



NORTHERN ARC

“Northern Arc Capital Limited
Q4FY26 Earnings Conference Call”

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MODERATOR: **MR. ABHIJIT TIBREWAL – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Northern Arc Capital Q4 FY'26 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, 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. Abhijit Tibrewal from Motilal Oswal Financial Services. Thank you, and over to you, sir.

Abhijit Tibrewal: Yes, thank you Dorwin. Good evening, everyone. I am Abhijit Tibrewal from Motilal Oswal, and it is our pleasure to welcome you all to this Earnings Call. Thank you very much for joining us for the Northern Arc Capital call today to discuss their Q4FY26 Earnings.

To discuss the company's earnings, I am pleased to welcome 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 Investor Relations. On behalf of Motilal Oswal, we thank the senior management and the Investor Relations team of Northern Arc Capital for giving us this opportunity to host them today.

I now invite Mr. Mehrotra for his opening remarks, post which we will open the floor for a Q&A. With that, over to you, sir.

Ashish Mehrotra: Okay, thank you Abhijit. Thank you for the kind introduction. Good evening, everyone, and I'm really delighted to welcome all of you today evening. I know it's a little late in the evening to discuss Northern Arc's performance for the quarter ending 31st March 2026.

I'm also joined by my colleague, as Abhijit said earlier, by Atul Tibrewal, our CFO; Pardhasaradhi Rallabandi, our Group Risk and Governance Head; Jigar Seta, Head Strategy; and Chetan Parmar, Head Investor Relations.

I think fair to start the call saying over the last 15 years, Northern Arc has very successfully navigated the multiple macroeconomic challenges including COVID, geopolitical disruption, MFI over-leveraging cycles, evolving regulatory landscape. Despite these headwinds, Northern Arc has demonstrated strong resilience, delivering consistent growth both in terms of business and profitability.

Our assets under management has grown over the last five years at a CAGR of about 26%, taking us to the milestone of INR 16,594 as on 31st of March, led by multi-fold growth in our direct-to-customer segment whose contribution increased from 19%, going back to FY '21, to about 59% in FY '26.

This shift has given us almost 380 basis points of expansion in our net interest margin from 5.6% to 9.4% in FY '26. Importantly, this growth has remained disciplined, quality-led with Net NPA consistently maintained below 1%. This disciplined, risk-calibrated AUM growth has translated into strong earnings performance with profit after tax has grown at 5-year CAGR of 43% to INR406 crores in FY '26, underscoring the resilience, scalability, and profitability of our stated business model.

Coming to FY2026, this year was dynamic, marked by tailwinds and headwinds. With regulatory development being supportive and macroeconomic challenges and gradually improving credit

environment ensured that we traded with caution. Amidst this backdrop, I am very pleased to announce that we continued to build on the momentum with Northern Arc Capital reporting highest ever quarterly profit of INR133 crores, taking our overall profit to INR406 crores for FY26.

Our AUM has grown by about 22% on a year-on-year basis and about 10% over the previous quarter to reach INR 16,594 Cr, outpacing the industry, reflecting the sustained momentum and growth driven by direct-to-customer business which now accounts for 59% of our total assets under management.

Our direct-to-customer business grew by about 39% on a year-on-year basis, reaching past INR9,800 crores, in line with our strategy to grow this business.

We have three lines of businesses in direct-to-consumer, one is the consumer finance business, which continued the sustained growth driven by the demand in the consumption. The AUM has grown to now about INR5,000 crores plus. During the quarter, we've added few more partners, further strengthening our distribution capabilities. 70% of our customers are repeat customers, which demonstrate powerful proof of underwriting quality and customer stickiness on our platform. As a company, we remain focused on gathering risk-adjusted yield of approximately 15% and above in this business, which is reflected in our consistent performance over the last three years. Additionally, much-needed regulatory clarity on availing FLDG benefit while computing ECL provisions on digital lending is expected to provide stability in business profitability. Some of you may recollect that last year, March, we had to take extraordinary provision. With the clarity coming on 4th of February, this now puts the business on a very, very strong footing.

The household consumption in India nearly doubled to USD 2.4 tn during 2014 to 2024, growing at a faster pace than the major economies such as China, United States, etc. This growth has been driven by the rising middle class, demographic advantages, increasing digital and financial inclusion, and rapid evolution of e-commerce and retail ecosystem. Our sense is that the household consumption is further expected to reach about 3.4 trillion by 2030, creating significant credit opportunities across the consumer consumption ecosystem.

