISIL Ratings, NBFC assets under management (AUM) are expected to surpass **INR 50 Lakh Crore** by March 2027.

Accounting for nearly **18%–19%** of India's overall credit market, NBFCs have established a strong presence in retail and MSME financing through specialised underwriting capabilities, technology-led operating models and deeper penetration into semi-urban and rural markets. Their ability to serve customer segments that are often underserved by traditional financial institutions continues to strengthen their role in advancing financial inclusion and expanding formal credit access.

(Source: Wright Research, RBI-Annual Report)

### Key growth drivers

- **Expanding credit demand across underserved segments:** NBFCs continue to benefit from rising demand for formal credit among MSMEs, self-employed individuals, rural households and first-time borrowers. Their ability to serve customer segments that remain underpenetrated by traditional banking channels creates a significant opportunity for sustained growth.

- **Digitalisation and data-driven lending:** The increasing adoption of digital onboarding, alternative data analytics, AI-led credit assessment and technology-enabled customer servicing is improving operational efficiency and enabling faster credit delivery. These capabilities are helping NBFCs expand their reach while strengthening underwriting and portfolio monitoring.

- **Supportive regulatory and monetary environment:** Recent policy measures by the Reserve Bank of India (RBI), including reductions in policy rates, restoration of standard risk weights on bank lending to NBFCs and liquidity-support initiatives, have improved funding conditions and strengthened the sector's ability to support credit growth.

- **Strengthening bank-NBFC partnerships:** The growing adoption of co-lending arrangements, securitisation transactions and partnership-based lending models is facilitating efficient capital deployment and expanding credit access across underserved markets. These collaborations enable NBFCs to leverage their distribution capabilities while benefiting from diversified funding sources.

- **Growth in retail and MSME lending:** Retail finance and MSME lending continue to remain among the fastest-growing segments within the financial sector. NBFCs are well-positioned to capitalise on this opportunity through specialised underwriting capabilities, local market knowledge and customised product offerings.

- **Financial Inclusion and Rural Penetration:** Government-led financial inclusion initiatives, expanding digital infrastructure and increasing financial awareness are creating opportunities to deepen credit penetration across rural and semi-urban markets. NBFCs play a critical role in addressing these financing gaps and supporting inclusive economic growth.

### Indian MSME credit industry

India's Micro, Small and Medium Enterprises (MSME) sector remains a key pillar of economic growth, contributing approximately 31.1% of the country's GDP, 35.4% of manufacturing output and 48.6% of exports. With over 7.47 Crore enterprises employing more than 32.8 Crore people, the sector continues to play a critical role in employment generation, entrepreneurship development and regional economic inclusion.

The MSME credit ecosystem maintained strong momentum during FY26, emerging as a key driver of industrial credit growth. Demand for formal credit continued to rise, supported by increasing enterprise formalisation, expanding business activity and financing needs for working capital, capacity expansion and technology adoption. As of December 2025, MSME credit outstanding reached **INR 67.6 Lakh Crore**, while formal credit penetration among Udyam-registered enterprises remained at around **47%**, highlighting the significant headroom for further institutional lending. These structural trends continue to reinforce the long-term growth potential of India's MSME financing ecosystem.

(Source: SIDBI)

The MSME sector continued to benefit from supportive policy initiatives aimed at expanding access to formal finance. The revised MSME classification framework, effective from April 2025, broadened enterprise eligibility for priority sector lending, enabling more businesses to access institutional credit. Further, the Government strengthened the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) by enhancing the guarantee cover limit from INR 5 Crore to INR 10 Crore and extending guarantee coverage of up to 90% for eligible women-owned enterprises. These measures are expected to improve credit availability, strengthen lender confidence and accelerate formal credit penetration across the MSME sector.

### Key growth drivers

- **Large addressable credit gap:** Despite significant progress in formal lending, India's MSME sector continues to face a substantial credit gap of ~INR 30 Lakh Crore, creating a significant opportunity for lenders. Formal credit penetration remains below the sector's full financing requirements, particularly among micro and small enterprises, supporting long-term demand for structured credit solutions and customised financing products.

  (Source: Indian Economic Outlook-Deloitte)

- **Formalisation and Udyam registration:** The continued adoption of Udyam registration, GST compliance and digital business records is improving borrower visibility and credit assessment capabilities. Enhanced data availability is enabling lenders to expand formal credit access while improving underwriting quality across the MSME ecosystem. Formal credit penetration among 8.8 Crore Udyam-registered MSMEs continues to improve, although significant headroom for further expansion remains.

- **Government credit guarantee support:** Government initiatives aimed at expanding guaranteed credit access have strengthened the operating environment for MSME lending. Measures such as enhancements to credit guarantee schemes and broader coverage under MSME support programmes are improving lender confidence and facilitating greater credit flow to small businesses.

- **Supportive RBI regulatory measures:** The Reserve Bank of India (RBI) continues to support credit flow to the MSME sector through regulatory initiatives. Recent measures including revised Priority Sector Lending (PSL) norms, the Unified Lending Interface, expansion of TReDS ecosystem etc. are expected to support lending growth and capital efficiency across the sector.

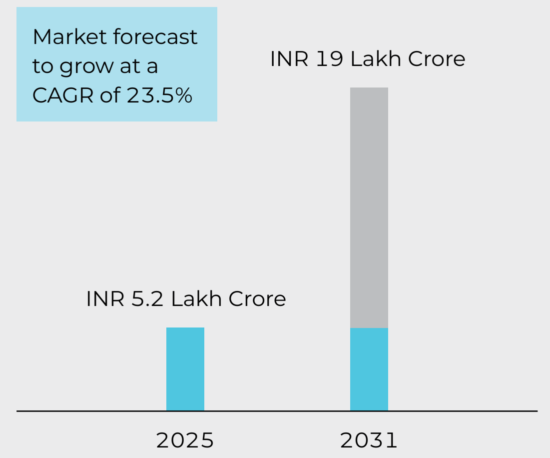
- **Digital lending and alternative underwriting:** Rapid adoption of digital lending platforms, API-based verification systems, account aggregators and alternative credit assessment models is improving access to finance for smaller enterprises. Technology-led underwriting is helping lenders reduce turnaround times, lower acquisition costs and serve previously underserved borrowers more efficiently.

