



# **NORTHERN ARC**

“Northern Arc Capital Limited  
Q3 FY2026 Earnings Conference Call”  
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**MODERATOR:** **MR. RAGHAV GARG – AMBIT CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2026 Conference Call of Northern Arc Capital hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raghav Garg from Ambit Capital. Thank you, and over to you.

**Raghav Garg:** Good evening, everyone. On behalf of Ambit Capital, I would like to welcome you all to the Q3 FY26 Earnings call for Northern Arc Capital. Joining us from the management today, we have Mr. Ashish Mehrotra, Managing Director and Chief Executive Officer, Mr. Atul Tibrewal, Chief Financial Officer, Mr. Pardhasaradhi Rallabandi, Group Risk Officer and Governance Head and Mr. Chetan Parmar, Head of Investor Relations.

I would like to thank the management for the opportunity to host this earnings call. We can now begin the call with opening remarks from Mr. Ashish Mehrotra, post which we can open the floor for questions. Thank you, and over to you, Mr. Ashish.

**Ashish Mehrotra:** Hey, thank you, Raghav. Thank you very much. Good evening, everyone. I'm delighted to welcome you to today's call. Thank you for joining us for Northern Arc Capital's conference call to discuss our performance for the quarter ended 31st December, 2025. I'm also joined by my colleagues like Raghav said earlier Atul Tibrewal our CFO, Pardhasaradhi, our Group Risk Officer and Governance Head, Jigar Seta, Head of Strategy and Chetan Parmar, Head of Investor Relations.

I'm very pleased to share that we achieved two significant milestones during the quarter. First, we crossed the assets under management milestone of INR15,000 crores and second we reported our highest ever quarterly profit after tax of over INR100 crores at about INR101 crores, the strongest quarterly profit after tax in the Northern Arc Capital history.

Turning to the broader environment, we continue to witness healthy consumption-led demand during the quarter, supported by reforms such as GST rate cuts, festival spending, and even all of this in the midst of geopolitical uncertainties including tariff-related pressures. The Reserve Bank of India also took a supportive step by reducing the repo rate by 25 basis points to 5.25%, which is expected to further aid domestic demand and credit growth.

While we view the quarter performance with optimism, it is important to acknowledge the headwind facing the sector. Stress continues to build in the unsecured business loan and small-ticket lap segments. The retail securitization volume year-to-date remained lower than last year by about 7%.

The offshore funding participation has also stayed muted, and liquidity continued to be challenging as the repo rate cuts have not yet fully translated into MCLR reduction from broader capital flows. These challenges have impacted NBFC across the spectrum, and even as the sector continues to play a critical role in supporting the Indian economy.

At the same time, there are clear signs of improvement in microfinance. We are witnessing a revival in both growth and credit cost. Retail and HNI participation strengthening the liquidity through private and NCD markets, where Northern Arc remains an active market maker. RBI measures to boost liquidity and reduce costs also provide support. As a result, sector is expected to continue to grow at about 15% to 17%.

Against this backdrop, our AUM posted a strong growth of about 23% on a Y-o-Y basis, 7% on quarter-on-quarter to reach INR15,121 crores, outpacing the industry and reflecting sustained momentum. Growth was driven by direct-to-customer (D2C) business, which accounted for about 56% of total AUM as of December 2025. The D2C AUM, , grew by about 29% on a Y-o-Y basis from INR6,567 to about INR8,492 crores, in line with the strategy of growing direct-to-retail business at around 30%.

Within D2C, consumer finance continued to demonstrate strong momentum with AUM growth of approximately 45% on a Y-o-Y basis to about INR4,226 crores, supported by festive demand and impact of GST rate cuts leading to better consumptions. This improvement in consumption demand sustained throughout the quarter and continued into the quarter for FY26, providing continued visibility for strong growth momentum.

MSME remains a key growth engine for Northern Arc Capital, with portfolio growing at about 41% on a Y-o-Y basis to about INR3,292 crores. This growth has been largely driven by the expansion of our physical footprint, with the addition of 17 new branches during the quarter. Given the significant under penetration of MSME credit, our ongoing investment in distribution, people, and infrastructure positions us well for sustainable and scalable growth in the coming quarters.

In rural finance, like I said earlier in our calls we have consciously calibrated our microfinance portfolio over the past six quarters, starting from June 2024.

The incremental PAR 0+ accretion has reverted to the pre-stress level, which is a very good sign. Over two-thirds of our MFI book comprises of loan originated under the new MFIN guardrails and nearly 55% of our portfolio is covered under CGFMU. With a 30-plus DPD improved sequentially to about 80 basis points in December, this sustained improvement is supported by strong growth on the ground, given our infrastructure, which gives us confidence to scale this business back in a calibrated manner going forward.

Rural disbursement in Q3 stood at about INR260 crores with December doing close to about INR100 crores, which is in line with what we were doing before the stress environment in the Q1-24. We retained our operational footprint at about 278 branches and have about 1,800 employees. We will further strengthen it as we go forward.

