"Arman Financial Services Limited Q1 FY-26 Earnings Conference Call"

August 14, 2025

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MR. VIVEK MODI – GROUP CHIEF FINANCIAL OFFICER, ARMAN FINANCIAL SERVICES LIMITED

MODERATOR: MR. AMAN – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY '26 Earnings Conference Call of Arman Financial Services Limited, hosted by PhillipCapital PCG Desk.

As a reminder, all participants' 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. Please note that this conference is being recorded.

Please note that this conference is being recorded. Please note this call may contain some of the forward-looking statements, which are completely based upon our beliefs, opinions and expectations as of today. These statements are not the guarantees of our future performance and involve unforeseen risks and uncertainties.

The company also undertakes no obligation to update any forward-looking statements to reflect developments that occur after a statement is made. I now hand the conference over to Mr. Aman from Phillip Capital (India) Private Limited. Thank you, and over to you, sir.

Aman V. Thank you, Shruti. Good evening, everyone. On behalf of PhillipCapital Private Client Group, I welcome you all to the Q1 FY '26 Earnings Conference Call of Arman Financial Services Limited.

From the management, we have Mr. Aalok Patel, Joint Managing Director; and Mr. Vivek Modi, Group Chief Financial Officer. I now hand over the conference to Mr. Aalok for his opening remarks, and we will then open the floor for the question-and-answer session.

Over to you, Mr. Patel.

Aalok Patel: Yes. Good evening, and thank you, everyone, for joining us today. On behalf of Arman Financial Services, I extend a warm welcome to all of you to our Q1 FY '26 Earnings Call. I am, of course, joined by the Group CFO – Mr. Vivek Modi, and the Investor Relations team.

I trust you all have had the opportunity to review our results, investor presentation and press release, all of which are available on the Stock Exchanges and our Company Website.

The microfinance sector continues to operate in a challenging environment. While defaults are decreasing and rural incomes recovering, the improvement is uneven across regions and in some areas, repayment behavior is still impacted by local stress.

In light of these conditions, we have maintained a conservative stance in our MFI lending with core focus on improving portfolio quality and collections. This has meant that for the past few quarters, we have slowed down on fresh disbursements, intensifying our collection efforts and embedding structural changes to strengthen the book.

Our other segments, which are MSME, 2-wheeler and loan against property, micro LAP, which are housed under our stand-alone entity, Arman, have been relatively insulated from these headwinds. They continue to post steady growth supported by healthy demand and relatively better asset quality in comparison, which in turn has helped cushion the impact of the microfinance portfolio. At the group level, the quarter reflected 2 contrasting trends, moderation in the MFI book and healthy momentum in the non-MFI businesses.

Consolidated assets under management stood at INR 2,156 crores as of June 30, 2025, compared to INR 2,594 crores a year ago, reflecting a slowdown in the microfinance lending. Disbursement for the quarter was INR 387 crores as against INR 459 crores in the same period last year.

Gross total income was INR 151 crores, resulting in a net total income of INR 99 crores. This decline from the previous year reflects the volume impact in the MFI portfolio. Pre-provisioning operating profit stood at INR 55 crores.

The quarter closed with a consolidated loss of INR 15 crores, largely due to the elevated credit cost in the MFI subsidiary. We view this as a short-term impact as a part of our longer-term recovery strategy.

As far as microfinance, which is housed under Namra Finance, Namra's AUM closed at INR 1,554 crores compared to INR 2,129 crores last year with a disbursement of INR 270 crores. GNPA stood at 3.43% and NNPA at 0.23%.

While the year-on-year decline in the book and NII was anticipated, we are encouraged by improving operational metrics. In June, collection efficiency reached 95.3% and 0 bucket flow forwards, a key early delinquency indicator improved to about 98.8%.

Total impairment cost for Namra was the lowest in the last 3 quarters. Q3 FY '25 was about INR 68 crores. Q4 FY '25 was about INR 82 crores and Q1 FY '26 was down to INR 59 crores.

One of the key structural reforms we have been implementing in recent months is the separation of credit underwriting and recovery functions at the MFI branch level. This change is already operational across about 180 branches, strengthening governance, enhancing accountability and improving the quality of both originations and collections. Early indicators for this are all very positive in terms of asset quality. We are on track to complete the rollout across all branches by the second half of FY '26.