### Indian consumer finance industry

India's consumer finance industry has emerged as one of the fastest-growing segments within the country's financial services landscape, driven by rising household consumption, increasing urbanisation, expanding middle-income demographics and growing access to formal credit. The sector has evolved beyond traditional retail lending models, with digital platforms, fintech partnerships, and data-driven underwriting significantly broadening credit access across customer segments.

The Indian consumer finance market was valued at INR 5.2 Lakh Crore in 2025 and is projected to reach INR 19 Lakh Crore by 2031, registering a CAGR of 23.5% during the forecast period. The strong growth outlook reflects increasing demand for personal loans, consumer durable financing, credit cards, vehicle finance and other retail credit products across both urban and semi-urban markets.

**Indian Consumer Finance market**




The industry continues to benefit from favourable structural drivers, including a rapidly expanding middle-class population, improving disposable incomes and rising consumer aspirations. The growing penetration of digital payments, e-commerce platforms and smartphone-based financial services has further accelerated the adoption of formal credit products, particularly among younger consumers and first-time borrowers.

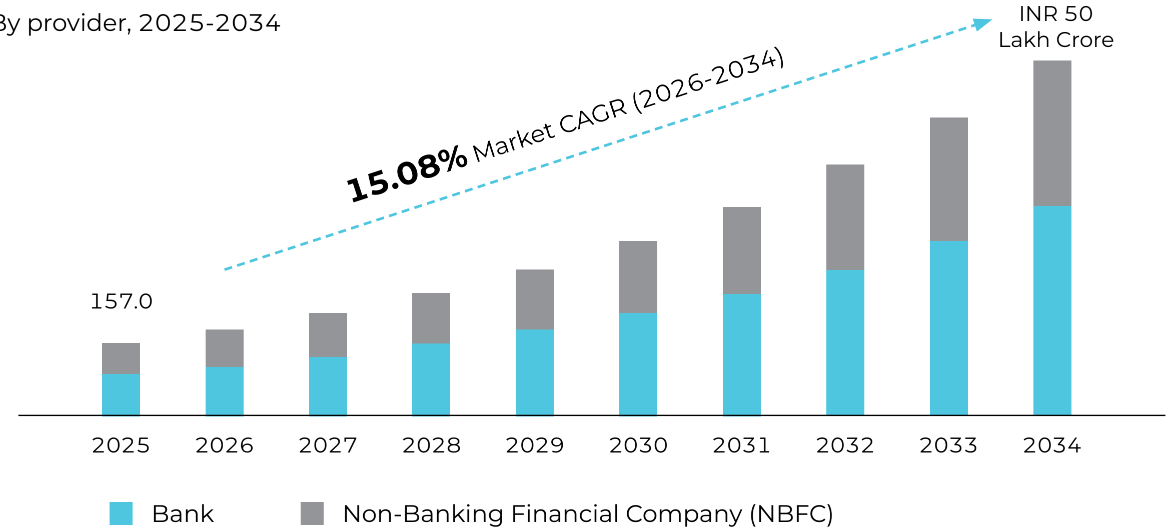
### Personal loan sector

The Indian personal loan market has emerged as one of the fastest-growing segments within the retail lending landscape, supported by rising consumer spending, increasing formalisation of credit access, and rapid adoption of digital lending channels. Personal loans provide borrowers with unsecured financing for a variety of purposes, including medical expenses, education, home improvement, travel, debt consolidation and other personal requirements, making them a flexible source of credit across customer segments.

India's personal loan market continued to witness robust growth during FY26, driven by rising consumer demand, increasing digital adoption and expanding access to formal credit. The market, valued at **INR 13.6 Lakh Crore** in 2025, is projected to grow at a CAGR of **15.1%** through 2034. NBFCs continued to outpace

**Indian personal loan market forecast**

Size, By provider, 2025-2034




(Source: Imarc Group)

banks, particularly in the lower-ticket personal loan segment, accounting for **92%** of loan originations by volume for nine months ended December 2025. The rapid adoption of digital lending platforms and growing demand for unsecured consumer credit continue to support the long-term growth potential of the personal lending ecosystem.

(Source: Economic Times)

### Digital lending: Enabling the next phase of credit inclusion

India's digital lending ecosystem has undergone a remarkable transformation over the past decade, driven by the rapid formalisation of credit, widespread digital adoption, and the emergence of robust digital public infrastructure. As smartphones, digital payments, and data-driven underwriting become increasingly mainstream, digital lending is reshaping how credit is originated, assessed, and delivered, making formal finance more accessible, affordable, and efficient.

Technology continues to be a key enabler of this transformation. The introduction of the Unified Lending Interface (ULI) marks another significant milestone in India's Digital Public Infrastructure (DPI) journey. By enabling the seamless, consent-based exchange of information between data providers and lenders, including land records, satellite imagery, and other digital datasets, ULI is expected to significantly reduce credit assessment timelines, improve underwriting accuracy, and expand access to formal credit, particularly for MSMEs, rural borrowers, and first-time credit seekers.

The increasing digital readiness of consumers is further accelerating this shift. Smartphone penetration among small borrowers continues to rise, while the widespread adoption of digital payment applications has familiarised customers with technology-enabled financial services. This growing digital ecosystem is creating favourable conditions for lenders to deliver faster, more convenient, and more personalised credit solutions at scale.