The second line of business in direct-to-customer is lending to MSME. Our MSME business continued to be a growth engine for Northern Arc with portfolio growing at about 43% on year-on-year basis to reach INR 3,691 Cr as on 31st March '26. The growth has been driven by expansion of physical footprint, including addition of 17 new branches during FY26 and improved productivity across existing branches.

The portfolio quality continues to strengthen with X-bucket collection efficiency improving from 97.8% in September '25 to 98.8% in December '25, further to 99.4% in March '26. Improved collection coupled with 100% registered mortgage structures for our loan against property ensure we continue to build a very strong loan against property business for the small businesses,

While credit supply to MSME sector has increased meaningfully, the segment still faces an addressable credit gap of nearly 24%, estimated to be about INR30 lakh crores. Given this large, untapped opportunity, our continued investment in distribution, talent, infrastructure, technology will position us well to deliver disciplined, risk-calibrated growth in MSME segment over the coming quarters and years.

The third line of business is rural finance. We recorded highest ever quarterly disbursement of about INR305 crores in Q4FY26, reflecting strong 17% quarter-on-quarter growth. As you will recollect, we had slowed down the disbursements over the last few quarters. As a consequence of that, our assets under management grew by about 8% QoQ to INR1,009 crores. During this quarter, we expanded our footprint with addition of 64 branches, taking our rural network to about 342 branches.

Again, here we seen a significant improvement in collection efficiency. Our X-bucket collection efficiency continued to show a consistent improvement, increasing from 98.7% in September '25 to 99.4% in December '25 and further improved to 99.6% in March '26. Some of you will recollect that states like Karnataka where collection efficiencies were impacted by ordinance issued in Feb '25 has also improved from 94.5% to about 99.5%.

The credit costs have consistently improved quarter-on-quarter to reach 1.3% in Q4FY26, with full-year credit cost declining from 6.7% to 4.9% in FY26. The GNPA remains negligible at about four basis point as of March '26. Additionally, I must reiterate that 84% of our MFI book is covered under CGFMU, providing strong risk protection.

The continued investment in branch expansion and sustained improvement in collection efficiency with higher CGFMU coverage provides us with confidence to scale this business in a calibrated and prudent manner as we go forward. And further, it's important for me to highlight and reiterate, 100% of our rural loans are written, underwritten using our proprietary scorecard called Nu Score, and that gives us a lot more edge in ensuring that we have right selection metrics of customers.

Moving on to our credit solution business. We continue to benefit from strong, loyal, expanding base of 368 originating partners whom we work with. More importantly, the quality of above network remain robust and fair to highlight that 90% of our partners are rated BBB and above, reflecting their credit strength and underwriting discipline. More importantly, our partner have healthy balance sheet with approximately 95% having capital adequacy of more than 20%, providing resilience, supportive and sustainable growth across the credit ecosystem in India.

Our fee-based business is a key differentiator for Northern Arc. That complements our lending operations within the credit solution platform. Our placement volume for FY26 was INR11,834 crores, with placement fee income growing by 22% year-on-year to INR31 crores.

Further, our credit fund's assets under management is INR3,092 crores, which garnered the fee of about INR 38 crores in FY26. This performance underscores our strategic focus in building a comprehensive credit solution ecosystem leveraging capital-light fee stream along with the balance sheet lending model.

The company continue to place strong emphasis on credit risk management. We leverage AI and machine learning-driven underwriting model, which is complemented by our continuous field monitoring. Over the years, we've built a robust data ecosystem comprising of over 50 million data points enabling development of 30 plus underwriting model across our businesses. Our risk framework is further strengthened by dedicated team of 100 plus professionals.

In addition to centralized technology-led monitoring, our risk undertakes on-ground visit of nearly one-third of districts where we and our partner operate each year, providing valuable insights in local

market dynamics and emerging risk. To put it in context, our portfolio is spread at about 680 districts and that means over 220 odd districts we cover in detail, covering multiple partners and our own branches network which gives us a far more granular touch and feel of what's happening in the market.

