



# “Arman Financial Services 3Q FY25 Conference Call Hosted By Equirus Securities”

**February 14, 2025**

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**MANAGEMENT:**

**MR. ALOK PATEL - JOINT MANAGING DIRECTOR,  
ARMAN FINANCIAL SERVICES**

**MR. VIVEK MODI - GROUP CFO, ARMAN FINANCIAL  
SERVICES**

**MODERATORS: MR. SHREEPAL DOSHI - EQUIRUS SECURITIES**

**Moderator:** Ladies and gentlemen, good day and welcome to the Arman Financial Services 3Q FY25 Conference Call hosted by Equirus Securities.

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 ‘\*’ then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Shreepal Doshi from Equirus Securities.

Thank you and over to you Mr. Doshi.

**Shreepal Doshi:** Thank you, Sagar. Good evening, everyone. I welcome you all to the Earnings Call of Arman Financial Services to discuss the 3Q FY25 Financial Performance and Business Update.

Today we have the senior management team of the company represented by Mr. Alok Patel – Joint Managing Director; and Mr. Vivek Modi – Group CFO.

I will now hand over the call to Mr. Alok Patel for his “opening remarks”, post which we can open the forum for question-and-answer. Over to you, Alok sir.

**Alok Patel:** Thank you so much, Shreepal, and good evening, everybody.

On behalf of Arman, I would like to welcome all of you to our Q3 and 9-month-ended Fiscal 2025 Earnings Call. So joining me today is actually just Vivek – the group Chief Financial Officer and our Investor Relations team. Hope you had the opportunity to review the results, the press release and the presentation, which are available on the stock exchanges in our website. So apologies, I don't think normally we provide at least 24 hours this time due to scheduling conflicts. There was a very short interval between publishing the results and the quarter call. So anyway, I will walk you through the results.

I would like to begin with an overview of the industry developments, highlighting the key trends in business followed by a financial and operational performance of Arman. Over the past few quarters, the microfinance sector has faced several challenges, including over-leveraging, weakening of the center meeting discipline, deterioration of the joint liability group or JLG model and rising employment attrition.

Furthermore, the post-COVID euphoria experienced by microfinance institutions, and in particular non-MFI lenders in the retail unsecured space, combined with a favorable regulatory environment, has significantly increased household indebtedness. This has occurred despite limited real income growth placing considerable strain on borrowers' ability to meet their repayment obligations. As a result, we have witnessed our delinquencies and the corresponding rise in impairment cost across the industry for the past two quarters. These challenges have directly contributed to an uptick in the default rates, further exacerbating the financial stress within the sector. In response, both Arman and the broader industry have made concerted efforts to strengthen underwriting standards and mitigate risk of over leveraging. Naturally, these measures have led to high rejection rates and, as a consequence, lower disbursements.

Additionally, the increased focus on collection has also stretched the field bandwidth, further impacting sourcing efforts and contributing to staff attrition. This, in turn, has led to a decline in both disbursements and AUM. These evolving macroeconomic conditions have intensified pressure on microfinance institutions making it necessary for us to strategically recalibrate our business models. The industry-wide AUM degrowth has also resulted in liquidity issues for the microfinance borrowers. And it is essential that these challenges stabilize before the cycle reaches a state of equilibrium. In response to the above highlighted challenges, Arman has taken a cautious approach by prioritizing portfolio quality and collections over growth. While this has resulted in lower disbursement and AUM contraction, we believe that this long-term strategy will strengthen our financial resilience in the long run.

As on 31<sup>st</sup> December 2024, our consolidated assets under management stood at Rs. 2,280 crores, reflecting a year-on-year decline of 6.5%. Disbursement for the quarter amounted to Rs. 338 crores, while the nine-month disbursement stood at Rs. 1,170 crores, down 28% from the previous year, of course, due to the reasons mentioned previously. Our gross total income for the quarter was Rs.164 crores, almost Rs.165 crores, down 2.4% year on year, while for nine months it grew by 10.9% to Rs. 530 crores. Pre-provisioning operating profit, or PPOP, stood at Rs. 69 crores for Q3 down 4.7% year on year, but grew by 13% to Rs. 231.6 crore for the 9 month period.

Now moving to the segmental performance. For the microfinance business, our wholly owned subsidiary Namra finance reported an AUM of Rs. 1,768 crores as of December 31, 2024, a decline of 13.6% year on year. Disbursements for Q3FY25 stood at Rs. 214 crores compared to Rs. 459 crores in the same quarter last year. The cautious lending approach along with aggressive provisioning has impacted short-term profitability with Namra's Q3 profit after taxes at a loss of Rs. 17.2 crores due to increased impairment cost of Rs. 67 crores this quarter.

However, despite these headwinds, for Namra finance, we continue to maintain a strong capital adequacy ratio of 45.7%. Our gross NPA for the microfinance business stood at 4.4%, while net NPA was only at 0.56%. MSME two-wheeler and LAP, which is part of our standalone Arman entity, this business delivered an encouraging growth, AUM for this segment grew by 30.9% year on year to Rs. 512 crores. This segment's gross total income for Q3FY25 stood at Rs. 44.9 crores, growing at 32.4% year on year, while PAT increased to Rs. 9.9 crores, which is about 5.7%. As of 31st December 2024, capital adequacy for the standalone Arman entity stood at a healthy 39.45%. From an asset quality perspective, GNPA for MSME stood at 3.43% and for Two-Wheeler stood at 4.03%. Despite industry challenges, this segment remains resilient and continues to support the company's overall growth trajectory.

The new Loan Against Property or Micro LAP segment introduced last year, although it is at a pilot stage right now, has gained encouraging traction. Presently the product is offered in Gujarat and piloted in Telangana and MP. It's about 1% of the AUM so far. The focus of this product is on tier three and four. and rural locations where we are expecting the good growth in the coming years. The average ticket size of LAP loans currently is about 4.5 lakhs.