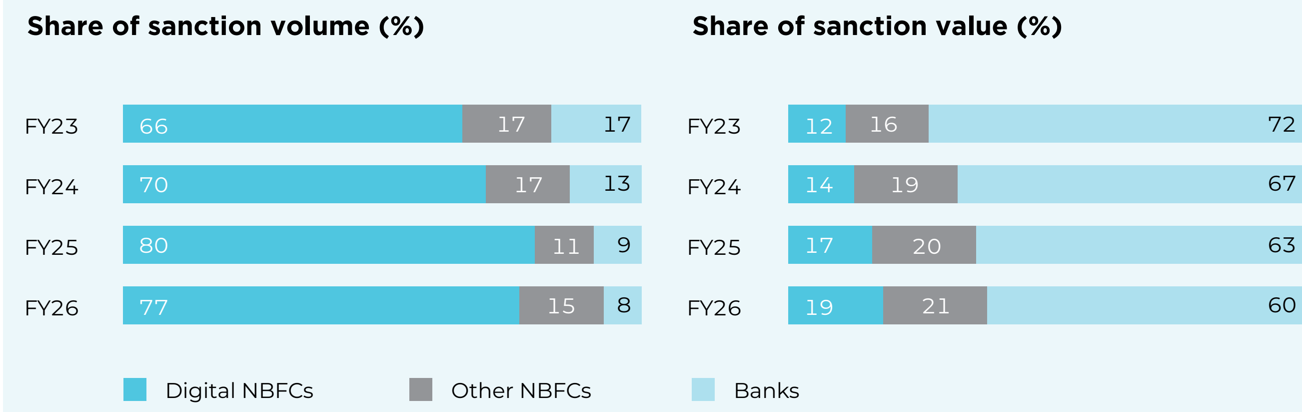
NBFCs have emerged as key drivers of this transformation by complementing traditional banking channels with technology-led credit delivery models. Leveraging alternative data, AI-driven underwriting, API-based integrations, and digital-first customer journeys, they have expanded access to formal finance for underserved individuals and small businesses while improving operational efficiency and customer experience.

The regulatory landscape has also continued to evolve, providing a stronger foundation for sustainable growth. The introduction of the **Digital Lending Directions, 2025** has further strengthened borrower protection, enhanced transparency, and reinforced governance standards across the digital lending ecosystem. These measures are expected to foster greater trust among borrowers while promoting responsible innovation and long-term sectoral growth.

According to the Fintech Association for Consumer Empowerment (FACE), digital NBFCs continued to strengthen their position in India's personal lending ecosystem during FY26. Their share of the total personal loan sanction value increased to 19% in FY26, up from 12% in FY23. During the year, digital NBFCs disbursed personal loans worth INR 2.14 Lakh Crore, compared with INR 2.36 Lakh Crore by other NBFCs and INR 6.95 Lakh Crore by banks, highlighting the growing adoption of digital lending platforms and their expanding role in meeting India's retail credit demand.

(Source: Business Standard)

**Rising share of Digital NBFCs and NBFCs in Personal Loan**




Note: Digital NBFCs denote loans via digital lending apps, whereas other NBFCs signify entities grouped other than digital NBFCs.

Source: Fintech Association for Consumer Empowerment (FACE)

### Microfinance sector

The Indian microfinance sector has evolved significantly over the past decade, strengthening its role as a key enabler of financial inclusion and formal credit access. Following the Reserve Bank of India's 2022 Master Directions on microfinance, the sector transitioned towards an activity-based regulatory framework with greater flexibility in pricing and product design. As of early 2026, the industry comprised more than 200 regulated entities, including NBFC-MFIs, banks, Small Finance Banks (SFBs) and NBFCs, reflecting the increasing institutionalisation of microfinance within the broader financial system.

Microfinance continues to serve as a catalyst for livelihood creation and grassroots entrepreneurship. Despite the removal of regulatory restrictions on end use, 94% of loans are utilised for income-generating activities, including existing businesses, new enterprise creation and farm-related activities. Borrower financial health indicators also remain supportive, with an average Fixed Obligation to Income Ratio (FOIR) of 18.7%, significantly below the regulatory ceiling of 50%, indicating adequate repayment capacity across the borrower base.

The microfinance sector underwent a period of consolidation during FY26, following elevated delinquencies, borrower over-leverage and the implementation of stricter regulatory guardrails. As a result, industry assets under management (AUM) declined by **13% year-on-year** to **INR 3.25 Lakh Crore** as of March 2026 from **INR 3.75 Lakh Crore** a year earlier, while the number of unique borrowers reduced from **7.8 Crore** to **6.4 Crore**.

Despite the moderation in portfolio growth, the sector witnessed a marked improvement in asset quality during the second half of FY26. Portfolio at Risk (PAR 31–180 days) improved sharply to **2%** as of March 2026 from **6%** a year earlier, reflecting stronger collection efficiencies and improved underwriting discipline. Lending activity also rebounded during the January–March 2026 quarter, with disbursements rising to **INR 78,938 Crore**, signalling renewed lender confidence and the early stages of a recovery in the microfinance sector.