Company also follows a conservative provisioning policy. 100% provisions on 90 plus days past due for all unsecured loans. While this approach may lead to relatively higher near-term credit cost compared to peers, it materially reduces the carry forward delinquent pool and lowers further provisioning requirement. These initiatives have resulted in resilient and well-diversified loan book with net NPA consistently being maintained below 1% over the years.

During the quarter, RBI issued the guidelines on treatment of default loss guarantee in computation of ECL, permitting NBFC to factor in the cash collateral as FLDG, thereby aligning the regulatory approach with IndAS requirement. As a prudent measure, company created a management overlay for potential unforeseen events given the current macroeconomic environment and what we are witnessing in the West Asia.

Operationally, the collection efficiencies continued to improve across the key retail portfolio MSME LAP and rural finance, with X-bucket collection efficiency reaching 99.4% and 99.6% respectively. Following robust collection performance, Stage-2 assets have shown consistent improvement, declining from 2.6% in September to about 1.8% in December '25 and further to 1.5% in March '26. This reduction reflects moderation in early bucket stress and continued improvement in overall asset quality. Consequently, credit cost for Q4FY26 has improved to 2.2%, while full-year credit cost improved to 2.8% in line with the guidance we have issued earlier.

As a company, we further strengthened our collection capability through implementation of strong collection systems. Platform enhances collection tracking, improves field force productivity, and enables sharper delinquency monitoring and support data-driven recovery strategies. We believe this will further improve collection efficiency, strengthen portfolio quality, and support scalable growth across the retail lending segment.

Overall performance for FY26 was resilient despite the challenges we saw at the beginning of the year arising out of the Karnataka microfinance ordinance. We have entered the new fiscal year on a strong footing with disbursal momentum sustaining at the level seen in the recent month and remain confident of delivering a robust growth trajectory for FY27.

Looking ahead, we remain watchful of evolving risk including geopolitical tension in West Asia, potential impact on weather and monsoon, we believe the company is well positioned to sustain its growth momentum through a calibrated risk management and disciplined execution while continuing to protect the profitability and the portfolio quality.

With that, I'm going to request my colleague Atul, our CFO, to walk you through our financial results in detail. Thank you.

Atul Tibrewal:

Thank you, Ashish, and good evening, everyone. I appreciate you joining us for the Northern Arc's Q4FY26 earnings call. Let me start with two important milestones that we have crossed during the year. First, our assets under management stood at a INR16,594 crores, reflecting a growth of 22% year-on-year and 10% Q-o-Q.

Secondly, we have crossed PAT of INR400 crores in FY26.

So, within the AUM mix, the direct-to-customer business contributed 59% with MSME finance at 22%, consumer finance at about 30%, and MFI at 6%.

The net interest income for Q4FY26 grew by 21% Y-o-Y to INR387 crores. For FY26, NII grew by 20% Y-o-Y to INR1,377 crores and NIMs improved by 25 basis points year-on-year to 9.4%. The cost of fund for FY26 decreased by 48 basis points year-on-year to 8.5%. Cof for Q4FY26 was at 8.5%. The incremental cost of fund Q4FY26 was at around 8.6%.

The net revenue, including the fee income for FY26, grew 19% Y-o-Y to INR1,484 crores and for Q4FY26 grew by 18% Y-o-Y to INR414 crores. Our opex ratio for FY26 and Q4FY26 was flat at 3.6% and 3.7% respectively. We have added 66 branches and merged two branches during the quarter. Pre-provisioning operating profit for FY26 grew by 21% Y-o-Y to INR956 crores. For quarter four FY26, it grew by 17% Y-o-Y to INR269 crores.

GNPA and NNPA improved quarter-on-quarter to 1.2% and 0.6% respectively. Credit cost improved from 3.2% in FY25 to 2.8% in FY26, which is in line with the guidance given in the previous calls. Credit cost for Q4FY26 improved from 3.5% in Q3FY26 to 2.2% in Q4 FY26.

Profit after tax for FY26 increased by 33% Y-o-Y to INR406 crores. For Q4FY26, it increased by 251% Y-o-Y and 32% quarter-on-quarter to INR133 crores. ROA for FY26 grew by 34 basis points Y-o-Y to 2.8%. ROA for Q4 increased by 66 basis points Q-on-Q to 3.3%. ROE for the FY26 increased by 110 basis points to 11.1%, and ROE for Q4FY26 increased by 326 basis points to 14%.