Our intermediate retail business, part of our credit solutions platform, has also recorded a healthy growth of 17% on Y-o-Y basis.

Despite the unfavourable global environment, the Indian economy has demonstrated strong resilience and is well-positioned to deliver healthy growth going forward.

A fee-based business is a key differentiator for Northern Arc, like we keep on saying, and continues to complement a lending operation. Placement volume grew by about 73% Y-o-Y and 43% quarter-on-quarter to about INR3,669 crores. Our performing credit fund grew by 15% Y-o-Y to about INR3,207 crores. This translates into strong fee income growth of about 50% on Y-o-Y basis and quarter-on-quarter to about INR 32 crores. This performance underscores our strategic focus in building a comprehensive credit solution ecosystem, leveraging capital light fee streams along with a balance sheet led lending model.

More importantly, enabling and leveraging our technology stacks and our risk capabilities. We spoke about Nimbus, our B2B platform, which has enabled about – over 1 trillion of credit flow through the platform.

And nPOS, our API-based on-lending and co-lending platform, where we underwrite about 20,000 to 25,000 loans a day. Our Altifi, bonds platform, as a registered OBPP platform, provides fixed income investment opportunities to over 80,000 registered investors on the platform. Our proprietary machine learning-based underwriting scorecards, known as NuScore, which essentially helps people to select the right set of customers, both in terms of ticket size, price, default probability and so on.

While these platforms, were built for our own use. We are seeing early signs of monetization, giving us confidence that we can become an independent, fee-accretive business over time. Turning to asset quality, we continue to follow a prudent risk management framework and a conservative provisioning philosophy.

During the quarter, credit cost increased about INR130 crores, driven primarily by the higher provisioning in the consumer finance portfolio and some increase in the small-ticket secured and unsecured business loans. The high credit costs were attributable to internal assessment of ECL for digital business, resulting in recognition of one-time credit cost of about INR23 crores, which is less than 60 basis points on an annualized basis.

Excluding that, our credit cost is about 2.9% for Q3FY26. However, the risk-adjusted yield remains stable at 13.7% in Q3 and unchanged Y-o-Y, marginally better by about 10 basis points versus previous quarter, Q2FY26, reflecting effective risk calibration and pricing discipline.

On a cumulative basis, the credit cost for the first 9 months stands at about 3%. As we enter the final quarter, we expect the credit cost to remain stable within 2.7% to 3% range.

Overall, these developments give us confidence that we are well positioned to achieve a guided AUM growth upward of 20% for this year. With that, I would like to hand over to Atul to walk you through our financials in detail. Atul, over to you.

**Atul Tibrewal:**

Thank you, Ashish and good evening, everyone. I appreciate you joining us for the Northern Arc's Q3 FY26 Earnings call. Let me walk you through financial performance. Our Asset under management stood at INR15,121 crores, reflecting a growth of 23% Y-o-Y and 7% Q-o-Q. Within the AUM mix, the direct-to-customer business contributed 56% with MSME finance at 22%, consumer finance at 28% and MFI consciously calibrated at 6%.

The net interest income for Q3 FY26 stood at INR 371 crores, which is up by 39% Y-o-Y. NIMs for Q3 FY26 improved by 60 basis points Q-o-Q at 9.9%.

On the interest rate environment, despite a cumulative 125 bps policy rate cut by RBI, the transmission has been gradual. With the one-year bank MCLR declining by only 25 to 30 basis points on an average, reflecting a lag effect and some tightening in the money market liquidity. On a year-on-year basis, Northern Arc Capital's cost of funds improved meaningfully, declining to 8.5% in Q3 FY26 from 9.4% in Q3 FY25, representing a reduction of 90 basis points. We expect some additional benefit in COF in Q4, supported by MCLR reset on a significant portion of our existing borrowings.

Fee and other income grew by almost 49% Y-o-Y and 50% Q-o-Q to INR 32 crores, mainly on account of strong growth in the placement volumes. Net revenue, including the fee income, rose 39% Y-o-Y to INR403 crores.

Our operating expense ratio for Q3 FY26 was stable at 3.7%. The company is fully compliant with the new Labour Code, and there is no material impact on the employee cost. Pre-provisioning operating profit for the quarters grew by 51% Y-o-Y and 24% Q-o-Q to INR265 crores. GNPA and NNPA were 1.36% and 0.69%, respectively.

Profit after tax for Q3 FY26 increased by 33% Y-o-Y and 10% quarter-on-quarter to INR101 crores. ROA for the quarters saw marginal uptick quarter-on-quarter to reach 2.7%. ROE for the quarters increased by 60 basis points quarter-on-quarter to 10.7%.

On the liabilities front, in line with our debt strategy and AUM growth plans, we have continued to diversify our funding base with a clear focus on long-term sources.

Liquidity remains comfortable with positive cumulative mismatch across the time buckets. As of December 31, 2025, we held surplus liquidity of almost INR1,400 crores with a mix of cash and undrawn bank sanctions. Total borrowing at the end of the quarter stood at INR11,200 crores with approximately 65% linked to variable interest rate, positioning us well to benefit from the ongoing decline in the interest rate market.