### Key growth drivers

- **Expanding Financial Inclusion:** Continued efforts to expand access to formal financial services, particularly in rural and semi-urban markets, are increasing the addressable customer base for microfinance institutions. Greater penetration of banking services and digital financial infrastructure is enabling wider access to formal credit among previously underserved segments.
- **Large addressable credit gap:** A significant proportion of low-income households, informal workers and micro-entrepreneurs continue to have limited access to institutional finance. The persistent credit gap presents substantial opportunities for microfinance institutions to support income generation, livelihood enhancement and financial inclusion.
- **Women's financial inclusion and entrepreneurship:** Increasing participation of women in entrepreneurial and income-generating activities, supported by greater access to formal financial services and microfinance, continues to drive demand for small-ticket credit. The sector plays an important role in promoting financial independence, livelihood creation and inclusive economic development among women borrowers.
- **Digitalisation of lending operations:** Growing adoption of digital onboarding, e-KYC, digital collections, data analytics and alternative credit assessment models is improving operational efficiency, strengthening credit underwriting and expanding outreach to customers in underserved geographies.
- **Supportive regulatory and policy environment:** Continued policy emphasis on financial inclusion, responsible lending practices and strengthening the formal credit ecosystem is supporting the long-term development of the microfinance sector. Regulatory initiatives aimed at enhancing governance, transparency and customer protection are expected to contribute to sustainable industry growth.
- **Government support through Credit Guarantee schemes:** Government initiatives such as the Credit Guarantee Fund for Micro Units (CGFMU) continue to strengthen the formal microfinance ecosystem by improving credit access for eligible borrowers while enhancing lender confidence. Such initiatives are expected to support broader financial inclusion and encourage responsible expansion of institutional credit to underserved segments.

## Company overview

Northern Arc Capital Limited (referred to as 'Northern Arc' or 'the Company') is a diversified financial services company focussed on addressing the credit requirements of underserved households and businesses across India. Registered with RBI as a Non-Banking Financial Company (NBFC), the Company operates at the intersection of financial inclusion, credit intermediation and capital markets, enabling the efficient flow of capital to segments that remain underpenetrated by traditional financial institutions.

Northern Arc follows a dual-engine business model that has evolved alongside the Company's growth strategy. It initially built its franchise by providing comprehensive credit solutions to originator partners through balance-sheet lending, debt placements, fund management offerings and technology-enabled platforms. These capabilities have provided a strong foundation for the Company's expansion into Direct-to-Customer lending across key retail sectors i.e. MSME, Consumer Finance and Rural Finance. This diversified model enables Northern Arc to dial-up and dial-down on the sectors according to the challenges and opportunities in respective sectors. The Company has impacted more than 140 Million lives and facilitated more than 2.5 Lakh Crore of credit till date.

### Credit Solutions to Originator Partners

Northern Arc's Credit Solutions business forms the foundation of the Company's business model and has played a central role in advancing credit access for underserved and underpenetrated borrower segments across India. Through this business, the Company facilitates the flow of capital to originator partners, enabling them to expand lending activities and serve diverse customer segments across the financial ecosystem.

The Company offers a range of credit solutions, including intermediate retail lending, structured debt placements, performing credit funds and technology-enabled financing solutions tailored to the requirements of originator partners. By connecting originators with a diversified network of capital providers, Northern Arc helps improve funding access, enhance capital efficiency and support portfolio growth.

Over the years, the Credit Solutions business has enabled the Company to develop deep expertise in credit assessment, risk management, partner evaluation and capital mobilisation across diverse lending segments, including MSME, Consumer Finance, Rural Finance, Affordable Housing Finance, Vehicle Finance, Agriculture Supply Chain Finance. Since inception, Northern Arc has collaborated with and manage Funds AUM of INR 3,092 Crore.

Going forward, the Company intends to strengthen its fee-based businesses, primarily Placements and Credit Funds, to address the evolving funding requirements of its Originator Partners. At the same time, balance sheet lending will be deployed selectively to cultivate new partner relationships, demonstrate underwriting capabilities and support the development of scalable, long-term lending partnerships.

### Direct-to-Customer (D2C) business

Building on the experience, ecosystem relationships and underwriting capabilities developed through its Credit Solutions business, Northern Arc transitioned into Direct-to-Customer (D2C) lending to directly address the financing needs of underserved borrower segments. Over the years, the Company has leveraged technology, data-driven underwriting, branch network and digital partnerships to scale its lending operations and expand access to formal credit.

The D2C portfolio comprises a diversified mix of lending products across MSME, Consumer Finance and Rural Finance. The Company combines its branch-led distribution network with technology-enabled sourcing and servicing capabilities to improve customer reach and operational efficiency. In addition, partnerships with digital platforms and ecosystem participants have enabled Northern Arc to expand origination channels, strengthen customer acquisition and enhance access to credit across multiple borrower segments.

A key strength of the D2C business is its network of 432 branches across 13 states and 1 UT, and partnerships with 57 Digital Partners which supports deeper market penetration in underserved regions. This physical presence is complemented by digital capabilities that enable efficient loan origination, underwriting and servicing while maintaining close engagement with customers throughout the lending lifecycle. Our D2C AUM has grown 10x in 5 years to reach INR 9,802 Crore in line with stated strategy to build granular diversified lending book.

## Business Overview

In FY26, the Company achieved robust growth across all business segments despite challenging market conditions, facilitating credit of INR 37,217 Crore through Credit Solutions & Direct-to-Consumer (D2C) segments.

### Assets Under Management (AUM)

Northern Arc's AUM expanded by 21.7% year-on-year, growing from INR 13,634 Crore in March 2025 to INR 16,594 Crore in March 2026. The D2C segment's contribution to total AUM increased significantly from 19% in March 2021 to 59% in March 2026.

### Credit Solutions

Total credit facilitation through lending, fund deployment and placement was INR 24,170 Crore 70% of the volumes were fulfilled through Placements, Funds and Platforms. The Company onboarded 18 new originator partners in FY26.

Intermediate retail lending AUM grew by 4% year-on-year to INR 6,802 Crore in line with our stated strategy to grow fee based businesses i.e. Placement and Credit Funds. Placement fee income grew by 22% YoY to INR 31.4 Crore in FY26. Funds AUM stood at INR 3,092 Crore as on 31 March, 2026.