On the liability front, in line with our debt strategy and AUM growth plans, we continue to diversify our funding base with a clear focus on long-term sources. Liquidity remains comfortable with positive cumulative mismatch across all time buckets. As on March 31st, we held a surplus of close to INR1,250 crores with a good mix of cash and bank balance and undrawn sanctions from various banks and institutions.

Total borrowings at the end of the quarter stood at INR12,258 crores, with around 60% linked to variable interest rate, positioning us well to benefit from the ongoing decline in interest rates. Our funding mix remains well diversified with 25% sourced from offshore and DFI partners and the balance from domestic banks and institutions. Our incremental cost of fund in Q4FY26 was 8.6% down from 9.3% same period last year.

Tangible net worth stood at INR3,896 crores, which grew by 13% Y-o-Y. So, we have strengthened the balance sheet materially. Our debt-equity ratio improved from 3.9x in March 2024 to 3.1x as of March 2026.

Capital adequacy remains quite strong at 22.6%, well above the regulatory requirement, giving us ample headroom to grow the balance sheet over the next two to three years. Thank you so much, and we now open for Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Digant Haria with GreenEdge Wealth. Please go ahead.

Digant Haria:

Yes, hi. Thank you for the opportunity, Ashish and team, congratulations. Last quarter, we hit a century, we are now comfortably above that number. So, I'll start with one question. It seems like our flight has taken off, but now with the macro situation, which is evolving, what kind of guidance would we like to give for FY27 for loan growth and ROAs, you know, the two?

Ashish Mehrotra:

Yes, thank you very much. I think as we look at it, given the disciplined execution and focus on risk and what we are investing in building capabilities both in terms of collection, risk management and AI. Our sense is we should be able to grow business at about three times of GDP, so look at anywhere between 22% to 25%, and that's our commitment to the Street on a forward-looking basis unless we see something massive. We've obviously recalibrated some segments, sectors to ensure we stay prudent on where we think the risk could be higher.

And I think from where we ended on a full-year basis, my objective is to get to 3 plus return on assets and like we said over the next 8 to 10 quarters, get to mid-teens and late-teens ROE, and we are pretty disciplined, focused on what we want to do and how we want to achieve.

The good thing is that the building block across the three D2C lines of businesses is set. Further, our credit solution business is a comprehensive play with ability to participate from balance sheet, credit funds with new sets of funds being launched, building a bond's platform and a placement business where securitization is key contributor.

We placed almost INR10,000 crores of securitization deals in the market last year. So, all of that creates very strong competitive moats for what we do.

Disciplined execution with platform build-out on a digital side, the growth in Digital Lending sector enables us to ensure that we generate the risk-adjusted return of upward of 15% which I believe requires very sharp focus.

Our tech and risk capabilities are core to our business. Building out of the MSME, which is a very important sector, but being more cautious with it given there is a larger number of player wanting to participate, more importantly in some of the segments you could see higher bit of stress in a shorter period of time, and so ensure your risk underwriting principles they are aligned.

And rural, back in later part of 2024, we started bringing down the exposure, we actually brought it down from INR 1,500 Cr, to down to about INR 900 Cr, and we are now building it back and we've seen the performance which gives us a confidence to build it back.

We ensure irrespective of what kind of the loan is, it goes through our proprietary scorecards which gives us lot more confidence apart from CGFMU cover. End of the day when you originate a loan, you originate it to ensure that you get right set of risk-adjusted return.

So, I think if we continue to stay on course on our strategy on building comprehensive solution in direct-to-customer business, building on the competitive moats on the fee franchise, our path is pretty clearly laid down to where we are today, where we want to get to next fiscal, the following fiscal and thereafter.

I think this is in line with what we've said strategically and, in the past, how do we get to mid to late teens RoE and I think that path is set out for us.

Digant Haria:

Okay thanks Ashish. That was quite detailed. I think you touched upon two points in your comments, which I just wanted to check. This MSME, especially the merchant lending part within the MSME and this whole consumer, direct-to-consumer finance that has probably grown at 50% this year.

So, just wanted to check, is there any risk building up or because that's a segment where I think our average ticket size is hardly INR20, INR30 thousand. So, if you can just give some color on, why we grew at 50% and then what are the risk measures and what opportunities do you see?

Ashish Mehrotra:

Okay, so we underwrite on the consumer finance side, which is essentially linked to the consumption, about 25,000 to 26,000 loans a day. Each loan's underwritten through our scorecards and we are very sharply focused on the risk-adjusted return.