Our funding mix remains well diversified with 25% sourced from offshore and DFI partners and the balance 75% from domestic banks, institutions and capital markets. Our incremental cost of funds in Q3 was 8.6%, down from 9.6% in the same period last year. Tangible net worth stood at INR3,788 crores, up 11% Y-o-Y. We have strengthened the balance sheet materially.

Our debt-to-equity ratio improved from 3.9x in March 24 to 3x as of December 2025. Capital adequacy remains quite strong at 23.1%, well above the regulatory requirement, giving us ample headroom to grow the balance sheet over the next three years. Thank you very much, and we would now like to open up for Q&A.

**Moderator:** Thank you very much. We will take a first question from the line of Digant Haria from Greenedge Wealth. Please go ahead.

**Digant Haria:** Hi team. Congratulations on reaching two important milestones. My question has two parts. First, if we look at this quarter, our net income has gone up quite substantially, and in line with that, our provisions have also gone up substantially. So, you know, because of this digital lending business, should we look at Northern Arc as net income minus provisions as a number that we try to strive for?

If you can just explain us this because otherwise, it just seems that provisions have gone up, but in isolation, it looks like that. But if you look at net income minus provisions, that number we are at best ever in last five quarters. So, just any thoughts here because otherwise, the reporting becomes confusing for us.

**Ashish Mehrotra:** Hey, Digant, so good to have you and a very insightful question indeed. Like we have been saying in many of our conversations with you prior, the way we look at the digital business is saying how do we optimize the risk-adjusted yields? I think that is the best way to look at it because in a high consumption-led demand where you provide convenient financing solution, you look at various cohorts at various points in time and try and see how you get better risk-adjusted return by providing superior product to customers.

And like I said, a risk-adjusted return broadly remains stable while the yields have improved. So, we have seen compensatory marginally higher credit cost, but that is perfectly fine as long as we are holding the guidance on the risk-adjusted yield basis. And that is the way we look at that business since the very beginning because we believe that is the best way to look at it. How much return are you making after adjusting for risk?

**Digant Haria:** Great, great. So, Ashish, you do not see any deterioration, especially in that consumer or digital lending business, right? we took some extra provisions also, INR23 crores.

**Ashish Mehrotra:** We continue doing that. The objective is that you continue to look at playing between the near-prime segments and try and create many sets of product solutions between 3 months, 6 months, 12 months, 18 months, financing, financing for education, financing for convenience and so on, so forth.

So, there are certain cohorts and certain geographies if I get technical between the risk band which try and get you may be significantly better yield but also come with a compensatory higher credit cost and ideas to optimize and make better risk-adjusted return. So, I think that is the only metrics we look at it and that is the metrics we are very obsessed with when we work along with a risk digital team.

**Digant Haria:** So, I think this division would have made 3%-4% ROAs, right? We should look at the ROAs, and we would be in the back seat?

**Ashish Mehrotra:** That is the only way to look at it, and that it is a very profitable business.

**Digant Haria:** Perfect. So, that is there. The second part of the question is on the MSME piece, where I think the NPAs have gone up a bit, credit costs have gone up a bit, and I think it is an industry-wide phenomenon that we are seeing in that smaller portion of the lab.

So, where are we in terms of our evolution curve? Is this credit cost cycle for us starting, or are we also somewhere in the middle, and we hope to improve in the coming quarter? Can you give any color here?

**Ashish Mehrotra:** No. So, there are two signs to it in MSME. The small-ticket MSME is the one we are seeing a higher degree of PAR accretion. Having said so, our average ticket size is upward of INR12 lakh-INR13 lakhs. So, we really do not play in a real micro INR2 lakh - INR5 lakh loan.

We were seeing a higher roll-forward rate in the past. But now we have actually seen a bounce rate has come down to about 27%-28%. So, I think, as things stabilize, as I said earlier, the first one to say there is a little bit of stress in this underserved segment is largely visible in the microfinance sector. The three most sets of products which those customers have, one is the unsecured business loan or a quasi-secured or a secured business loan. The second is little bit of personal loan and the third is gold loan. The good thing is the way the gold has appreciated, I do not think there is any stress in that sector because the gold price has appreciated, therefore, the interest servicing and the principal payment would have happened or would have through the realization or liquidation of the security. In the case of an unsecured business loan, I think the credit cost is marginally higher.

As the MFI stabilizes and we are seeing massive improvement across the sector in our own piece, first time we had a negative PAR 0+ accretion. This means I am doing better than what we were doing in September 2025.

More importantly, while we see higher provisioning, our mortgage is 100% perfect. We do only registered or MODT registered mortgages. So, while I do assess customer income because they may not have perfect income on the paper, so there is an individual underwriting which is also at two stage, one by the credit officer on the ground and second using data analytics by a centralized credit team who looks at the file again.