Since November 2024, all new MFI disbursements have been covered under the CGFMU guarantee scheme, adding an extra layer of protection against potential credit losses. As of June 2025, almost 50% of our MFI AUM is covered under CGFMU, providing a meaningful cushion against potential credit losses should the conditions fail to improve.

As far as the standalone business, which is MSME, 2-wheeler and Micro LAP, our non-MFI businesses continue to perform in line with expectations and remain our growth engines. AUM grew at 29% year-on-year to INR 602 crores with disbursements rising 10% to INR 117 crores.

Net interest income rose 17% year-on-year, supported by healthy yields and a stable cost of funds. Pre-provisioning operating profit stood at INR 23 crores. Profit after tax was broadly stable at INR 12 crores.

On asset quality, GNPA stood at 3.8% for MSME, 4.7% for 2-wheeler and our LAP portfolio, which was launched last year, now present across branches in Gujarat and Telangana with a pilot in Madhya Pradesh continues to maintain 0 NPA.

At the consolidated level, GNPA was 3.45% and NNPA at 0.5%. Collection efficiency in June stood at 95.5% for the group. 96.1% for MSME, 95.3% for 2-wheeler and 95.3% for MFI. Early bucket trends in MFI branches are encouraging, indicating that our credit reforms are beginning to yield results.

Our balance sheet strength remains a key differentiator. As of June 30, capital adequacy was 38.24% for the standalone entity and almost 50% for Namra Finance, both well above regulatory requirements. We closed the quarter with INR 216 crores in cash, liquid investments and undrawn limits, in addition to INR 256 crores in sanctioned but undrawn facilities from the lenders.

Our asset liability profile remains positive across all maturity buckets, ensuring both funding stability and flexibility to capture growth opportunities, when market conditions improve. In summary, Q1 FY '26 was about consolidating our base.

In MFI segment, we consciously traded near-term growth for long-term stability and the early results from our operational changes are encouraging. Our standalone business continues to demonstrate strong momentum, delivering growth and profitability both.

We believe as the rural economy strengthens, supported by favorable monsoons and better agriculture output, the pace of recovery in our MFI business will accelerate in the second half of this year.

With strong balance sheet, improved risk management and diversified growth drivers, we are all positioned to benefit from this anticipated upturn. Thank you very much.

And Shruti, we can open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Girish Shetty from Girik Capital. Please proceed.

Girish Shetty: Hi sir, thanks for the opportunity. Just one question. So just wanted to understand the trends in July and August. How similar is it in terms of collection efficiency as well as DPD? And secondly...

Aalok Patel: 0 DPD collection efficiency is improving month-on-month, so we are at 98.8%, we have :reached in the past, but not a steady upturn. Sometimes you take 2 steps forward and half a step back also. But everything is going positively. August, I was a little afraid that due to a lot of holidays with Raksha Bandhan and Independence Day and a lot of national holidays and regional holidays with Ganesh and everything, it might be a tough month for collections.

But right now, as of the 14th, we are kind of the same place we were last month. So luckily, that has not impacted so far so much. We will wait for the long weekend, of course, to get a better idea. Other than that, what was your question?

Girish Shetty: Also, any stress because a lot of people have called out on stress in MSMEs. Are you seeing the same for your non-MFI portfolio, MSME or 2-wheeler?

Aalok Patel: I would like to stress that MSME is also not immune to the overall macroeconomics that are playing out in rural. So forget about MFI, but I think all small ticket retail loans anywhere in whatever shape or form that you are doing are under some level of stress, some more than others.

Obviously, MFI is more than others. But MSME is not immune. But surprisingly, it's doing a lot better, because we are operating in very similar to same areas and lending to customers, maybe just 1 or 2 steps above MFI customers.

But maybe due to our underwriting or collection efforts or some bit of luck also, I am not sure. MSME has been behaving a lot better than expected. But that said, yes, there are challenges in that book as well as it's clearly shown also in the impairment cost, if you compare it previous quarters versus what it is this quarter, it's slowly been edging up.

But in that book, we have never really fallen on 0 DPDs less than 99% throughout. I think last month, we were at 99.2%. So fingers crossed, we don't lose a lot of traction there. And God knows, I need some luck as well to make sure, okay, that doesn't happen.