We then have multiple cohorts to ensure that we balance that risk across customer segments, scorecard distribution of the quality of new flow coming in. What gives us a confidence in what we've done and how we've built it is two parts: how our stock of book is performing, more importantly, what is the quality of the customers coming to you every day through the door.

That's your future and what you have in the book is what you have in the book. And I think if you look at it, that business on a risk-adjusted basis making 15%, and we continue to invest in it and build this business right.

MSME we actually recalibrated our strategy given we witness some bit of overlap between the MFI and other sectors. Our average ticket size is about INR 11 to 15 lakhs, we don't operate in, zero to five or less than seven lakhs loans because we want certain size and quality of customers to come in.

We are happy to operate at 17-18% kind of yield, we are not chasing 24% yield. We follow imperfect / estimated income but with perfect collateral (100% registered mortgage). It is an estimated income with a perfect collateral. And that gives us a confidence that quality of book over a period of time will create a strong annuity franchise for Northern Arc.

We were starting from a small base, so, it's unfair to compare us to other player. Our D2C business collectively is about INR9,800 crores. So, when you start from a smaller base, your growth numbers looks higher, but in reality the market is huge and we have to ensure we stay focused both in terms of our risk principles and how do we connect, engage with our customers. I think those are two big pieces.

Digant Haria:

Perfect, perfect. Thanks, Ashish. Just one suggestion to you and the team that in the, in our MSME, we can probably separate out that merchant lending part because that's a digital piece, rest everything is a physical world business. So, if we can do that, that would be good.

Ashish Mehrotra:

Good feedback, we will obviously look at it, but that's also an important piece where we recalibrated a lot, but the nature of merchants can be very different, but good feedback noted, we'll try and see how do we restack as we get into the new fiscal year. Thanks.

- Digant Haria:** Perfect, perfect. Wish you all the best. And last just one question for Atul is that, you know, is there any one-off in the result like, is that Aviom write-back or something or this is like pure organic?
- Atul Tibrewal:** It's pure organic, except for the DLG that we spoke about, but apart from that there is no one-off. Aviom we continue to provide, so there is no one-off as far as the credit cost and others are concerned.
- Digant Haria:** Perfect, perfect. Congratulations to the team. Thank you so much.
- Ashish Mehrotra:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Raghav with Ambit Capital. Please go ahead.
- Raghav:** Hey, hi. Good evening, and thanks for the opportunity. I just have a few questions. One, I understand that in the intermediate retail lending piece, you through that piece you have developed expertise in vehicle finance and affordable housing finance over a period of time?
- Do you plan to launch any of these products, say maybe in next one, two years or maybe over the medium term? If not these, then do you have plans to launch any other new product, in addition to MSME, MFI and consumer finance that you're doing already, which could help you on which would build on your retail lending growth? That's my first question.
- Ashish Mehrotra:** Thanks. It's a relevant question. Obviously, two things will happen: in consumer finance, we'll try and build more capabilities to create a convenient financing solution, thereby if customers is transacting and needs a financing solution, we are working with partner who can provide that financing solution directly.
- The second, we, in the current network of branch, we can obviously do affordable housing. We want to ensure that the loan against property business reaches a certain size and scale, and then we can open that product.
- My learning over the years is the time you open the focus on the affordable housing segment, then the focus on the business loans comes down, and we want to stay sharply focused right now on business loans.
- Affordable Housing product is anyway approved by our board, at some point of time, opportune point in time, we will launch it as a network matures over a period of time.
- Raghav:** Understood. The other question is that your ECL coverage overall or even if I look at on a stage-wise basis has been coming down. How should one read that, why is that happening?
- Ashish Mehrotra:** Sorry, why don't I get Pardha to talk about it.
- Pardhasaradhi R.:** Yes, as you would have heard, the Reserve Bank of India has amended the guideline to provide the benefit of DLG that is available on our portfolio to be reflected in the financials. We did get some benefit from that. Because of which, the expected losses which are covered by the DLG, which in the end anyway would not have translated to a credit loss for us, is something that we didn't have to provide, resulting in the ECL requirement for that portfolio has come down.

As the mix of that in Stage-2 assets is pretty high, so basically these are 31 to 90 sort of DPD loans, which were actually backed by the FLDG that is available for that portfolio. However, the benefit of that was not available earlier. Post the RBI guideline which came in February 26, we could take benefit of that.