Now coming to the liquidity and borrowing, our liquidity position remains strong with cash and bank balances, liquid investments, and undrawn CC limits amounting to Rs. 262 crores. Additionally, we have Rs. 120 crores in undrawn sanctions from existing lenders, ensuring continued financial flexibility. Total borrowing stood at Rs. 1,765 crores with a diversified funding mix. Of this, 34% was from banks, 11 from NBFCs and financial institutions, 20% from NCDs, and direct assignments or off-balance sheet liabilities contributed to about 30%. The rest is borrowed from DFI, such as NABARD, SIDBI and others. This mix reflects our ability to maintain funding access despite industry headwinds.

On the collection efficiency side, collection efficiency for the month of December 2024, stood at 95.3%. The segment price collection efficiency for the nine months FY25 stood as follows. Microfinance 95.2, MSME 96.2, two-wheeler 95.7.

Before we open the floor for questions and answers, I would like to take a moment to highlight some of the strategic initiatives that Arman has undertaken in response to the current challenges. We have reinforced our underwriting standards to ensure stronger asset quality and have expanded our collection team to improve borrower engagement and repayment discipline. Additionally, we have introduced a dedicated credit department at the branch level which focuses exclusively on maintaining credit quality. In a sense, we have now completely separated credit from sales in Microfinance. Encouragingly, early indicators from December and January show improving trends in the credit cycle with 0 DPD flow forward rate stabilizing. While it's little too early to tell whether we have reached the bottom, should these trends continue, we will adapt our business strategy accordingly.

Although we have experienced a temporary slowdown in AUM growth, we remain confident in our ability to navigate these challenges in the industry and position Arman for long-term sustainable growth.

Thank you very much. And now we can open the floor for questions and answers.

**Moderator:**

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone phone. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Again, you may press \* and 1 to ask a question.

Our first question comes from Apoorv Singh from Panchratna Investors. Please go ahead.

**Apoorv Singh:**

Good evening. I just wanted to understand what are the green shoots you are looking for to understand the cyclical turnaround and what measures you have taken for recovery?

**Alok Patel:**

See, as far as green shoots are concerned, typically what we look at to judge whether we are coming out of it is zero DPD flow forward rates. This means people who were previously paying regular who have now crossed, who have become one day overdue at this point. So normally in

the MFI segment, we would experience that at about 99%. So there would be 1% flow forward. Again, just because something has slowed forward, that doesn't mean it will get written off. Obviously, at every bucket, there are repayments that happen. But we typically track slow forward rates quite closely at every bucket. Now, this will be too much details to get into, but until the zero DPD flow forward rates return to 99, I would not say this is over or this is behind us. Now that being said, we have seen at least for the last two months, zero DPD flow forward rates have been 98% plus. So I think it was 98.03 in December and 98.15 in January. This month in February, zero DPD flow forward, again, I think till now we are about 35 bps to 40 bps ahead of previous month on a month to date. So again, I am not superstitious, but in days like this you become a little superstitious. I don't want to jinx anything, but obviously there is minor improvements in the zero-DPDs in the last couple of months.

Now, as far as the initiatives have taken, I mean, there are many, many initiatives, obviously on a day-to-day basis, we work on all of them. Some of the larger ones is, see, people who follow microfinance will know that there was always a bit of a conflict of interest between credit and sales, where at the operational level, at the branch level. Microfinance principle was that the guy who does the disbursement does the collection. And so while there was obviously a credit mechanism at the HO level and at the regional levels, it was not at the branch level. We have completely separated that now. So at least so far about 120 branches by March, we will reach most if not all branches. And the idea being is that if you cannot rely on JLG or JLG culture anymore, which again, it's too early to tell whether it's completely gone or if this is just a blip in a otherwise very successful model which we have been following, Arman has been following for 15 years, but the market has been following for or the industry has been doing for better part of five decades almost. So, so that is one initiative. Another is that we have started with CGFMU. So that is a I don't know, Vivek if you want to?

**Vivek Modi:** That kind of is the CGFMU is the guarantee cover being provided to the government's NCGTC the national kind of credit guarantee cover scheme that is available for micro finance borrowers. So we probably one of the few microfinance entities which have already enrolled. And as of quarter three disbursements, which let's say about Rs. 200 crores of disbursements that have taken place in quarter three, have a guarantee cover through the CGFMU.

**Alok Patel:** So the guarantee is a little bit complicated, like all of these things get, but essentially what it covers is about 72% of your principal in default, ignoring time value of money. So let's say your default is Rs. 100 they will give you Rs. 72 and Rs, 28 the company has to eat it, for which we pay a premium. It's sort of a default insurance. Basically how math works is that considering time value of money and all those other things, if your overall static pool losses at this point with what we are paying them crosses about 3.5%, you'll make money and you'll come out ahead in less than that. But again, let's not get into, this is not a profit making venture or anything. It is to buy me better sleep, if that makes sense.

**Apoorv Singh:** You got a good answer. The focus is clearly visible. Thanks a lot.

- Alok Patel:** No, and again, I am sorry for the long-winded answer, but I am sure, something similar to these questions were there in probably most of the people's minds. So that's why I took my time on this question.
- Apoorv Singh:** No, this is really helpful. Thank you.
- Moderator:** Thank you. Next question comes from Shubham Jawar from Dexter Capital Advisor. Please go ahead.
- Shubham Jawar:** Thanks for the opportunity. I have had a couple of questions. The first one being on what DPD do we write off the loan?
- Alok Patel:** So I think right now we are writing off quicker than, so the policy is...
- Vivek Modi:** The policy is anything which has not paid us for the last six months, once the account turns 180 plus. So essentially anything which is over and above, let's say 300 is automatically written off. But as of, I mean, right now we are writing off anything which has not paid us, after it has turned NPA that is 90 DPD. So essentially anything which is 250 days or 240 days plus will get written off
- Alok Patel:** So basically we are being slightly more conservative and everything over about 250 days, if we see no hope of any recovery, is written off.
- Shubham Jawar:** Basically also what I wanted to understand, basically for customers who are flowing from DPD buckets, right? For example, DPD 30 to DPD 60 plus. What action do we try to take to stop that net forward flow
- Alok Patel:** So there are a lot of initiatives. So first of all, we have RO mechanism, recovery officers that now we have about 350 of those and that will continue to increase. So those take over at the FO level, we have various schemes. We are using bot calling, we are using auto calling, we are issuing legal notices. They are Lok Adalat, that will 90 or 180 plus. So everything that you under the sun that you can think of, you are doing. But again, I am open to ideas. So if anybody has any clever ideas, I am all ears. Anything to increase the collections. And of course you have to be careful. You have to be careful with these customers. I mean you cannot, you cannot use high pressure tactics because the kind of customers that you are dealing with that is obviously not something that I would encourage.
- Shubham Jawar:** Alright. Sir, my another question was I wanted to understand more on over leveraging, right? So as I understand the first guardrails had been announced somewhere in August of 2024. And the second guardrails were announced in November 2024. I wanted to understand, since before these guardrails were announced, what were our internal guidelines that we followed, we ensured we weren't exposed to any over leverage in the borrowers? What was our internal guidelines before the first guardrails itself?