Girish Shetty: Sure sir. And sir, like you mentioned about the CGFMU, and also setting up of separate credit and collection divisions. In a normalized situation, how should we look at your business on an ROA basis when everything you feel is in a normal state, not currently?

Aalok Patel: Well I mean once we get back to normal, it's easily a 3.5% ROA business. Historically, in the good days, we have reported even 4.5%, 5%. Bad years, of course, 0. So on average, we do typically manage pulling out about 3.5% types ROAs.

Of course, there's a lot of variations in those from year-to-year, given the fact that, I guess, now it's time to admit we are in a sort of a cyclical business. I think the industry was a bit in denial, but it is what it is. So we are in a down cycle right now, but hopefully, in a couple of quarters, that should turn around and it will be back to normal and back to business.

Girish Shetty: And sir, this AUM mix of 70-30 that you have currently, how do we see that like 2 years, 3 years down the line?

Aalok Patel: So here is the thing. So part of our strategy, and maybe this might be a slightly long-ish answer, but part of our strategy has been also to kind of figure out what's next, right? So if you are saying that the only purpose of JLG right now is to ensure you are collecting from multiple people instead of one.

And let us presume that if JLG culture being completely diluted as it has reached its tipping point. And so we have been doing a lot of different kinds of products in rural. So one product is, of course, individual loans that we are doing, MSME products that we are doing. Micro LAP is, of course, there. So we are trying to diversify away from group loans.

And my hope is that group loans versus non-group loans, whatever you call them, individual loans or whatever it may be, hopefully, that should be 50-50 even like over the next 3 to 4 quarters, and that's where my efforts will be.

So essentially, we have to journey from like a single product entity to a multiproduct entity. Now all of these products will be interrelated, but this classic JLG group loan, I think that company will have to evolve beyond that.

Moderator: Thank you. The next question is from the line of Karthik Srinivas from Unifi Mutual Fund. Please proceed.

Karthik Srinivas: Thanks for the opportunity. Good evening, all. So my question is on the increase in cost-to-income ratio, we have gone all the way from 32%, 33% to 44%. And I believe it's mainly because of the employee benefit expenses and now that you have a credit vertical in all your branches. Just for my understanding, is it that? And in that case, where do we settle on a steady-state basis? So that's the first question.

Aalok Patel: No. So cost to income or if you look at what we look at is typically operating cost as a percent of AUM. So that has been increasing significantly. And it's no big surprise. I think overall, as the denominator decreases, as the AUMs decline or in your case, as the AUM declines and as a result, the income declines, the operating cost as a percent of a declining denominator obviously will show it increasing, right?

But over and above that, it's not only the percentages, but absolute values have also increased, and that is, again, as a result of trying to tackle this crisis by hiring substantial recovery officers, around 500 of them, hiring the BCMs, as I said, separate credit structure. So that has also led to increased salary expense, increased travel cost, of course.

So all around the operating cost has been increasing.

Vivek Modi: And lower denominator, I think the investment on the employees in terms of the new verticals, the overall strengthening of the recovery team across the branches.

I think because over a period of time, should start yielding better results once the entire sector turns in a positive cycle towards the disbursement.

Aalok Patel: Yes. So for the last 2 quarters, specifically employee benefit expenses has been steady. And even if you consider the third quarter that they have not increased substantially. So I don't expect those expenses to increase substantially over the next 2 to 3 quarters.

Karthik Srinivas: Got it. Sir, my question is on the debt equity ratio. Now that we are operating at a very comfortable capital adequacy ratio. So maybe 2 to 3 quarters down the line when the business is back into form, so where do we expect our debt equity ratios to be at before we go for the next round of capital raise?

Aalok Patel: Well, my answer remains kind of the same that we start looking at about 4, 4.5x debt equity ratio. 5 is something that although we have gone that far in the past, but that's something that I start getting slightly uncomfortable. But yes, between 4, 4.5x.

Karthik Srinivas: Got it, sir. So, that's it from my side, and thank you. All the very best.

Aalok Patel: Thank you.

Moderator: The next question is from the line of Ronak Chheda from Awriga Capital. Please proceed.

Ronak Chheda: Yes. Hi, Aalok. My first question is on the vacuum in the industry itself. So is there a case to be made where the supply is shortage now, because of the liquidity crunch which most of the players are pulling out and not lending, and the demand remains at a certain point. Has that vacuum created for you kind of to be opportunistic and start picking up your customers, which you feel comfortable in lending?