### Direct-to-Consumer (D2C) Segment

D2C AUM grew by 38.6% year-on-year, rising from INR 7,064 Crore in March 2025 to INR 9,792 Crore in March 2026. The Company now serves over 29 Lakh borrowers across MSME, Consumer Finance, and Rural Finance segments through network of 432 branches and 57 Digital Partners.

| | | |
|---|---|---|
| MSME business grew **43% YoY** to **INR 3,691 Crore** | Consumer Finance AUM grew by **50% YoY** to **INR 5,092 Crore** | Rural Finance AUM stood at **INR 1,009 Crore** |

## Financial overview

Northern Arc delivered a healthy financial performance during FY26, supported by continued business growth and disciplined execution across its operating model. Total income increased to INR 2,387 Crore, while profit after tax rose to INR 406 Crore, reflecting sustained earnings momentum. The Company's profitability was further supported by an improvement in net interest margin to 9.4%, driven by the increasing contribution of its Direct-to-Customer lending portfolio alongside continued focus on portfolio quality and operating efficiency. The Company also maintained a prudent capital position, providing the financial capacity to support future business growth while preserving balance sheet strength.

### Milestones achieved during FY26

**Highest-Ever Yearly Profits**

**INR 406 Crore**

**Assets Under Management (AUM)**

**INR 16,594 Crore**

### Interest Income

Northern Arc reported interest income of INR 2,279 Crore in FY26, representing a growth of 16% over INR 1,969 Crore in FY25. The increase was primarily driven by the expansion of the Company's Assets Under Management (AUM), which grew from INR 13,634 Crore as of 31 March 2025, to INR 16,594 Crore as of 31 March 2026. A higher contribution from the Direct-to-Customer (D2C) portfolio also supported earnings growth, with the D2C mix increasing to 59% from 51.8% in the previous year.

### Interest Expense

The Company's cost of funds improved by 49 basis points to 8.5% in FY26 from 9% in FY25. The decline in cost of funds reflects effective liability management and a diversified funding profile.

### Operating Efficiency

Northern Arc continued to focus on operational discipline and scalable growth during the year. Despite the addition of 72 branches during FY26, operating expenses as a percentage of assets were stable at 3.6% in FY26. Our Cost to Income ratio improved by 90 bps to 35.6% in FY26. These reflect the Company's efforts to enhance productivity, optimise costs and leverage technology across business operations.

### Pre-Provision Operating Profit (PPOP)

Pre-Provision Operating Profit (PPOP) increased by 21% to INR 956 Crore in FY26 from INR 793 Crore in FY25. The strong growth was driven by higher business volumes, improved spreads and greater operating efficiency, demonstrating the Company's ability to scale its operations while maintaining profitability.

### Asset Quality

Northern Arc maintained a healthy asset quality profile during FY26, reflecting its prudent credit assessment framework and continuous portfolio monitoring. As of 31 March 2026, the Company's GNPA and NNPA stood at 1.2% and 0.6%, respectively.

Credit cost as a percentage of assets improved from to 2.8% in FY26 compared with 3.2% in FY25. The improvement is the outcome of strong collection efforts and stringent credit controls.

The Company recognised a reversal of one-time provision following the Reserve Bank of India's regulation relating to the treatment of credit enhancements in the Expected Credit Loss (ECL) framework under First Loss Default Guarantee (FLDG) arrangements. In addition, Northern Arc created a management overlay as a prudent measure to strengthen balance sheet resilience and maintain a conservative approach towards risk management. These actions reflect the Company's continued focus on preserving asset quality and maintaining adequate provisioning buffers in an evolving operating environment.

### Net Profit

Northern Arc reported a net profit of INR 406 Crore in FY26, compared with INR 305 Crore in FY25. The year-on-year performance was mainly due to an increase in Lending AUM growth and growth in placement fee income, reduction in cost of funds, improved operational efficiencies and a decrease in credit cost.

### Return ratios and capital structure

During FY26, Northern Arc saw improvement in Return on Assets (ROA) to 2.8% in FY26 from 2.4% in FY25. The Company delivered a Return on Equity (ROE) of 11.1%. The Company maintained a debt-to-equity ratio of 3.1x, with strong capital adequacy ratio of 22.6%.

A summary of the Company's key financial performance (Consolidated) indicators is presented below:

| P&L | | | | | |
|---|---|---|---|---|---|
| Particulars | INR in Crore | | | DuPont | |
| | FY25 | FY26 | YoY% | FY25 | FY26 |
| Interest Income[1] | 1,969 | 2,279 | 15.7% | 15.7% | 15.5% |
| Interest Expense | 823 | 902 | 9.7% | 6.5% | 6.1% |
| **Net Interest Income** | **1,147** | **1,377** | **20.1%** | **9.1%** | **9.4%** |
| Fee & Other Income | 102 | 108 | 5.5% | 0.8% | 0.7% |
| **Net Revenue** | **1,248** | **1,484** | **18.9%** | **9.9%** | **10.1%** |
| Credit Cost | 405 | 412 | 1.7% | 3.2% | 2.8% |
| **Risk Adjusted Net Revenue** | **844** | **1,073** | **27.1%** | **6.7%** | **7.3%** |
| Employee Cost | 285 | 331 | 16.2% | 2.3% | 2.3% |
| Other Operating Cost | 171 | 198 | 15.7% | 1.3% | 1.3% |
| **Total Cost** | **455** | **528** | **16.0%** | **3.6%** | **3.6%** |
| (Profit) /Loss from Associate | 2 | 8 | - | 0.0% | 0.1% |
| Profit Before Tax | 386 | 536 | 38.7% | 3.1% | 3.6% |
| Tax | 85 | 132 | 55.7% | 0.7% | 0.8% |
| **Profit After Tax** | **301** | **404** | **33.9%** | **2.4%** | **2.8%** |
| **Attributable to Owners** | **305** | **406** | **33.3%** | **2.4%** | **2.8%** |

1. Interest income is adjusted for fees and commission expense

## Risk management

Northern Arc follows a disciplined and data-driven approach to risk management that is embedded across its lending and investment activities. The Company's risk framework is designed to support sustainable growth while preserving asset quality and maintaining resilience across varying economic and credit cycles.