**Alok Patel:** So we were using FOIR, like everybody else. It will require a bit of history lesson, but prior to April 2022 there were hard code overleveraging rules that were issued by the RBI.

**Shubham Jawar:** But you could be the third lender whatsoever.

**Alok Patel:** I think you could be the third lender or something. So no more than two MFIs or no more than three lenders. The three-lender norm was by MFIN .more than anything else. But again, this only applied to MFIs. Now, there was a time when MFIs were controlling 80% , 90% of the market. Today we are probably controlling 40, 40, at the most 40% of total household debt of the rural. Obviously, MFIs, although our portfolios increased, now there are many, many players that are servicing rural segment. Now after April, 2022, all of those in a deregulation by RBI, a lot of change, including removing those caps and what cap they imposed was a 50% FOIR and their installment should not be more than 50% of what they're earning, right? So all in all that seem like a good measure, that you look at their household income and they could not cross 50% of that. So largely lot of people were not looking at this plus one, plus two, plus three of anything. We had numerous underwriting standards which were in place. So first of all, we were looking at all loans, not just MFI loans, because MFI was losing ground in term of market share. We were looking at husband, wife, we were looking at default rates. We were not even entertaining a customer who was one day overdue anywhere else. So there were various measures which were there. In hindsight, yes, I mean, , number of lenders is something that we found a close correlation. But let me tell you even right now 46% of our customers have an exposure of less than Rs. 50,000 total. 68% of our customers have a total loan exposure including all loans of less than one lakh rupees. So I don't want to put over leveraging is the only problem here. I mean, there are a lot of, problems like this rarely occur due to one issue. I mean, there are always multiple issues. And it's like the Swiss cheese model where it has to pass through a lot of holes to get here. I acknowledge large [inaudible] percent of the issue is definitely over leveraging, but there are many other issues, debt has increased, aspirations have increased, culture has changed, JLG got diluted. And I am willing to accept my share of the blame for whatever has happened. But I will not completely say that it is due to over-leveraging or weak credit. There are many aspects here. And honestly, right now, the biggest issue is that credit has stopped, right? I mean, credit is frugal. Disbursements are like half of what they used to be. When you stop liquidity, obviously things are going to get worse before they get better.

**Shubham Jawar:** Yes, sir. Last two questions and then I will again quickly join back the queue. The first was there any, like, what is the standardized process for income, income assessment, both at the industry level and that we follow at Arman. And the second question was, what are our loan officers and collection agents? How are they incentivized?

**Alok Patel:** So to answer your first question, we have completely revamped how we are assessing income. So I mean will be...?

**Shubham Jawar:** When we do that sir?

**Alok Patel:** So I think we started the initiative in August and so with the new DCM structure that I was mentioning earlier, earlier again that conflict of interest, right The guy who is dispersing the money was assessing the income.

**Alok Patel :** And now today there's an independent person whose bonuses and everything depends on asset quality. Rejection rates are like 80%-82% right now, right? And that's not something to be proud of mean, very few lending businesses can run with that kind of rejection rates. So something or another has to change. But anyway, that's fine. Like I am not too concerned about Aum declining during. During demonetization, it had declined by a third. during COVID, once things are over, things catch up back very quickly. So that is not my concern. My concern right now is simply on asset quality and 90% of our time goes towards that. Management bandwidth is stretched, field bandwidth is stretched on collections and repayments. So disbursements will come back to normal in due course of time. But that is not my priority at this point.

Now how are we incentivizing, see field officer incentives, I mean, on average, they're like around Rs. 2,500. So that's a mix of a lot of things. But nowadays with attrition and everything, the way it is, and every month being different than others, we rely a lot on R&R kind of incentives. So we will have certain zero DPD targets or collection targets and those things or will have multiple contests. The actual incentives themselves have gone down significantly overall in exchange of base salary. And this is what the field offices are demanding. And given the attrition, you kind of have to deal with that.

Collection people on the other hand, obviously their incentives matter on what buckets they are collecting. So harder the bucket, the more incentive they get. It's a standard system that pretty much everybody follows including HDFC Bank and banks and NBFCs and whoever else.

**Shubham Jawar:** Right. So my apologies. I couldn't understand once the income assessment weight. Could you please elaborate that once again?

**Alok Patel:** So the income assessment lot of is based on judgment, will try to get evidence as much as possible, depending on the kind of occupation that they're doing. So the simplest way to explain is that if they, in large part of our portfolio goes into cattle.

**Alok Patel :** So depending on the number of cattle they have, it's easy to guesstimate what kind of income they'll be having. Other occupations it really depends on a case to case basis. Largely it's also depending on a lot of self declaration that the customer might send.

**Alok Patel:** Nowadays we are not really paying much attention to the self-declaration. That's where in the BCM or the credit evaluation becomes more independent and assessment by the company. Over and above that there's also a lifestyle assessment that we do. So there are what kind of house they are living in in comparison to people who are, their neighbors, what kind of facilities do they have? Do their children go to school? Do they not go to school? There's a whole form that is there. I mean, if you are interested, we can, Vivek will walk you through it in a separate time,



but unfortunately I don't think this is the right way, a right place to kind of walk through it right now.