But we then ensure there is a perfect title, and there is a mortgage that gets registered. Unlike in this segment where people who do this as a quasi-secured just by submission of title deed or not looking at full 13-year of the title search, we do a perfect mortgage. So, while there could be higher provisioning, but over a period of time, this business should be less than 1.5% to 1.7% credit cost.

**Digant Haria:** Perfect. Thank you so much Ashish for the detailed answers and we hope that you hit a century, you keep on scoring more runs in the coming quarters. Thank you.

**Ashish Mehrotra:** Hoping for that. Thank you. Thanks, Digant.

**Moderator:** Thank you. We'll take our next question from the line of Pavan Kumar from Edelweiss. Please go ahead.

**Pavan Kumar:** Thank you for the opportunity. Sir, I have three questions. Number one, can you please give the incremental cost of funds for the quarter? Number two, can you please explain jump in other expenses quarter-on-quarter? Third thing is, can you explain the assignment transactions that we

have done this quarter? There seems to be, like, you know, both the jumps in the revenue from assignment and also, like, the, you know, the credit cost. Are these two related?

**Ashish Mehrotra:** So, I think the first two I'll refer to Atul because he'll give you more insightful answer. But let me tell you, strategically, the answer to your third point. Our assignment is less than 5% of the overall AUM. Unlike our peers, we are pretty conscious that we will keep it around 5% to 7% of our overall assets under management.

So, it's done technically also, you know, like I said in many calls earlier, we started selling down or doing assignment of our book, the MFI book way back in April or June '24 because we were seeing it's best to get it off the balance sheet than to carry it. So, we tactically look at these things, looking at how we would like to carry the risk forward and where we think we can optimize the risk-adjusted return. Atul, do you want to go through the two questions on cost?

**Atul Tibrewal:** Sure. First, I'll cover the question in the opex.

**Pavan Kumar:** Just one thing before we go to the other two questions. I have just follow-up on this. The INR692 crores that you have transferred this quarter, is this mainly from the MFI book?

**Ashish Mehrotra:** No, no. That will include MFI plus some bit of MSME. That's for the full 9-month period, correct?

**Atul Tibrewal:** This quarter, we would have sold close to INR300 crores, but for the entire 9 months, we would have sold close to INR600 crores.

**Pavan Kumar:** Okay. Sure. Thank you.

**Atul Tibrewal:** On the question of opex, if you look at our DuPont, our opex has been quite steady at 3.6%. You know, last year, 9M FY '25, we were at 3.6%, and in 9MFY26 also, we are at 3.7%. It has slightly increased in quarter 3 to 3.7%, but again, this is in line with what we showed in quarter 2. So, there has been no increase as such in the opex.

The way the service fee payable to Digital Lending Partners is presented in our published financials is that it is shown as part of the opex, but in the DuPont, it is netted off from my interest income. So, the service fee has increased a bit, but otherwise, my overall opex has remained constant at 3.6% in 9MFY26.

On the question of the incremental cost of funds, as I had mentioned in my speech, our incremental cost of fund is currently at 8.6%, and this has come down by close to 90 basis points if we have to compare with the similar period last year.

**Pavan Kumar:** Thank you, sir.

**Moderator:** Thank you. We will take the next question from the line of Aravind R from Sundaram Alternates. Please go ahead.

**Aravind R:** Thank you so much for the opportunity and congratulations on the good set of numbers in the face of tough environment. Sir, like, it is a follow-up on MSME business, especially the direct

business. I would like to understand how the early delinquency indicators are shaping up there? Is there any improvement or is there any stabilization there?

I know NPA numbers have been displayed in the presentation. I would like to understand how the early delinquency indicators are shaping up in that business particularly? Another question which I found surprising was in branches. Sequentially, branches have declined a bit. Can you help me understand what is happening there?

**Pardhasaradhi R.:** Hi this is Pardhasaradhi. We have seen significant traction in the collections during the last quarter. And on the newer cohorts, newer vintages, basically the disbursements in the last 12 to 15 months, the roll forwards and PAR also are lower than what they were during the earlier cohorts.

To that extent, what we are seeing is the historical, more than 12 months back origination. But collection effort has improved significantly, and the newer cohorts are performing better. So, hopefully things will be better in the coming quarters.

**Ashish Mehrotra:** Actually, we are seeing a sequential improvement in our collection efficiency across the buckets. And it is also when we look at the new vintage book on a 6-12 MOB that is performing significantly better on a 30 DPD. So, I think that is a good piece and we continue to remain focused to grow that business. Those are important lines of business for us to grow. It is also a long-term earning annuity book.

**Aravind R.:** Yes, yes. I had another question on branches. Like, there was a small decline in branches. I just wanted to know what is happening there?

**Ashish Mehrotra:** Yeah. So, like I said, we did add a couple of branches on MSME, but we optimized our branch network in our rural finance business because that was the call. That is perfectly fine. We plan to add about 50 plus branches in the coming quarters. I think we are perfectly fine.

You continue to optimize the geography where you think the concentration of customers is less, where you should go. And also, with the new guardrails MFI of MFIN, we need to ensure we are actively positioned where we find a larger number of underbanked and underpenetrated.