Aalok Patel: No. See part of the problem why the situation has not improved as fast as we would like it is that frankly, the rural area is soaked for credit right now. I mean over a period of 9 months, we went from like 9 to 12 months, we went from a period MFI portfolio of INR 4.5 lakh crores to INR 3.5 lakh crores or INR 3.6 lakh crores, something on those lines.

So I mean, that is a drastic decline over a 1-year period. And we are facing that geographically also. So for example, in Gujarat, certain areas which have a higher credit demand, because of guardrails and everything, that has been kind of a collateral damage. And you could very easily kind of correlate, as soon as the fund flow stopped into those areas, overall delinquency started increasing as well, right?

So you can call it ever greening, you can call it whatever you like, you can say, oh, people were just borrowing and paying somebody else. You can be like, the credit was choked and they were not able to use it in their business, whatever. The fact is, the evidence is very strong that once you choke a credit from an area, then the delinquency will skyrocket. So that is one of the problems that we are trying to sort.

Obviously, if you look at increases in gold loan portfolio, in the rural market, that has also substantially increased because obviously, if people aren't getting money through MFIs, they will have to find alternative methods to get money, whether it's gold loans or money lenders or family and friends, whatever it may be.

So definitely, once the situation improves, I am just ready to bounce. But until I get a clear indication, this is over and this is behind us, it will be very difficult to do that. And the rejection rates are also ridiculously high. So it's not a problem of inquiries. I mean last month, in the month of July, for every 100 inquiries, we made 19 disbursements.

So that is a rejection rate or whatever else from inquiry until disbursements, we lost 81 customers out of 100. On one way, I am kind of showing off that we are so selective. But another way, that's really not a sustainable business model in the sense that you cannot get away by having so much rejection, right?

And so somewhere along the lines, I think the MFIs will have to get together as soon as there are some green shoots, we will have to kind of get together in a room and be like, okay, it's time to start getting back to normal.

Ronak Chheda: Okay. But your ex-bucket number of 98.8% doesn't give you that confidence as yet.

Aalok Patel: Not yet. Not yet. No. I see like 99%+ for 3 months straight. I don't think I am going to get that confidence, because even 99%, frankly, is not a low number. Maybe that might be the new reality that I have to accept. But historically, on average, if you look at between April '22 and March '24, it was like around 99.35%- 99.4%, somewhere around that neighborhood.

So even 99% isn't like worth popping open a bottle of champagne or anything like that, but it's something that I can live with. It's okay. I mean the balance sheet and the P&L can absorb those credit cost.

Ronak Chheda: Just the next one is on the growth in your MSME and LAP, which is quite encouraging. But can you talk about the cohort of customers? You did mention in an answer earlier that it is still part of the same geography. But how are you kind of now thinking of scaling these businesses, because the ticket size and the yields kind of puts you in a similar bucket as the other MFI guys or other unsecured guys.

So how are you thinking of this product? And where are you finding this customer? Could you just talk about some brief traits of these customers, which kind of you feel comfortable lending? Just qualitatively if you could comment?

Aalok Patel: I can't really comment on traits really on top of my head. What do you mean by traits exactly, like as far as their personality or...

Ronak Chheda: No, in terms of the cash flows because you are underwriting these customers is the same, similar geographies. The ticket size is similar to like other MFI guys. So just wanted to...

Aalok Patel: MFI in general, historically, it was relying on kind of macro credit checks, kind of one size fits all kind of credit checks is what MFI was relying on. And then we were relying on the group dynamics and group liability and group culture, JLG.

MSME always had a separate credit, where we were evaluating each customer on their, his or her own kind of cash flows and other qualities, whether it be credit score, cash flow or the type of business they were in or the type of house they lived in or their history of what they had or their banking statements, and there were many factors.

Not everything was available to everybody, but we try to get as much information as possible. I think what you will find is, and this is actually what we are trying to do is that more and more the MFI will move towards that kind of a credit.

And in fact, what we are trying to do right now is that kind of empowered by the better success we had in MSME, even though they are in the same geographies, if you kind of just take my seat and see that, okay, what did we do differently in MSME than we did in JLG.