**Shubham Jawar:** Sure. And sir, what is our loan write off this quarter out of the total impairment?

**Alok Patel:** It's about 45 crores.

**Vivek Modi :** If you are talking of Namra ?

**Shubham Jawar :** Namra and total as well, the consolidated.

**Vivek Modi :** I think I will have to refer to this presentation, but I will carry somewhere there.

**Vivek Modi :** Carry somewhere in the presentation, but 45 in NAMRA and about 4 odd crores in Arman. So 45 plus 4, about 50 odd crores. 50 odds, on that.

**Shubham Jawar:** Thanks sir.

**Moderator:** Next question comes from Narendra from RoboCapital. Please go ahead.

**Narendra:** So sir, given that we are in a position, give any growth or credit.

**Moderator:** Sorry to interrupt. Narendra, your voice is coming very low if you are using speakerphone. Maybe request you to use handset or something, please.

**Narendra:** Sir, given the situation that we are in currently, are we in a position to give out any guidances regarding AUM growth or credit costs for the next year?

**Alok Patel:** I cannot even give you a guidance for next month. I am kind of joking, but the fact is any guidance is meaningless at this point. I mean, we don't know how the next quarter is going to look like when the thing, so until things stabilize, unfortunately no, I am not in a position to give any guidance.

**Narendra:** Great, thank you so much

**Moderator:** Thank you. The next question comes from the line of Moksh Ranga from Aurum Capital. Please go ahead.

**Moksh Ranga:** I wanted to understand since JLG models have suffered, so are we moving more towards secured mix? And will our AUM growth be mostly towards...

**Alok Patel:** Wait, I am sorry, are we moving more towards what did you say?

**Moksh Ranga:** Mostly secured mix for LAP two-wheelers and MFI disbursements will be low?

**Alok Patel:** No, so LAP is a long-term play. I mean, just as we started MSME in 2018, about like, 5-6 years ago and now it's 500 crore. I mean, we really don't, we are not a kind of company that moves very quickly, we are sort of boring in that way. So LAP is a long-term play, and yes, you are right, we would like to get into a more secured kind of a book, but I don't think the secured book is going to be meaningful for at least 2-3 years, and secured is a whole another beast really. I mean, if I open up a shop to give unsecured loans, it's very easy to sell those loans. If I open a shop to give secured loans, then it's not that easy. I mean, you've got to find customers who are willing to mortgage their house for their business and stuff so it's a different business in many ways. But I guess one way to answer your questions if I could yes definitely I would, but today I don't see it having a meaningful, I mean definitely we can target like a 5% to 10% over the coming 3-4 quarters. But to say that the majority portfolio will be that is, I wish it was the case.

**Vivek Modi:** And microfinance is kind of here to stay. Yes, we are through right now in middle of a bit of a crisis if we can put it at a sector level. But microfinance, I mean, it's not going out of fashion. No, I mean, all you have to ask is, is there a need for this product? And I don't think 99 out of 100 people you ask is going to reply, yes. So there is a need for unsecured small ticket loans in the rural segment. You know, I was saying this to even people at RBI, I think I said it last time also, but I will say it again. Since the 60s, Indian government to their credit has been trying to push the financial inclusion agenda, right? Starting from farm credit to PSU banks, to PSL banks, to cooperative banks, to RRBs, to Bank Linkage, NABARD, SSGs, MFIs, I mean, you name it. To their credit, they have done it all. Everybody has been so concerned to make sure that money reaches at the bottom that nobody was too concerned about too much reaching the bottom right so, in many ways, if it helps you sleep better at night, this is a success. And it's a success of the financial inclusion agenda. So at least the reach part. Now, all we have to worry about is how to assess them better and convince the customers to repay as better. Incomes, real incomes have not really increased since COVID. I think if you look at real incomes in the rural they have increased by 0% to 1%. A lot of these guys in hindsight, again, I have gone to the field myself, we are supplementing inflation with loans, one way to put it. So I acknowledge that there were a lot of things broken. But the first step of solving a problem is, first of all, admitting there's a problem and B, finding out what that problem is. And I think all of us, and I am not just saying the company, I would say the industry at large, has grasped both of those things as acknowledged that there's a problem. And now we are aware of what those problems also are. So give us some time. We will fix them.

**Moksh Ranga:** My second question is, don't you think MFI as a sector, our business model is quite fragile? Because if we look at generally, we are at cost of borrowing will be very high. On top of that, we need to carry a very high number of real-source for collections. Because of that, our costs are going to be very high as compared to a FinTech or maybe a bank. So don't you think our business model, generally the whole industry is quite fragile?

**Alok Patel:** I mean, exactly 12 months ago, people were calling it very resilient. So I guess the flavor of the month will change every quarter. No, but I mean, I am not exactly sure how to answer that. I mean, if you are comparing us to FinTechs, let me tell you that is not the right comparison to make. FinTechs operating in rural unless they have a good method to collect the money is a

ticking time bomb according to me. But again, what the hell do I know? As far as banks, I mean, they've had a good 80 years to do it and they have not managed. So if banks they're in a better position to do what I do, then why haven't they? They clearly had adequate time to do it. So again, I am not exactly sure how to answer your question.