Its risk management capabilities are underpinned by a combination of advanced analytics, proprietary assessment methodologies, sector-specific expertise and continuous portfolio monitoring. This integrated approach enables informed credit decision-making, prudent portfolio selection and the timely identification of emerging risks.

### Integrated risk architecture

Northern Arc has adopted a multi-dimensional Enterprise Risk Management (ERM) Framework based on robust risk governance, deep domain expertise, ground-level insights, extensive data analytics and proprietary risk models that address a wide spectrum of risks, ensuring a robust and holistic approach to risk mitigation:

- **Financial risks:** Credit Risk, Liquidity Risk, Interest Rate Risk
- **Non-financial risks:** Operational Risk, Information Security Risk, Compliance Risk, Strategic Risk, Reputational Risk, Conduct Risk, Legal Risk

### Independent and efficient collections ecosystem

The Company has established a strategically aligned and scalable collections ecosystem focussed on proactive delinquency management, early risk containment, and optimised recovery outcomes. The framework leverages a phased intervention approach combining digital engagement, centralised tele-calling, field collections, and legal enforcement mechanisms to drive collection efficiency across the asset lifecycle. Escalation protocols are calibrated based on delinquency buckets, enabling timely recovery actions, strengthened portfolio discipline, and effective collateral realisation in high-risk accounts.

### Advanced analytics and technology-led risk intelligence

The Company's risk management and growth strategy is anchored in a technology-first, analytics-driven operating model powered by a proprietary database built over more than 15 years, comprising over 50 Million data points and 30+ underwriting models. By integrating granular transaction-level data, financial and operational insights, and qualitative assessments of Originator Partners, the Company has developed a robust risk intelligence framework that enables informed decision-making, proactive portfolio management, and scalable growth.

Advanced analytics, machine learning capabilities, and monitoring tools enhance predictive risk assessment, improve operational efficiency, and support the delivery of financial solutions at scale while strengthening portfolio resilience and driving sustainable long-term performance.

### Operational risk management

The Company adopted a proactive and structured approach to operational risk management, aimed at identifying, mitigating, and monitoring potential disruptions across business functions. The framework is overseen by Northern Arc Operational Risk Committee (NAORC), which provides strategic direction and governance through:

- Setting clear risk reporting structures
- Regular process audits
- Risk Assessments and corrective action plans

These measures strengthen risk oversight, enable timely intervention and enhance the overall quality of the credit portfolio. As a result, Northern Arc has consistently maintained disciplined asset quality across credit cycles, with Net Non-Performing Assets (NNPA) remaining below 1% throughout the period and improving to a low of 0.1% at its strongest point. This sustained performance reflects the Company's prudent underwriting standards, robust risk management framework and resilience across changing market conditions.

## Diversified funding and liability management

Northern Arc continues to maintain a well-diversified funding profile supported by longstanding relationships with banks, development finance institutions (DFIs), capital market participants and other funding partners. The Company's prudent liability management approach enables it to access multiple sources of capital, supporting business growth while maintaining financial flexibility across market cycles.

During FY26, Northern Arc raised fresh debt of approximately INR 8,850 Crore, underscoring the depth of its long-standing relationships with lenders and investors. The continued participation of a diverse set of lenders reflects confidence in the Company's business model, governance framework and credit profile.

As of 31 March 2026, Northern Arc's borrowing base comprised 57 lenders and investors. Banks remained the largest source of funding, accounting for 53% of total borrowings, followed by domestic and offshore development finance institutions at 30%. The balance was sourced from capital market participants, including mutual funds, insurance companies, private wealth platforms and other institutional investors. This diversified funding mix supports liquidity management and reduces reliance on any single source of capital.

The Company also continued to optimise its borrowing profile during the year. Despite a relatively challenging funding environment for the NBFC sector, Northern Arc reduced its average cost of funds to 8.5% in FY26 from 9% in FY25. This improvement reflects the strength of its lender relationships, disciplined treasury management practices and continued access to diversified funding channels.

### Credit Ratings

Northern Arc's credit ratings continue to support its access to diversified funding sources and enhance its ability to raise capital on competitive terms. The Company's consistent credit profile reflects its prudent risk management practices, diversified business model and disciplined approach to growth.

Since 2015, Northern Arc's commercial paper programme has maintained the highest short-term rating of A1+. In addition, the Company's non-convertible debentures and long-term bank facilities have been assigned a rating of AA- by both ICRA and India Ratings since 2015 after ratings.

The continued strength of these ratings reinforces lender and investor confidence, supports funding diversification and contributes to the Company's ability to efficiently meet its financing requirements. These factors have played an important role in supporting the growth of Northern Arc's balance sheet and earning assets over the years.

## Environmental, Social and Governance (ESG)

Northern Arc integrates environmental, social and governance considerations into its business strategy, risk management framework and capital allocation processes. The Company's ESG practices have been independently assessed by ICRA, which has assigned an ESG Rating of reflecting its evaluation of the Company. As a mission-driven financial services platform, the Company seeks to contribute to sustainable and inclusive growth through responsible financing, strong governance practices and a continued focus on creating positive social impact. Sustainability considerations are embedded across lending, investment and operational activities, supported by structured environmental and social due diligence processes aligned with applicable regulatory requirements and internationally recognised standards, including the IFC Performance Standards.