And why are the losses in MSME lower than where MFI is. And there's only one real big distinguishment is that it has its own independent credit. Otherwise, there's not a lot of difference. And the second difference is we are a lot more conscious about making sure that the money is used for some income-generating activities, right? So me, along with MFIs, that was always the case.

Somewhere along the line, I will take my fair share of blame for it. I think we lost our way in terms of making sure that the money was going towards real income-generating activities for the MFI side. So that is where we kind of need to reach.

I don't know, Vivek, anything to add?

Vivek Modi: So largely, as Aalok already said, one thing that has been always a differentiator between the MFI and the MSME is the independence of the credit and multiple variable checks and balances that have been created in the MSME, because of the larger ticket size and the overall positioning of that product allowed for a far more superior underwriting from the very beginning.

The learning in the last 18 months has been that maybe the time for evaluating the microfinance customers on similar lines is becoming more and more need of the hour.

Aalok Patel: See, to answer your other question, I get this question a lot that, oh, MFI has its own fair share of issues right now. Why don't we just like increase disbursements in MSME. But honestly, it wouldn't be a good idea at all because what has protected me in MSME is also that I was never really pressured to grow that fast, right, in the MSME book.

I kind of grew at my own pace. It would be kind of hypocritical to kind of push that book right now and kind of keeping your fingers crossed and nothing bad happens there. But that said, we are keeping a very, very close watch on micro LAP and MSME both, because just like you guys have been hearing, obviously, I have also been hearing that there is fair bit of issues going on in the MSME market at this point.

And it seems that lot of the MFI players are also moving towards these kinds of products, right, the individual MSME type products. And so I am wary, I am careful. We want to make sure that a year down the line, we are not in the same spot as we are in MFI right now. So I am not trying to say that I have no evidence for that. But it just seems that the level of household borrowing that has gone up in the market versus real incomes being completely stagnant for the last 4, 5 years.

As I said to an earlier caller that it's not just going to be MFI. I feel if you are in the rural lending business or any or even semi-urban lending business, you are going to face issues unless these macroeconomic issues get solved.

Ronak Chheda: Just last one with Vivek. Just on the credit cost, are we largely done in terms of the hit we were supposed to take for the stress in the MFI book? And going forward, we should see this number trending down significantly?

Vivek Modi: You are asking whether we have seen the bottom in terms of the credit cost. Am I right?

Ronak Chheda: Yes.

Vivek Modi: I think I wish there was an answer which could be done as a yes or no, but then that's not the case. I think the industry is still going through a bit of pain. Things have started to improve in the last at least 2 quarters in terms of the early indicators being in terms of the improvement in the 0 bucket or the current bucket collection efficiencies. But the entire process needs to trigger down to the lower bucket as well and also accelerate to that extent for the entire sector.

Aalok Patel: I was saying that there were good indicators in March, and then I turned out to be wrong. So like ask me next quarter, I promise I will give a better answer.

Ronak Chheda: Sure. Sure. Thanks for answering my question.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please proceed.

Shreepal Doshi: Hi, sir. Thank you for giving me the opportunity. Sir, my question was on, again, to what you alluded to the earlier participant's question when you said that in MSME, what has worked well for us is the income generating being the key evaluation criteria.

So do you feel that, I mean, incrementally, even in MFI that the end-use monitoring will become even more important, and just its implication on the ROA, because then typically, we are talking about higher OpEx to a set. So just wanted to understand the operational changes, which will become much more prudent and, let's say, much more end use driven and also its implication on the profitability.

Aalok Patel: See, what I kind of learned over the last 10, 15 years of doing this is once the loan goes out of your account and into the hands of the customer, doing any kind of monitoring after that is pretty useless, because it doesn't really bring a lot of value to making sure that the customer pays back.

Even in the MSME portfolio, I think whatever we do to ensure that the end use is going to be correct is try your best to underwrite them properly, and make sure that they have some business. Like if MFIs is like, oh, I need a loan. What do you need the loan for? I want to buy a tailoring machine. I mean, are they in the business of tailoring? Can they even stitch a button?

And so those kinds of things will be more helpful, but frankly, whether it's a micro loan or a macro loan, once the money is out of your hands and into theirs, what are you going to do about it, even if they don't use it into a place where they said that they are going to use it.