- Moksh Ranga:** Okay, my last question will be like, what would be a cost of borrowing?
- Alok Patel:** So marginally, I would say it's about 11 and a quarter. If you include everything else in it...
- Vivek Modi:** That's about a quarter for the nine months turning out to be about 12.86. But the incremental cost or the marginal cost as Alok said is 11.2.
- Moksh Ranga:** Okay, thank you. I am wishing you all the best.
- Moderator:** Thank you. Next question comes from the line of Aditya Pal from MSA Capital Partners. Please go ahead.
- Aditya Pal:** Sir, just wanted to understand from you that say 4 to 6 quarters, the disbursement that we have originated, how have they performed on a cohort basis, quarterly cohort basis? So if you look at last 12 months.
- Alok Patel:** Better, but in microfinance, for six months, you don't really see a lot of defaults. So it's hard to judge at this point.
- Aditya Pal:** Because just trying to understand the momentum where we are at, right?
- Alok Patel:** I understand. So if you are saying that stuff which we have, let's say, disbursed between April and April, May, June, right, for example.
- Aditya Pal:** No, let's say, December '23 onwards, right? That will give a good target for you.
- Alok Patel:** I mean, obviously that will be, that will not look good. I would say the peak of the bubble, if this is what it was, was Q4 of FY24. So that's when the most amount of over-leveraging would have taken place. And so after all that is done, if you do a static pool analysis, that will be the worst quarter all considered.
- Aditya Pal:** And at least the last 9, 10 months the book that has been generated, they have been performing adequately in your...
- Alok Patel:** If adequate is the word. I mean, there's nothing to ride home to be honest. It's not.
- Vivek Modi:** I mean, largely what you want to compare it with. I mean, if I was to compare it with pre-COVID kind of a scenario, obviously, these last nine months performance may not compare directly with the pre-COVID kind of a situation because the behavior of the customer has changed. But is it

performing? Then the rest of the book, at 1,800 crores of total AUMs, 600 crores in the last nine months or six months, are the 600 doing better? Obviously, they are doing much better.

**Alok Patel:** See, what makes this current crisis that we are facing very different than what we have faced in the past is that in the past we could essentially buy ourselves out of whatever trouble or the industry could rather buy themselves out by disbursing good quality customers which were plentifully available. So post-COVID, post-demon, we grew substantially by the time you got into taking care of the bad customers, the good customers are replaced. In today's scenario, when the portfolio is falling, obviously the denominator effect works both ways, right? So that is why on a static pool today, my numbers will look better than what it is right now, because the portfolio is declining. So again, everything is all relative, I understand. So let's not get into nuances of what ifs and what not.

**Aditya Pal:** No, not getting into nuances, but just trying to certain where the momentum is heading right because...

**Alok Patel:** No, no, I am not talking to you, I am talking to myself, I am sorry. So yes, the portfolio that we have created in the last six months looks much better than what we have otherwise to answer your question simply. But it is not like pristine or anything like that what we experience on a post-COVID.

**Aditya Pal:** And there's been a sharp increase in our PAR-31 to PAR-90 it is specifically speaking about MFI. So it has gone up from 4.4 to 7.1. How to read?

**Alok Patel:** 4.4 was in March, I believe, and 7.1 is currently right.

**Aditya Pal:** True. So how to read into this and what will be the flow forward rate? Do you see that you can arrest this over here rather than it flowing deeper into our NPA buckets?

**Alok Patel:** I mean, you know, there isn't much to read from it. It's not like hieroglyphics. It's certainly not good. I mean, I have nothing good to say about it except to say it is what it is. We are working on it. Flow forward rates, if it gives a little bit of comfort, are improving at every bucket. So, but yes, I would say that we are watching those numbers very closely, all buckets we are watching very, very closely and so we are trying to do everything that we can.

**Aditya Pal:** So on a console basis, we've done a 175 crores of credit cost, which 150 odd crores is Namra for the nine months how bad do you see this entire worsening of asset quality or higher, write off being pushed to FY26 because we should start growing now, right? At least from this quarter onwards, or maybe from FY26, we should start having some growth. Not just growing, but even the base effect will kick in, right?

**Alok Patel:** No, so I think disbursements will improve. We are seeing improvements in disbursements in Q4. So disbursements will improve. As far as growth goes, again, I don't think that will happen till Q1. What was your, I am sorry, what was your question?

- Aditya Pal:** So when does it, when does it, how should a person make a decision?
- Alok Patel:** If your question is, can we pushing anything forward for FY26, the simple answer is no, absolutely not. So I think people who have known us in the past will attest that we have not done any top-offs, not done any restructuring, not done any net-off type things. And so far we have not done any ERC type transactions either, which is not to say that I am about doing those, but you know, that's we have not done it yet. So whatever needs to be taken care of has been taken care of.
- Aditya Pal:** So the reason I am asking all these questions is just to summarize quickly is that on an average an MFI loan is anywhere between 18 to 22 months. Some players also do 24 months, but on an average industry is 20-22 months. Now if we see when the crisis started, if we say that if we say FY24 as peak. So we are already 50% inside the through the journey of that entire credit cycle being weakening worsening. So now things have to start.
- Alok Patel:** If you say that the crisis started in April, we are nine months into it. So by your logic, we still have about 15 months to go if 24 months of loan.
- Aditya Pal:** Right.
- Alok Patel:** Consider that the first quarter, there were no like real changes. I mean, people just started seeing an uptick in the Q2, I mean the people just started seeing uptick in repayments right and then there was heat waves and elections and stuff which I openly said, I mean, this is India. It's always hot here. There's always an election somewhere. So anyway, I think we wasted the first quarter in just saying, okay, this is a temporary blip and it will recover. So really, I would say until August, nobody really took it seriously. Now post-August, obviously, everybody's kind of been I don't want to say panicked or anything like that, but you know, taking it very, very seriously, including the industry and everybody. So, I think, listen, I think my estimate which I gave one quarter ago remains the same, that we will see the bottom by March. Already I feel that we have probably reached the bottom, but I am refraining myself from that conclusion because I don't have the data available with me to call it yet. And then from Q1, I would say you should start seeing an improvement, but improvement also to get back will take about a few quarters, right? So it's not like it's going to happen overnight.
- Aditya Pal:** Definitely, definitely. Wishing the team all the very best. Thank you. Thank you so much. Thank you so much for taking out the time.
- Moderator:** Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all the participants in the conference, please restrict yourselves to two questions each. If you have any follow-up questions, please rejoin the queue. The next question comes from the line of Nidhesh Jain from Investec. Please go ahead.
- Nidhesh Jain:** Can you share PAR-1 plus data for the microfinance book?
- Alok Patel:** PAR-1 plus data, Vivek, do you have that?