**Aravind R.:** Yeah. And just have one last request from my side, like, especially when asset quality issues in certain segments happen, if you can also provide the early delinquency data in the presentation, it will be very helpful to understand how things will shape up in the subsequent quarters? Thank you.

**Ashish Mehrotra:** Yeah, sure. We can get Chetan to share. By the way, given the amount of credit solution we provide. We do publish a sectoral report of what we are seeing not only in our books, but more importantly, across 100-200 partners which operate across six sectors.

That data could be pretty useful for you to gain insights on how the books are performing across consumer, MSME, rural, vehicle finance, affordable housing. I'm happy to share that with you. Chetan, can you please connect with Arvind and share? Thanks.

**Moderator:** Thank you. We will take our next question from the line of Sameer Bhise from Dymon Asia. Please go ahead.

**Sameer Bhise:** Yeah. Hi. Thanks for the opportunity. I just wanted to ask on this provisioning bit on the digital portfolio. So, the presentation says it is more like a one-time. How should one think about this provisioning trend on an ongoing basis? That is one. And secondly, in the context of that, how to look at PCR on Stage 3 and Stage 2?

**Pardhasaradhi R.:** We had reviewed all the cohorts that we have in the portfolio and the process that we follow for computation of the credit cost and the FLDG that is available on the cohorts. And the claims, underclaims, near claims and then a bit of reconciliation over a period of time. It is not this particular quarter.

It is over a period of time and the impact of that, while that is not pertaining to this quarter, when we recognize that there is an impact that needs to be recognized, we recognize it and that comes to INR 23.4 Cr. It is not an indication of the Rs. 23.4 Cr coming every quarter.

**Ashish Mehrotra:** And the second is you need to look at it on a risk-adjusted basis. The number broadly remains the same.

**Sameer Bhise:** No, fair enough. So, this is more of a backlog of bad book -- when you kind of reassess post the FLDG. Is that a fair takeaway?

**Pardhasaradhi R.:** That is correct. When we look at all our commercial arrangements with the partners in terms of their digital lending portfolio, this is the post-FLDG credit cost or the FLDG claim where there is a correction needed to be made.

**Sameer Bhise:** So, then on an ongoing basis, if the margin gains were to kind of sustain, we should actually see the risk-adjusted margin probably expanding is that...

**Ashish Mehrotra:** I think that is the end of it. As you continue to select better sets of -- as the data experiences improve, you are able to identify a better cohort of customers. So, as we go on quarter-on-quarter basis, we should look at improvement in that number.

The way we look at it is also saying what we are going to make on a risk-adjusted basis. I think those are the two pieces. Identify a better set of cohorts for us to target and offer convenient solutions and also ensure that we have better outcomes. I think that is where it is.

**Sameer Bhise:** And on the PCR bit, coverage?

**Ashish Mehrotra:** PCR is more because of the change in the mix in the balance sheet. Because all are unsecured loans, we write off on 90 DPD. So, what is there on PCR is only, which comes on account of what we have on the intermediate retail book and the MSME secured book.

**Pardhasaradhi R.:** As the proportion of the secured loans go up in the stress, obviously, for the secured, the provision coverage requirement would be lower compared to unsecured loans. If the secured book is underperforming, the provision coverage ratio will look lower. It is basically because the recoverability of that is quite high.

**Moderator:** We will take our next question from the line of Shalin Kapadia from IIFL.

**Shalin Kapadia:** Congratulations on hitting an all-time high PAT. Sir, I had two questions. So, firstly, on yields. So, why has our yields jumped so much in Q3 FY26 almost by 80 basis points despite very minimal change in the AUM mix? And secondly, sir, my question was on asset quality. So, can you just give us some color on why credit costs have increased in the MSME segment? Is it related to any particular geography or anything like that?

So, any color there would be helpful. And so, the second part of that asset quality question. So, basically, our stage 2 has decreased substantially in this quarter. So, can we say that we have basically arrested forward flows? Hence, we can see an improvement in credit costs from 4Q onwards. So, those are my questions, sir. Thank you.

**Pardhasaradhi R.:** Yeah. The MSME PAR increase is something that is across the industry. And if any, we are in line with industry or better slightly. It is not a specific geography-related issue to that extent. This is something which is pretty much in line with the industry. And there is nothing specific in our portfolio because of which there is an impact.

That is one. Second is that in terms of the overall credit cost, our endeavor would be to contain it close to 3% or under 3%. The way we would want to look at it is we will try to keep under check under 3%. However, the objective, as Ashish mentioned earlier, is always to optimize the risk-adjusted return.

And to that extent, we would continue to focus on the risk-adjusted return and keep credit costs under check. The way I look at it, unilaterally reducing credit cost is not something that is the objective. If you do that and impact the yield on that, that is not really a good outcome. Optimizing risk-adjusted return is what we focus on.