Because of which, optically the ECL coverage has come down for the Stage-2. However, this benefit was always available to us, and the credit losses in any way would not have come to us.

Raghav:

But this -- so your ECL coverage is 12%, you're saying the reduction from 24% from the December quarter is because of the RBI guideline, but say even when I look at or compare this with what you had in '24 or '25, may not be '25 because that's when the guidelines came, but if I compare it to '24 then it's lower, right?

And even on Stage-3, the coverage has been coming down. Ideally, I don't think that that would -- the RBI guidelines would impact Stage-3, please correct me if I'm wrong, but yes, that is where I wanted to understand as to why the ECL 3 coverage has been coming down and why is Stage-2 lower than even FY24 levels?

Pardhasaradhi R.:

Again, Stage-2 is lower because of the portfolio mix change. In FY2023-24, the proportion of portfolios covered by FLDG was relatively low, because of which the requirement for ECL was higher at that at that point of time. Over a period, more than 50% of the portfolio in Stage 2, that is 31 to 90 DPD, is covered by FLDG because of which the ECL requirement has now come down with the new RBI guidelines.

Coming to Stage-3, what we had earlier as Stage-3 assets were unsecured. Now the mix has changed and now whatever we are carrying as Stage-3 assets are mainly coming from MSME secured where obviously you get the benefit of the collateral that is available because of which the ECL coverage requirement for that is lower.

Raghav:

Understood. And just to confirm, I think Ashish mentioned mid-to-high teens ROE in 7 to 8 quarters, right? So, you could be looking at a 15% to 18% range in next two years, is that is that a fair assumption?

Ashish Mehrotra:

About 8 to 8 to 10 quarters, yes, that's the target.

Raghav:

Okay. Yes, in about two to two and a half years, you should be looking at about 15% to 18% ROE.

Ashish Mehrotra:

15% to 17%.

Raghav:

Okay, sure. Yes, that was all from my side. Thanks a lot for answering my questions.

Ashish Mehrotra:

Thank you.

Moderator:

Our next question is from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: Yes, congratulations on the quarter on the very strong set of numbers and thank you for the opportunity. So, firstly on the credit cost, so it has declined quite meaningfully in this quarter and it we ended the year around 2.8%.

So, what kind of number are we targeting for FY27 and just for clarification, this credit cost of 2.8% is now the net credit cost after adjusting for the FLDG provision? Yes, that's the first question.

Pardhasaradhi R.: Yes, the overall year credit cost of 2.8% is after taking after adjusting for the FLDG benefit and the overlay of INR 66 crore created as measure of prudence for future uncertainty. And going forward also, we would expect the credit cost to be in the range of 2.7% to 2.8%, that is what is the plan projection.

Chintan Shah: And on the borrowing piece, so now incremental cost of funds have has seen a quite some decline in this year. It is now at 8.7 versus 9.3 last year. But probably now with the rate hike pause, rate cut pause, do we expect this to bottom out or on further moderation expected in the coming quarters as well? Yes.

Atul Tibrewal: So Chintan, in our past calls, we have been mentioning that we have been doing lot of variable interest rate borrowings. But I think for the last one quarter, we are seeing the interest rate bottoming out and that's the reason we have been adding more fixed rate papers.

In fact, our share of the fixed rate has now gone up from around 30% to around 40% of our overall borrowing. So, we are doing more NCDs, we are doing more ECB transactions in the last four quarters. Market has been tough and we have seen liquidity tighten. We have seen the G-Sec rates going up by close to 50 basis points.

We have also seen the hedge cost going up significantly over the last couple of months. But I think despite that, we have been able to maintain our cost of borrowings quite efficiently. We have borrowed close to around INR8,000 crores during the last financial year. Our total borrowing outstanding is now almost at INR12,900 crores.

But yes, we are seeing the interest rate bottoming out and with inflation going up, in next couple of quarters we should see the RBI also increasing rates. We have also not seen too much of transmission by the banking sector post the reduction of the repo rates by the RBI.

SI think overall this has been a good year for us as far as the treasury management is concerned. We have brought down the cost of fund incrementally from 9.3% last year to 8.7% and on the overall book, our cost of fund has come down by 50 basis points to 8.5% p.a.