- Vivek Modi:** No. It may not be there in the presentation, but you can go to the second question if you have while we kind of pull that out.
- Nidhesh Jain:** So the second question is, what is your assessment of the stress in your book on the microfinance side given that there will be certain potential customers who are stressed and once those are identified as the GNPA or a stress, then the acts of that the book should perform reasonably well, right? So what is the assessment of stress on the book on the microfinance side in your view?
- Alok Patel:** I am not sure I understand. You are not very clear. What is my opinion on the stress of the microfinance book? Is that what you are asking?
- Nidhesh Jain:** Yes, probably 10% customers, 15% customers are stressed. Once those customers have been recognized as PAR-1, then the rest of the book should start behaving reasonably well. So what is your assessment that this number is 10%, 15%?
- Alok Patel:** So I would say that, again, please don't quote me on this, although this is recorded. I would say about 20% of the customers are stressed in the industry. And why I say that 20% number is that 80% of my customers pay me on the second that it is due, the money. So about 20% of customers will be late by an hour, two hours, five hours, five days, whatever, or don't pay me at all. So if I were to extrapolate, maybe 20% are under stress.
- Nidhesh Jain:** So the 1 to 30 you were referring to was about 3%.
- Alok Patel:** Yes people have skipped one installment and they're stable. It kind of makes sense. So you have 2% zero DPD flow forward, and another one will be stable.
- Nidhesh Jain:** And in your assessment, with all these guardrails coming into force, industry becoming much more conservative, do you think this over-leveraging problem will be solved? Or we expect further cycles, let's say, three years down the line, four years down the line, because industry will again go overboard and again overleveraged ?
- Alok Patel:** No, I don't think so. Believe it or not, I have experienced a lot of over lending and over leveraging in my career, including many bubbles. See, if it was only the MFIs who were controlling the industry, I would say, no, it should not happen again. But we are now controlling, NBFC MFIs are controlling give or take, 4,00,000 crores of an industry, which is 10,00,000 crores to 12,00,000 crores. if you consider rural lending, you have 2.5 lakh crore SHGs, 1.5 lakh in retail to the customers, another 2.5 or so to the spouses. Again, these are estimates. These are nothing. You won't find this hard data available on the net. So now it has, earlier on every Tom, Dick and Harry was coming into rural lending because they thought it's high returns, high margin. Even people who had nothing to do with lending money, the only way they could monetize their business was through lending. A lot of technology companies and other ones will refrain from using names or anything. Now all of that euphoria is gone, right? I mean, companies who had no business being in this industry post-COVID and post deregulation came in droves. Now, you know, I think MFIs never waste a good crisis. So I think we kind of pick ourselves up, make the

adjustments and move on with life. But until everybody else kind of sees that, I am not exactly, I don't know. Maybe I am being too pessimistic, but the fact is Indians have a very short memory. Everything will be done and dusted, and 2-3 years later, people will forget and life will go on. That's the way it should be. Life is too short to be dwelling on the bad days alone.

**Nidhesh Jain:** Sure, sir. That's it for my side. Thank you.

**Alok Patel:** So again, to simply answer your question, I hope so.

**Moderator:** Thank you. Next question comes from the line of Bhumin Shah from Sameeksha Capital. Please go ahead.

**Bhumin Shah:** Good evening. So what has changed in the last two or three months so that flow rates are decreasing? So is it a structural change or let's say, due to the crops seasons, people are earning the money and paying back, and then again, this issue may come up again?

**Alok Patel:** Nothing like that. We are just running out of stress customers.

**Bhumin Shah:** Okay, but there is a liquidity issue. So let's say borrowers who had 3-4 loans. So what is your assessment? Are they paying only one MFI or are they letting go of 2-3 MFI because they are not getting any other money?

**Alok Patel:** Excellent question. There is about 8% of cases that we have that people are paying us and not paying others or vice versa, people are not paying us, paying others. But in my opinion, this thing about, I am a bank, they'll pay me and they won't pay others. I mean, it's a myth. Practically speaking, it really does not happen. Most of the defaulters, and I would say 90% plus if they stop paying one, they stop paying others. So that is number one. Number two, in our DI team, I mean, we look at a lot of data. And now that we have business intelligence also, we have noticed that whether you are Arman plus 1, 2, 3, 4, 5, 6, whatever it may be, the lowest defaults are amongst the customers who have remained stable at the number of MFI. So let me try to explain that better. What we have found is that let's say that when I originate the loan, fourth right, which today for some reason everybody's tracking plus one, two, three, four. Honestly, I think people are paying too much attention to this. But anyway, I will hold my thoughts to that. Let's say somebody that I lent money to that I thought was a good customer at Origination, but I became the fourth lender. The lowest defaults are those that remain at four. The person who was at four and became three default increases, who was at four and became two, it slightly increases more. And the reverse also, who was at four and became fifth, obviously in that case, the default rate skyrocketed. But the lowest ones are the ones that remain stable with their outstanding and number of lenders. This is what is true in my portfolio, I don't know if it's true in others. And so you see, right? Like, I mean, only thing that you can kind of judge from that is to say that people who need money but don't get money also will become defaulters. So both.

**Moderator:** Thank you. The next question comes from the line of Ronak Chheda from Awriga Capital. Please go ahead.

**Ronak Chheda:** I have two questions. One is on the CGFMU. You just mentioned that your rejection rates are up to 80%-82%. Given that the industry has gone through a cleansing of your customers or the industry, per se, or whatever the rotten apples were, and then at an 80% rejection rate, how are you thinking of going ahead and getting one more layer of security on the disbursements which we are doing. And at what cost? Because you are stepping up on your underwriting staff, you are stepping up on your collection staff. And now if you were to pay this premium, how does your economics work? If you could just highlight that?

**Alok Patel:** So I mean, so the CGFMU cost for us right now is about 1% a year for the principal outstanding of the customer, right?