**Shalin Kapadia:** Sir, why our yield has increased in Q3?

**Ashish Mehrotra:** I think the yield is, like we said, a function of mix. We chose certain cohorts in the consumer finance space as a combination of the mix change between the intermediate retail and the direct-to-customer business. And the cohorts in the digital lending business would have given a higher yield. They also came with a little bit of higher credit cost. So, we continue to calibrate and ensure we make better risk-adjusted returns. That is the objective.

**Moderator:** Next question is from Divyansh Agarwal from Ionic Asset Managers. Divyansh, please unmute your line and go ahead with your question, please. Since there is no response, we'll move on to the next question from Sanjay Ladha from Bastion Research.

**Sanjay Ladha:** So, I just wanted to understand the business dynamic of Northern Arc as to between our own lending and the gross transaction volume. So, what is the fees charge on the placement, disbursement, funds book? And where does we show these fees charge in our P&L? Is it shown in the interest income? And if that's the case, what is the percentage of interest income in that case?

**Ashish Mehrotra:** Let me clarify. If there is a fee linked to the loan disbursal that gets amortized over the tenure of the loan, what you see in our financials, which is what Atul spoke to fee and other income of INR32 crores for last quarter, that includes the fee we earn from our placement business, which is about anywhere between 21 to 25 basis points.

Then we earn about 110 basis point of fee on our assets under management in our funds business, which is CAT II & CAT III AIF and PMS funds, where our assets under management is about INR3,200 crores. We do manage credit funds across the same sectors where we have expertise and track performance on an ongoing basis.

And the other fee comes from NPOS, scorecards, and so on and so forth. So, I think those are the three large heads of the fee. Fee which is linked to the loan being disbursed is yet amortized as part of the interest along over the life of the loan. It is there on a separate line. You will see that separate line as a fee on a separate line in the financials.

**Sanjay Ladha:** Sir, just wanted to understand that this fee, the AUM which we have like INR15,000-odd crores of AUM. And the interest income which we show on the P&L, that is part of only the AUM book or there would be other part as well on the interest income line item which we show?

**Ashish Mehrotra:** Only of the lending exposure on the NBFC balance sheet. In consolidation, you do see a fee income which comes from 100% owned subsidiary, which is Northern Arc Investment Managers, which is our funds business, which appears in the fee line.

**Atul Tibrewal:** So, in the investor presentation, the interest income is INR533 crores for quarter 2 and INR 602 crores for quarter 3. So, this INR 602 crore is on a total AUM of INR15,121 crores. So, this is the lending book and on this we earn interest income.

**Sanjay Ladha:** Sir, thank you for the clarity. My another question would be on, since the net interest margin has inched up slightly higher, just wanted to understand where we in a longer term basis what is the sustainable range we see on that side? Anything to look at?

**Ashish Mehrotra:** So, I think if you go to the DuPont table, you will see that our net interest income is about 9.9%, which is where we ended last quarter. We make fees. Fee gives us another kicker, taking a loaded NIM to about 10.7% which in last quarter was 9.9% and I think that our endeavor is as our mix improves with higher composition of direct customer business from where we were two or three years ago, we moved to now 56%.

And as we continue to build our funds business, our fee franchise, our bonds platform which will create more accretive fee. My forward-looking view would be if we our fee contribution of 90 basis points scales up to about 110-120 basis points, and net interest margin improves to 10% to 10.25%. This is very good for us to play as a mix goes from 56% to 65% and 70%. So, this will give us visibility of 3.0%- 3.2% return on assets over the next 4 to 6 quarters.

**Sanjay Ladha:** Sir, another -- my last question would be on the credit cost inch up across the MSME consumer and rural side. If the stress has gone out, do we see further inch up going forward or how one should think of because as you in the starting comment, you already said that you have seen the

growth and credit cost going down from here on. So, just wanted to understand how going forward, how it should be?

**Ashish Mehrotra:** If you follow the market for the last 6 quarters, first we saw elevation of credit cost on account of over leveraging in the MFI segment. From where we stand today, both at an industry level and on our own balance sheet, the rural is not very large. We have seen massive improvement and our portfolio today is performing better than what portfolio was performing in December 23 or January 24.

This means there was a period of stress which has passed out. We are seeing improvement in collections, recoveries, and more importantly, we are able to collect more money than the people who are not paying. So, incremental PAR zero accretion has now become negative. I think that is where it is.

In Consumer finance - since we run a digital convenience financing solution, is to find interesting cohort of customers. Here we ensure to make better risk-adjusted returns. We have seen some uptick in credit cost mainly due to stress in the MFI, a little bit of higher stress in the unsecured and small ticket business loan, while that is a very small part of our book. As a consequence, we have seen higher degree of provisioning there, but my sense is over next two to three quarters that should continue to show improvement.

**Moderator:** We will take our next question from Prit Nagersheth from Wealth Finvisor.

**Prit Nagersheth:** And I'm sorry to ask this but again on the MSME side one of the other peers on the lower ticket side say between two to five lakhs was saying that the behavior was the problem. And they are not providing for everything, and they are working to improve the behavior. So, could you shed some color on how are you going about navigating that?