Chintan Shah: Yes, so but from FY'27 perspective, do we expect some moderation in the margins given the rise in the cost of fund or will that be set off by the benefit on the yields?

Atul Tibrewal: I think we will definitely not see a reduction in the cost of fund, but we will be able to hold on to the numbers that we have demonstrated this year. So, maybe we will not see any further reduction, but I think 8.5% to 8.6% is something we'll be able to hold and with the expansion in the D2C mix should see improvement in yields

- Ashish Mehrotra:** Pertinent to highlight as the mix continues to improve from 59% to targeted 65%, you will see some bit of expansion in NIMs. More importantly, we are seeing the MFI market stabilizing and resurrecting.
- I also see it gives us a lot more tailwinds in our placement business and other fee lines, and so I will be fairly bullish and as we look at these things unfolding, assuming that the current West Asia crisis gets resolved over this quarter and so and so forth. Because the underlying portfolio on MFI, which used to be large part of our credit solution business, also will give us a much-needed tailwind.
- Chintan Shah:** Sure, this is very helpful. Thank you and all the best for the future quarters.
- Ashish Mehrotra:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Pavan Kumar from Edelweiss. Please go ahead.
- Pavan Kumar:** Ashish, Chetan, everyone, thank you so much for the opportunity and really great set of results. Hope I'm audible?
- Ashish Mehrotra:** Yes, thank you.
- Pavan Kumar:** Yeah, so across the parameters that you have given guidance on meeting 60% D2C or the 3% ROA across the parameters you have done like a tremendous job. So, congrats on that. So, couple of questions. On the credit cost front, right? So, last year when the RBI regulation has come in, we had to make a additional provision of 80 crores on the FLDG, but this year the reversal is only INR25 crores or INR29 crores and similarly why is the number so much lower this year compared to whatever write-back that we could get last year, that's one part. Second part is, you know, if I adjust for that and the additional provision that you have made, the actual credit cost this quarter is only INR50 crores. Is that understanding, correct?
- Ashish Mehrotra:** Right. Atul, Pardha, you want to walk the mat? but before you go, I think the way we look at it, you know, at in the last March 2025 when this guidance with regards to DLG happened, using that benefit, our position was that as an abundant caution, we creating this reserve. We knew at some point of time with regards to the regulation the interpretation will seek will get clarified over a period, which happened in Feb 2026. If you adjust for that, I think we will hold to 2.7% to 2.8%, and Partha you might want to walk through or Atul you might want to walk through the field math so that, you know, there is a clarity around it.
- Pardhasaradhi R.:** Just few clarifications. Number one is that INR29 crores number that you are seeing is only for the Q4, not the full-year number. Second is the 80 crores was the requirement at that point of time and the amount of provision that we took in Q4FY25 was 68 crores. Adjusted for all this, the actual the credit cost without the overlay and adjusted for all this would have been closer to around 120 crores, which would have been much closer to the 2.9% to 3%, the which we would have otherwise got.
- Pavan Kumar:** So, this quarter number would have been 120 crores approximately?
- Ashish Mehrotra:** Number, but I think you need to adjust for what you took as one-time because there and now this clarity exists, so that's why we say on a steady state forward-looking, we should be able to hold 2.7% to 2.8%