The Company's environmental approach focusses on responsible resource utilisation within its operations, climate risk assessment and support for businesses contributing to a low-carbon economy. Through its financing activities, Northern Arc continues to facilitate access to capital for sectors such as electric mobility, rooftop solar, water and sanitation infrastructure and circular economy solutions. The Company also incorporates climate-related considerations into its risk management processes through portfolio-level assessments and ongoing monitoring mechanisms.

From a social perspective, Northern Arc remains committed to expanding access to finance for underserved individuals, households and businesses, thereby supporting financial inclusion and economic development. The Company also continues to invest in employee development, diversity and inclusion, workplace well-being and capability building, while promoting responsible lending practices and adherence to recognised client protection principles across its operations.

Strong governance remains fundamental to Northern Arc's operating model. The Company's governance framework is supported by Board-level oversight, including supervision by the ESG Committee, comprehensive policies and codes of conduct, employee awareness programmes, internal controls and compliance mechanisms. Through continuous strengthening of governance practices, ethical standards and risk management processes, the Company seeks to create sustainable long-term value for its stakeholders.

To read more, refer to page 48.

## Technology infrastructure

Northern Arc has developed a technology-enabled operating platform that supports the entire lending lifecycle, from customer acquisition and onboarding to credit assessment, disbursement and portfolio servicing. The Company's technology architecture is designed to enhance scalability, operational efficiency and customer experience while supporting the evolving needs of a diversified lending business.

The Company leverages advanced analytics, machine learning models and automated decision-making frameworks to strengthen credit evaluation and risk management processes. Integration with multiple data sources and digital verification platforms enables faster customer onboarding, improved underwriting accuracy and informed credit decisions across borrower segments.

Northern Arc's cloud-based infrastructure provides the flexibility and scalability required to support business growth and increasing transaction volumes. The technology environment is supported by automated workflows, digital process management capabilities and continuous monitoring systems that enhance operational resilience and business continuity.

The Company's technology ecosystem is supported by a suite of proprietary platforms that strengthen origination, distribution, co-lending and capital market capabilities. Nimbus serves as an integrated debt transaction platform that supports transaction structuring, risk management, exposure monitoring and compliance processes across the lending ecosystem. nPOS, the Company's cloud-native, API-based co-lending platform, enables end-to-end loan lifecycle management and seamless integration with partner institutions, supporting efficient co-lending execution and straight-through processing. The

Company's Direct Origination platform supports digital credit journeys across multiple lending products and partner ecosystems, enhancing onboarding efficiency, underwriting quality and operational consistency.

Northern Arc also continues to expand its digital distribution capabilities through Altifi, its retail bond platform that facilitates investor participation across fixed-income and mutual fund products. During FY26, the platform expanded its product offerings, strengthened integration with external investment platforms and introduced additional digital engagement capabilities to broaden investor reach and improve accessibility. These technology platforms collectively support scalable growth, operational efficiency and improved stakeholder experience across the Company's lending and capital market ecosystem.

The Company maintains a comprehensive information security framework designed to safeguard customer data, applications and technology assets. Multiple layers of security controls, proactive monitoring mechanisms and governance processes help mitigate cyber risks and support compliance with applicable regulatory requirements.

## Human resources

### Building a future-ready workforce

Northern Arc recognises that its people are central to the Company's long-term growth, operational effectiveness and ability to create sustainable value. The Company remains focussed on building a high-performance and inclusive workplace supported by strong leadership, continuous learning, employee well-being and merit-based growth opportunities.

### Leadership and governance framework

The Company's human capital strategy is guided by an experienced leadership team and overseen by the Board of Directors and the Nomination and Remuneration Committee (NRC). This governance framework supports talent management, succession planning, employee development and workforce initiatives aligned with the Company's long-term strategic objectives.

### Diverse and inclusive workforce

As of 31 March 2026, Northern Arc had a workforce of 3,163 employees across functions, levels and geographies. Women represented 13% of the workforce, while 21% of new hires were recruited from focussed diversity segments. The Company continues to promote an inclusive work environment founded on equal opportunity, meritocracy and respect, with employee advancement and recognition based on capability, performance and potential.

### Talent development and capability enhancement

Northern Arc places significant emphasis on attracting, developing and retaining talent through structured onboarding, mentorship, continuous learning and leadership development programmes. The learning framework focusses on enhancing technical expertise, leadership effectiveness and operational capabilities to support business growth and service excellence.

### Employee engagement and well-being

The Company continues to invest in employee well-being, engagement and professional development to create a supportive and productive workplace. Through initiatives focussed on learning, inclusive leadership and shared accountability, Northern Arc seeks to foster a culture where employees feel valued, supported and empowered to contribute meaningfully to organisational success.

### Talent retention and risk management

Northern Arc actively manages human capital risks through continuous benchmarking of its people practices and enhancement of its talent management strategies. The Company's recruitment network spans multiple geographies, enabling access to a broader talent pool. Structured incentive programmes, retention initiatives and succession planning processes support workforce stability and long-term organisational capability. In addition, the Company has strengthened its compliance framework through proactive alignment with evolving labour regulations and adherence to applicable statutory requirements.

### Recognition and workplace excellence

Northern Arc's people practices and workplace culture have received recognition across industry platforms. The Company was certified as a Great Place to Work® for the sixth consecutive year, reflecting its continued focus on employee experience, workplace culture and organisational development.

### Focus on sustainable growth

Going forward, Northern Arc will continue to strengthen workforce diversity, leadership capabilities and employee development initiatives. By building an agile, skilled and engaged workforce, the Company aims to support its long-term growth ambitions while creating value for employees, customers and other stakeholders.