**Ashish Mehrotra:** To just clarify, as I said it earlier we do not operate at INR2 lakhs to INR5 lakhs segments. Our average ticket size is about INR12 lakhs to INR14 lakhs. While we do assess the income of the individual by an independent risk officer visiting these customers. And then we centrally underwrite using both data analytics and a virtual conversation by the second risk officer who is part of centrally headquartered team.

Both look at analytics, look at the field touch reports and looking at then drawing the assessment. So, there are two levels of assessment and approval process. Unlike the comparison you drew, in our case, 100% of these mortgages are perfect.

We do full title search. We do one or two valuations depending on the loan quantum and then we register that mortgage. So, there could be movement in delinquency in our case, but given it is a perfect mortgage, my sense is that over a period of time we should see better recovery.

While you are seeing currently slightly higher level of credit cost of provisioning, that should start coming off. And, like Pardha and I said earlier, we are witnessing sequential improvement in collection efficiencies, and a reduction in bounce rate. That should also add to it.

**Prit Nagersheth:** Got you. The other question I had was on the ROE side of things. So, if your ROE targets are anywhere between 3 to 4 over the next 4 to 6-8 quarters. How do you see your ROEs go on? Can you shed some light on that?

**Ashish Mehrotra:** I think if you look at the leverage and you adjust for it, our endeavor is to get to 15 to 16 ROE by 6 to 7 quarters.

**Prit Nagersheth:** Right. So, for that to happen, I am assuming that the disbursement and lending will happen.

**Ashish Mehrotra:** Yes. This one is the mixed change, higher the D2C, like I was explaining the ROA tree in the earlier question. If our loaded NIM is currently at about 10.7%, and as we stabilize, we should see an improvement in interest income composition from 9.9% by about 30 to 50 basis points, and we should see another 30 basis point improvement in a fee franchise that clearly translates into better return on assets and better return on equity.

**Prit Nagersheth:** Got you. All right. Great. Thank you, guys.

**Ashish Mehrotra:** Thank you.

**Moderator:** We will move on to our next question from Darshil Jhaveri from Crown Capital. Please go ahead.

**Darshil Jhaveri:** Thank you for taking my question. Firstly, congratulations on the great set of results, sir. Hopefully, I am audible?

**Moderator:** Yes, Darshil, please go ahead.

**Darshil Jhaveri:** Yes. Hi. So, number one, I just wanted to get, you know, sorry for asking the question a bit again. So, the credit cost, we are very okay with it, having around 3%, right? So, can we assume that, you know, even for FY'27, that would be the levels that, you know, we are looking at, sir?

**Ashish Mehrotra:** I think as we see improvement we should end this year with below 3% credit costs anywhere between 2.8% to 3%. I think as we go forward, when we aligned our model and deliver on targeted D2C mix, we should be around 2.7% to 3.0%.

**Darshil Jhaveri:** Okay. Fair enough, sir. And the ROAs that we are targeting right now, like I think I, if I correct me, if I heard it correctly, it's around 3% to 4%, right? So, what would it, what would be it, you know, for FY'27, sir?

**Atul Tibrewal:** For FY'27, we are targeting a ROA of 3.2%.

**Darshil Jhaveri:** 3.2%, sir. Yes, fair enough. And just one, maybe, a bit industry-related question. So, what we are hearing in terms of MFI, is that like a behavioral change where, you know, people are more than willing to go delinquent or is that something that's becoming a concern for us that the practice is to default on the loan or something is that, can you just give a bit of color of how that industry is going on? Or are we seeing any on-ground problems about that, sir?

**Pardhasaradhi R.:** That was the case a couple of quarters back in terms of the on-ground, the delinquency was rising. The way we look at it, at least what we understand is that the, it is not that deliberately people are at will trying to default and assume that there are no consequences of default.

The borrowers do appreciate that the credit history will be impacted and their ability to raise further loans will be impacted. What we have seen really is some amount of overleveraging at the borrower level playing out.

And particularly in one or two geographies, definitely Karnataka, when there was an ordinance, there is an impact we have seen locally at that point of time that is almost 9-10 months back. But beyond that, there is no specific behavior of wanting to default, assuming that there are no consequences of that, that is not something which is across the board that is significant.

**Ashish Mehrotra:** We need to appreciate this is core for the growth of the financial inclusion access to money is important to the growth of rural India and contributes significant part of our GDP, any misuse and abuse of it really restrict them for the future. And the MFIN guardrail essentially is towards that effect, not only from how we educate these rural borrowers, but more importantly, how we also act like an responsible lender.

The current crisis in that sector is predominantly led by over leveraging or over lending. With the new, with the MFIN guardrail being followed, like I said in my opening remarks, I think we are seeing a significantly better behavior. If you look at an industry level, the market has already shrunk by almost from INR4,16,000 crores to about INR3,23,00,000 crores, that is almost shrunk by about 30%.