- Pavan Kumar:** Got it, sir. And in one of the questions earlier, you have mentioned that most of the credit cost in MSME is coming from the secured lap. Is and earlier in the presentation...
- Pardhasaradhi R.:** No. What I mentioned is that given our accounting policy is to write off the unsecured retail loans at 90 DPD, the asset build-up in Stage-3 happens to be the MSME secured, because of which the ECL requirement for that is lower.
- Pavan Kumar:** Understood. So, earlier on a quarterly basis, you used to give credit cost by segment, this year I mean, this quarter in the presentation I feel it for the full year, but I don't know if I'm see not seeing it, but I can't see the quarterly basis.
- Ashish Mehrotra:** It will be in the full-year basis.
- Pavan Kumar:** Okay, it'd be great if you can give it for the quarterly basis as well, that would be yeah. And one last thing, on the MSME LAP, I know you mentioned that you are not seeing any impact from the war or the conflict related issues, but are you how are you looking going forward, like in terms of the credit quality, piece and in terms of disbursements ramp up? Yeah, that's it from my end.
- Ashish Mehrotra:** So, on the potential conflict, the entire MSME universe, and between gas, petrol, chemicals, pesticide, , all of that is less than 2% of our book. And obviously like I said in my early comment, that we've also calibrated it from February 2026 onwards from the advent of this event across whether it was financing the merchants, whether it is secured lending, whether it is so I think that gives us a confidence saying why we remain calibrated in terms of the way we go about building asset, you know, stay very sharply focused on the quality of book.
- Pavan Kumar:** Got it. Thank you, all the best. I'll come back in the queue.
- Ashish Mehrotra:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Kaushik Agarwal from Haitong. Please go ahead.
- Kaushik Agarwal:** Yeah, hi sir, thank you for the opportunity. Hope I am audible?
- Moderator:** Sir you are audible. You may proceed.
- Kaushik Agarwal:** Yeah, So, I have two questions. So, firstly on slide number 16 referring to the consumer finance business, there the net yields number you have mentioned are broadly sticky at around 15-odd percent. In the last slide I was seeing that this number was roughly the targeted range which you indicated was marginally higher.
- So, just wanted to know has there been any reduction on the yield side over here? Second piece on the consumer finance business only what I wanted to understand is from the partners which you have mentioned there are roughly 28 partners. So, anything if you can mention around the color if there is any concentrated exposure towards any particular partner? Like I wanted to understand whether the book is reasonably diversified or not, and if you can mention something on the asset quality piece as well. And then the second question is on the borrowing side.

So, on the borrowing mix, I can see that from December to March quarter you have your borrowing mix from the banking channel has gone down. This seems to be slightly counter-intuitive because broadly the market yields have moved up. And even on the banking data when we see that lending towards NBFCs have actually gone up. So, what what's your strategy in terms of raising money from the borrowing side and on the cost of fund side if you can broadly give some color on these two questions?

Ashish Mehrotra:

Okay, sure. We've always said that the risk-adjusted yield on the consumer finance book will hover between 15 to 16%. If you refer to the some of the previous conversation and my original comment, we continue to calibrate our customer selection and underwrite each customer which comes in through the door. But consciously over the last, if I look at it over the last 24 months, few things we've consciously avoided and you know, actually brought down short tenure portfolio to almost zero one.

We want to ensure little bit of sticky for 15 to 18 months kind of a book rather than short term book which we thought while gives us high yield but also comes with a higher cost. The second we've also put a cap on the end APR given our reputation for nature of business we do. So, obviously we let go of some segments which we thought may not be long-term accretive in line with the Northern Arc values and principles. I think on the liability side I'm going to ask Atul to talk

Atul Tibrewal:

Earlier on Chintan's question, I had mentioned that we have been increasing our share of fixed rate instruments because we believe that the interest rate has bottomed out. So, in the last few months, we have been doing more of capital market issuances and a lot of offshore borrowings, which both have a fixed interest rate.

So, our share has gone up as far as the fixed rate is concerned and the bank borrowings has also come down. The bank borrowings used to be close to about 65% of my total borrowing in March 25, this has consciously come down to around 52% as we speak in March 26. We should be quite okay with a lower dependency on bank borrowing and rather diversify more on the offshore and on the capital market issuances.

We have also been able to do lot of transactions under the securitization route, especially the PTC transactions, and I think diversification will be key going forward as well.

Ashish Mehrotra:

Thanks Atul.

Kaushik Agarwal:

Got it, sir. Got it, sir. Just one last question on the consumer business side. What would be your risk-adjusted return or the ROA on this piece of business? I believe that this would be substantially higher than the overall business ROA.

Ashish Mehrotra:

Yes, it is, I said the risk-adjusted yield is 15% 15 to 16% range, return on assets will be obviously much higher if you look at it upward of close to about 4%.

Kaushik Agarwal:

Okay. Thank you, thank you so much, sir. That's it from my side.

Moderator:

Thank you. Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to the management for closing remarks. Over to you, sir.

Ashish Mehrotra:

I just want to thank everyone for participating and joining us today evening. I know it's late on Friday evening and hence we wanted to respect the time. Thank you all, and myself, Atul, Chetan and Partha will be happy to engage if you have any other question to answer. Chetan will connect and ensure to answer all your questions. Thank you all, have a great weekend and a great year ahead.

Moderator:

Thank you. On behalf of Motilal Oswal Financial Services and Northern Arc, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.