## Opportunities and Threats

### Opportunities

- **Expanding financial inclusion and credit penetration:** India's growing focus on financial inclusion continues to create significant opportunities for institutions serving underserved and underpenetrated borrower segments. With extensive experience across MSME, Consumer Finance and Rural Finance, Northern Arc is well-positioned to address the evolving credit requirements of individuals and businesses that remain outside the reach of traditional financial channels.
- **Growing rural and emerging market potential:** Improving rural incomes, rising consumption levels and increasing formalisation of economic activity are expected to support demand for credit across rural and semi-urban markets. Northern Arc's established presence and expanding reach across these markets provide a strong platform to deepen customer relationships and extend access to financial services.
- **Diversified growth platforms:** The Company continues to strengthen its presence across emerging business segments, including digital partnership-based lending, direct retail lending and distribution-led offerings. These businesses provide opportunities to broaden customer engagement, diversify revenue streams and enhance cross-selling potential across the financial services value chain.
- **Technology-led scalability and risk management:** Investments in technology, analytics and digital capabilities have enabled the Company to build scalable operating models and strengthen decision-making processes. Advanced underwriting frameworks, data-driven risk assessment tools and enhanced customer engagement capabilities support operational efficiency while improving credit evaluation and portfolio management.
- **Strengthening distribution and ecosystem partnerships:** Northern Arc's growing network of branches, lending partners, originators and fintech platforms enhances its ability to reach diverse borrower segments across geographies. A diversified distribution ecosystem supports business scalability, improves market penetration and enables the Company to respond effectively to evolving customer needs.
- **Strong institutional relationships and market credibility:** The Company benefits from a well-established reputation, strong governance standards and longstanding relationships with investors, lenders and ecosystem participants. Its proven track record across multiple credit cycles strengthens stakeholder confidence and supports the development of sustainable business partnerships.

### Threats

- **Evolving regulatory and compliance landscape:** As a regulated financial institution, the Company operates within a dynamic regulatory environment. Changes relating to capital requirements, lending norms, customer protection standards, data governance and compliance obligations may influence business operations and require continuous adaptation.
- **Funding and liquidity risks:** Access to funding remains critical to business growth and may be affected by changing market conditions, liquidity cycles and investor sentiment. Variations in capital market activity or borrowing conditions could influence the availability and cost of funds across the financial ecosystem.
- **Macroeconomic and credit quality pressures:** Persistent inflationary pressures, slower economic growth or adverse developments affecting borrower cash flows may impact credit demand and repayment behaviour. Such conditions could increase stress across certain customer segments and influence portfolio performance.
- **Interest rate and margin volatility:** Changes in interest rates can affect borrowing costs, funding spreads and overall profitability. Effective asset-liability management and prudent pricing strategies remain important in managing interest rate cycles and maintaining financial performance.
- **Competitive intensity and market disruption:** The financial services sector continues to witness increasing competition from banks, NBFCs, fintech companies and digital lending platforms. Sustaining growth will require continuous innovation, strong customer engagement and the ability to differentiate through technology, risk management and service delivery.

## Internal audit

The Company has established a strong Internal Audit function, carried out by our in-house audit team.

The Internal Audit function is guided by a risk-based internal audit (RBIA) framework, ensuring that audit coverage is aligned with the key business risks, regulatory expectations, and evolving market conditions. The internal audit plan is approved by the Audit Committee of the Board and is periodically reviewed to incorporate emerging risks and business priorities. The audit plan is comprehensive, covering all business units, processes, and support functions based on risk assessments done across all auditable entities.

The Internal Audit function works closely with various stakeholders, including business and support functions, to drive continuous improvement while maintaining its independence and objectivity. It also collaborates with risk management and compliance functions to ensure a coordinated approach under the "three lines of defence" model.

## Internal control systems and their adequacy

As a part of Northern Arc's efforts to evaluate the effectiveness of internal control systems, the Company's audit teams periodically assess the adequacy of control measures periodically and recommend improvements, wherever appropriate. The Audit Committee reviews the internal audit functions, including the scope of the internal audit, as well as the adequacy and effectiveness of the internal systems and controls.

Northern Arc has a well-established and adequate internal financial control framework, with appropriate policies and procedures, to ensure the highest standards of integrity and transparency in its operations and to support a strong corporate governance structure, while maintaining excellence in service delivery to all stakeholders.

Appropriate controls are in place to ensure:

(a) the orderly and efficient conduct of business, including adherence to policies,

(b) safeguarding of assets,

(c) prevention and detection of fraud/errors,

(d) accuracy and completeness of the accounting records and

(e) timely preparation of reliable financial information.

Northern Arc's internal control framework includes clearly defined delegation of authority and standard operating procedures, which are implemented across all businesses and functions. These are reviewed periodically at all levels. The risk and control matrices are also reviewed periodically at all levels of the organisation. The risk and control matrices are also reviewed regularly, with control measures tested and documented.

These mechanisms help ensure that internal financial controls are commensurate with the scale of Northern Arc's operations. The findings are presented to the Audit Committee, enabling the Committee to evaluate the strength of the controls and determine any enhancements required, especially as the Company continues to ramp up operations.

## Cautionary statement

Certain statements in the Management Discussion and Analysis section concerning the Company's goals, expectations, projections, estimates, and outlook may constitute forward-looking statements under applicable laws and regulations. These statements are based on currently available information, internal assumptions, and forecasts, and are subject to inherent risks, uncertainties, and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those expressed or implied. Such factors include, but are not limited to, changes in macroeconomic conditions, competitive dynamics, regulatory and legal developments, shifts in political or economic environments, tax policies, technological changes, and market volatility.

Forward-looking statements do not guarantee future performance and should not be relied upon as such. The Company assumes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable laws.