So it is important both for the borrowers and for lenders to follow the responsible behavior as we go about building it. This is key for the growth of the rural economy and for us to operate in a manner that we are able to provide financing solution to the right set of people.

**Darshil Jhaveri:** Okay, fair enough. And just a last question, sir. In terms of liquidity, are we looking to maybe raise some additional debt or equity, like, is that any on the plans right now, sir?

**Ashish Mehrotra:** Our current to debt equity is about 3x. So I think we have, we have enough capital for next 8 to 12 quarters of growth, given that we are also a profitable organisation. We continue to raise Debt and have raised about INR3,000 crores this quarter.

We are a very high quality, diversified, impact-led financial institution. So I think that our debt profile is significantly superior to our peers, with almost 30%, coming from global and domestic multilateral gives us long term better pricing. I think we have enough headroom for growth for next about 8 to 12 quarters.

**Darshil Jhaveri:** Oh, fair enough. And sir, our long-term AUM growth target of 25% plus that, that's what continues, right, over the next three years. So, like FY'27, we can also expect such growth, right?

**Ashish Mehrotra:** Yes, that's the end of it. That's what we are looking towards.

**Darshil Jhaveri:** Thank you so much.

**Ashish Mehrotra:** Thank you.

**Moderator:** Thank you. Next question is from Aditya Singhania from CSIM. Please go ahead.

**Aditya Singhania:** Thank you. I just wanted to clarify on the asset quality disclosure of the MSME segment. I understand that there are two pieces within that. One is the branch-led business, and the other is the digital business. Could you break down the portfolio and asset quality performance for both segments?

**Atul Tibrewal:** Yes. Aditya, we will separately get back to you on that with a specific breakup. That is not as part of this disclosure that we have made. Chetan would reach out to you.

**Aditya Singhania:** But could you sort of give us some color on that? Because otherwise it just becomes a little confusing to understand how this, those individual segments have moved.

**Atul Tibrewal:** Okay, just to be clear, all our unsecured retail loans, whether it is consumer or business loans or rural finance, our approach is to write off as an on 90 DPD. The only portfolio where we don't write off and keep it as GNPA on 90 plus is the secured loans, which is basically our MSME secured/ LAP business and intermediate retail.

**Aditya Singhania:** Okay. I think it will be useful if the disclosure is given because otherwise it's hard to make sense of the moving parts within that MSME. The second question I had was on the, if you could give some commentary on the ongoing NCLT resolution for the housing finance company.

**Ashish Mehrotra:** I think the way to, hi, this is Ashish, the way it stands, I think company is going to be file the final resolution bid with NCLT which they are targeting to do in the next two weeks, and subsequent to which we will see where it progresses. Our current provision is more than the hair cut reflected in the highest bidder value. So we hold more than sufficient required on our book.

**Aditya Singhania:** Okay. So, do you expect a resolution this quarter?

**Ashish Mehrotra:** I'm hoping it should come this quarter, but the legal process can take time. And as part of the process, we anyway continue to collect on from our customers, and we will hopefully find a resolution coming in. But I think the company, as the administrator files it, hopefully that it should take about four weeks from there on.

And I am, they told me they're planning to file by 15th February. NCLT RBI approval will also be required because it's a regulated entity. I think that should all happen between four and six weeks.

**Aditya Singhania:** All right. Thank you so much.

**Ashish Mehrotra:** Thank you.

**Moderator:** We have a few questions in the queue. Can we take it, please?

**Ashish Mehrotra:** Sure. We are available.

**Moderator:** Yeah. We have a question from Anand Mundra from MyTemple Capital. Please go ahead.

**Anand Mundra:** Hi. Thank you for the opportunity, sir. And congratulations on a great set of numbers. So, firstly, just following up on what the previous participant asked. So this INR23 crores of extra provision that we've taken that lies on the digital lending on the MSME side, or that's for the digital lending on the consumer side? That was question number one. And the second question was on the ROA guidance of 2.8%, which we had given for a full year last quarter. Are we still holding onto that?

**Pardhasaradhi R.:** On the first part, this is spread across multiple digital partnerships covering both consumer and MSME sectors. So, it's not just one sector. That is one. And second is that this is not particularly pertaining to this quarter only.

And that is why in the sector wise credit cost slide, we have shown it separately. This pertains to the look back period of more than two and a half years.

**Anand Mundra:** Got it. And on the ROA guidance of 2.8%, are we holding onto that?

**Atul Tibrewal:** So basically, if you look at our ROA tree for the previous quarters, we were at 2.5%, went up to 2.6% last quarter, and this quarter we ended at 2.7%. And generally, if you see March is the best quarter for any NBFC. So, we are very confident of crossing 2.8% in quarter four.

**Anand Mundra:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we'll take that as the last question for today. Over to the management, sir, for closing comments.

**Ashish Mehrotra:** Thanks, everyone, for joining the call, and sorry for keeping you long on a Friday evening. It has been a good quarter for us, and we continue our endeavor to improve the results and provide good returns to our investors. Thanks for all the support.

**Moderator:** Thank you, management team. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.