**Alok Patel :** Let's say 2% will be the cost of that. So, but when I said 3.5%, that basically that calculation comes in because they're not covering 100%, they're covering 72%. And also there is some time value of 1% because the first thing that you could really do is going to be almost 24 months from now kind of a thing. Now that 2% kind of a cost theoretically can go up if your default rates are, so this is like the one year and obviously depending on the default rates they will reset it as time goes on but that is what it is right now. But the first claim I don't think will come in till 2026. So it's a long game. I mean, it's a long play. So I would not. But if I understood your question correctly, I think, are you asking me that am I being too conservative? Is that, did I read your question correctly?

**Ronak Chheda:** Yes, I understand when the first claim will come in. And I am just asking where your rejection rates have gone up. We've gone through nine months of cleansing of the industry. And then we are adding one more layer of insurance. So just wanted to understand....

**Alok Patel:** No, you are right. You are right. I mean, that is definitely possible that I am being too pessimistic and everything like that. So as I said in my speech also that I am happy to. We are happy to change our strategies, even consider them every month or every week if need be or every day. But until. I am comfortable. I don't think I mean, this is not a casino. Like I can't take crazy bets. I mean, theoretically, if CGFMU is insuring 72%, I should go nuts, right? Just start just start lending. But let's not, I don't think that's how it should work or can work.

**Ronak Chheda:** Got it. And my second question is on MSME. So your AUM last quarter was also around Rs. 400 crores. And this quarter is at Rs.410. You did allude that management bandwidth is towards collection. But how should we think? Because your GNPA etc. asset quality numbers are in line. What is happening here? Why are we not stepping up? Is there a concern in this segment also which worries you?

**Alok Patel:** So obviously MSME credit cost have gone up and Really you are just dealing with a different sub-segment of the same customer. They are cousin brothers only of MFIs right? So it would be surprising if there was no impact. I mean then that would definitely mean that something is a miss overall but there is just so much pressure in the market that you cannot push disbursements right now so whatever is happening naturally is happening that's the time we are concentrating on quality so we are not pushing anything You know, let this year end. There's about a month



and a half to go. This year has been a wash. I don't think it's probably one of the worst years of my career, to be honest. But let this year get over. Come April, we will take a think and restock of things, including policies on MSME and everything, and whether we want to push growth or not push growth or whatever it is. So, I don't think that we are going to achieve much in the next month and a half even if we change our strategies right now.

**Ronak Chheda:**

Got it. Thank you so much and best of luck. Thank you.

**Moderator:**

Thank you. The next question we will take is a few more questions The next question comes from the line of Srinath V from Bellwether Capitol. Please go ahead

**Srinath V:**

Hi, Alok. Just wanted to find out how has the experience been in the MSME business, would it be possible to share ex-bucket, 0-DPD? How has been the credit experience in your balancing growth as well as collections in this particular product? Because I remember both are being handled by the same person.

**Alok Patel:**

So last month was 98.8% was zero DPD. So not quite 99 plus, but better than MFI for sure.

**Alok Patel:**

And yes, I think NPAs and stuff look similar, but you have to understand that you cannot just look at NPA. You have to look at NPA along with the impairment cost and provisions and everything. So whatever is written off is not going to come in NPA. So by that respect, as we said in MFI, we have written off about 45, while in MSME we have written off five or seven crores maybe. So yes, I think, Vivek, if you want to share MSME specific numbers, happy to share it.

**Vivek Modi:**

Generally, Srinath, I mean in terms of the PAR numbers that we were discussing earlier on some of the questions and also in the presentation, the PAR 31 to 90 is about 1.9%. So under 2% and the NPA for MSME is about, what about close to 3.5%. So overall comparatively, the stress is lower. If you compare it with what it was last year, obviously it has a 2.2 NPA has grown to about 3.4 already and there have been much bigger write-offs that we've seen in MSME and Arman standalone. So that's where the stress in the unsecured can be felt in the Arman book as well. But on a kind of Apple to Apple comparison, the overall credit stringent credit process that we followed over the years is I mean, kind of giving better returns.

**Srinath V:**

Got it. And given that, that product has had a little better credit experience, are we looking to kind of, what is the growth plan here from a say branch growth perspective, team addition, you know, because this disbursements have growth has kind of flattened out quarter on quarter. So are we looking to like take this to a 100 crore disbursement somewhere mid next year or something like that? Just want to get a broader understanding, Alok?

**Alok Patel:**

No, so we have grown by about 30% on the same quarter previous year to now. But yes in the past couple of quarters it has flattened specifically due to the microfinance stress. So I mean, obviously that has led to the larger rejection.

- Vivek Modi:** Rejection would automatically be felt here as well because if let's say there is an overlap customer who has defaulted on microfinance loan or some other place, the impact is going to be felt here in terms of microfinance payout.
- Alok Patel:** So we are definitely not where we should be even in MSME. But I think, honestly, I would have expected a sort of a disbursement run rate at this point of being at least around 50 to 60 crores. But clearly we are not there yet. We are at more around 40 crores or so. So let's say by first or 3rd Quarter we can read somewhere in the neighborhood of 60 odd crores of disbursement rate.
- Srinath V:** It is per month right?
- Alok Patel:** Sorry?
- Srinath V:** This is 60 crore per month or per quarter?
- Alok Patel:** Per month. We are not opening branches, we got to keep the OPEX down. Obviously OPEX has gone up in an effort for this collection, income is going down. So everything is out of act. I cannot afford the P&L and my balance sheet cannot afford right now me going crazy and opening branches. And as I said, management bandwidth is also stretched trying to deal with these issues. So I understand MSME is doing better than micro, but there is no compound wall also sometimes. Whatever problems MFI is facing, some of it will creep into MSME as well.
- Srinath V:** Got it. So at least it's fair enough to assume that on the way out, probably sometime mid next year, this would be one of the first businesses to start growing, right? Meaning like where you go to like 60 crore a month, so on and so forth. Just fair understanding, right?
- Alok Patel:** I agree. Right now it's very difficult for me to put pressure on anybody to disburse money. Let me be very frank with you. I cannot go to my business head and be like disburse targets, this and that. Whatever is naturally happening is happening. But yes, I call in three times a day about collections. That's for sure.
- Srinath V:** Got it. And last question is on LAP. You know, how is the pilot in Madhya Pradesh, Telangana you know, what has been the broad feedback? Again there, what is our branch growth, how many branches are we in Gujarat, outside Gujarat? What is your broad thinking on putting up new branches and if there was a kind of file per branch kind of vague number in your mind, is that also going to improve or largely are we looking at growth from just a branch perspective, moving away from the slightly more sadder topics to something more interesting?
- Alok Patel:** So thank you. So overall in MP and Telangana, it's too early. So we have just hired a team yet. Telangana, have we dispersed anything in Telangana?
- Vivek Modi:** We dispersed a few files.
- Alok Patel:** Overall in micro LAP. I think you'll get a better idea. So we had not disbursed till Q3. I know that. Q3 we have not. January and later we have started dispersing. We just hired a new guy who

has some experience in secured and LAP loans also. So right now we are dispersing out of 15 branches, if I am not mistaken. And we will probably expand that to at least 25 branches by next.

**Vivek Modi:** So, we've kind of people and set up there to about 9 odd branches as of December.

**Srinath V:** Got it. And how do you see 12 months like out from again, what are your broad plans on branch rollout and the team setting up and broader architecture or thought in your mind for that business?

**Alok Patel:** For the micro LAP side?

**Srinath V:** Yes.

**Alok Patel:** So we are, we have reached a run rate of around three crores a month. The target was to reach around five crores by year end, obviously that was that did not happen. But you know overall the good part about Micro LAP is that it does not run down very quickly right because the tenures are longer. So while the disbursement run rate I don't expect it to cross 5-7 crores in the coming 3-4 quarters. But the portfolio will increase faster than monthly disbursement run rates, because it's longer tenure obviously. The rollout plan is there. So we have a LAP guy there. We have hired people in Telangana, MP, Gujarat is obviously there. But I think as discussing with others also that probably Gujarat is not the best market for this product. Telangana will be slightly southern markets are more favorable for this product. MP again, that is good feedback we are getting for this product as well. But this might not be a product for all states, because again, the paperwork and all of those things are very important. So while you find customers who are interested, whether these are mortgageable properties, at least to a reasonable extent. I know that we are not going to get like a 100% executable mortgage or whatever you call it. But as long as we can get it to a point where we are comfortable, I am okay to do it. But a lot of places in rural and in poor cities will not be there. The paperwork is just not there.

**Srinath V:** Cool. Thanks a lot guys. I will get back to the question queue.

**Moderator:** Thank you. The next question comes from Anant Mundra from Mytemple Capital. Please go ahead.

**Anant Mundra:** Thank you for the opportunity sir. Sir, what is the provision cover that we carry on our Stage 2 bucket in Namra?

**Alok Patel:** Cover on Stage-2 buckets. So that is 30 to 90.

**Anant Mundra:** So what I am trying to basically understand is our current book has reached 98.1-98.2 kind of a ex-bucket collection efficiency. So do we at least make a break even on the current book and whatever credit cost that has to accrue in future is only mainly going to come from the bucket that has already like the current states to bucket. That's what I am just trying to understand. And is that understanding correct? Do we at least make a break even at 98.1- 98.2 kind of....

**Alok Patel:** Yes. I mean, ballpark, you can make your calculations, but I cannot comment on this. But what is the rate?

**Vivek Modi:** The provision covers, we are talking about 42% on the Stage-2 cases.

**Alok Patel:** Alright. That's the ECL, expected credit loss.

**Anant Mundra:** Sir, any comments on do we make a breakeven at least on the current book at a 98.2% kind of a collection efficiency?

**Alok Patel:** Frankly, I don't know. I mean, I can do the math, but I am not sure at this point. So, will Vivek...

**Vivek Modi:** I am not too sure whether I got the question right.

**Alok Patel:** He's saying, I mean, the lot depends on flow-forward rates over the buckets. But he's asking at 98.2%, are we at a breakeven stage? See, there are too many wheels, there is Opex, there is credit cost, there is borrowing cost, and there is also interest income and many, many factors.

**Vivek Modi:** So again, I mean, just to kind of keep it to your question only specifically, 98.2, let's say is one part of the entire bucket. I mean, this probably might account for 95% of the revenue for me, but then balance 5 is equally important. So the flow forward, when we talk of the current bucket, it probably has the largest impact, but flow forwards at all the buckets are equally important. If I have written off, let's say, 100 crores in last four quarters, it doesn't mean that I have forgotten about them. I mean, there is collection, Even if let's say 3% collection has to happen for them, that's revenue for me. I mean, no different.

**Vivek Modi :** I mean, the two-wheeler, it's like 20%-25% zero DPD bucket, right? But you collect it by the month end. But if current bucket collection, as Alok said earlier also, if it kind of is 99%, that's the best, that's in the given the situation, that's probably the best thing to have.

**Alok Patel:** Yes, that's probably as I mean, it's like if you are going to a temple and asking and praying for something, like don't ask for a private jet, ask for something reasonable. So like, you know, 99, is it amazing? Probably not, but you know, I will take it at this point. I can manage easily with that.

**Anant Mundra:** Alright. And just, how much are we paying as premium on the CGFMU insurance that we are awaiting?

**Alok Patel:** 1% a year.

**Anant Mundra:** Okay, sir. That's it from my side. Thank you.

**Alok Patel:** Plus GST, so I guess 1.3%.

**Moderator:** Thank you. Ladies and gentlemen, we would take that as a last question for today. I now hand the conference over to Mr. Shreepal Doshi for closing comments.

**Shreepal Doshi:** Thank you everyone for being part of the call and special thanks to the management of the company for giving us the opportunity to host this call. Thank you, sir and have a good weekend everyone. Thank you.

**Alok Patel:** Thank you, everyone.

**Moderator:** Thank you. On behalf of Equirus Securities that concludes this conference, thank you for joining us. You may now disconnect your lines.