So it's not an exact science. Let me just put it that way. You just have to make sure that the customer who's coming to me is genuine, and they are going to use that towards their small business or whatever small venture that they are trying to do.

Shreepal Doshi: Got it. And the implication on, let's say, maybe on the ROA front, because as a model, we are moving towards that. While I understand what you said that it is very tricky. But as a practice, we are incorporating that, right?

Vivek Modi: The model of what Shreepal?

Shreepal Doshi: No, meaning as a business model, we are moving towards having, let's say, separate credit end use monitoring.

Aalok Patel: Yes, absolutely. Absolutely, absolutely. Absolutely. So really, I think as an industry, MFI as a model had its time. It was amazing. For 15 years, we had a lot of fun doing what we did. growing 30%, 40% year-on-year and making quite a bit of money also.

Nothing lasts forever. You have to reevaluate the models as the market conditions shift. And that's not just the financing business, that is any business. Even Mohammad Yunus has changed. So obviously, this model needs some change too.

Shreepal Doshi: Right. Sir, the second question was on the indicator that will give you comfort that the peak out of, let's say, stress is broadly behind or let's say, in terms of even the credit cost, we incrementally will see moderation in that.

So what indicators at macro level or even at your level with respect to rejection rate or even, let's say, collection efficiency. So if you could just enumerate a few factors that you are closely monitoring that gives you confidence?

Aalok Patel: No. So, yes, so we are monitoring 0 DPD. We are monitoring at each bucket level, what is the repayment rate. We are monitoring early delinquencies. We are monitoring late delinquencies. We have quite a huge business intelligence and analytics that looks at all kinds of factors on a regular basis, certain employees, which are certain branches, which are having accelerated kind of defaults, in which case, many times, it is really the staff's fault, right? It's nothing to do with the customers, either giving it in the wrong hands or not doing enough underwriting or whatever it may be. So many factors are there, but let me be perfectly honest with you that I am quite okay with the trend that we are seeing in the asset quality.

So whatever crap which has been created in the past, obviously, that will take its own course to kind of get off your books. Whatever stuff that we have originated since Q3 of FY '25, I am quite happy with, overall. I think my next challenge will be really to start getting the portfolio back up, right? Because you need the interest income.

So if you look at my P&L this time, actually, the credit cost and everything has gone down, but interest income has gone down even faster than that. And so really, that will be the next challenge over the next coming quarters is that stop focusing completely on collections and asset quality, and kind of now start doing a mix kind of a concentration on increasing the overall AUM and also increasing, of course, as safely as possible. So people like me don't really want to deal with collections and quality issues, if you know what I mean. So how to get that kind of balance will be really the key over the next couple of quarters.

Shreepal Doshi: Got it, sir. Got it. This is very helpful. Thank you, sir. And good luck for the next quarter.

Moderator: Thank you. The next question is from the line of Shubham Jhawar from Dexter Capital Advisors. Please proceed.

Shubham Jhawar: Hi, Aalok. Hi, Vivek. So I had 2 questions. The first was, sir, what is the write-off for the quarter, both for Arman and Namra out of our total impairment?

Vivek Modi: Vivek here. Namra was approximately INR 60-odd crores. In fact, we have a provision write-back to that extent, within that INR 58 crores. And for Arman, I think the write-off was approximately INR 4-odd crores.

Shubham Jhawar: INR 4 crores for Arman?

Vivek Modi: Yes, approximately.

Shubham Jhawar: Got it. And sir, my second question is, sir, in case a borrower...

Aalok Patel: No, let me also add that we are doing accelerated write-offs in the Namra book. So anywhere post 90 days, I think we are almost 90% provisioned. Anything which is more than 180 days is 100% provisioned.

Aalok Patel: So I think we have written off pretty much everything over 180 there. Now when we say write-off, don't mean we don't write it off from our LMS. These are accounting write-offs. And the purpose of the accelerated write-offs is also that to make sure that we don't trigger any covenants from the GNPA aspect. So that is one of the reasons why we do accelerated write-offs.

From a P&L perspective, it makes no difference, because 95% of provisions. Whether you are doing 100% provisions on 180 plus or you write-off, it will be the same impact on the P&L.

Shubham Jhawar: Right, right. Absolutely. So sir, the accelerated provision that we are talking about, right, that we are provisioning anything above 180 plus DPD. So how long have we been doing this like for the past 3, 4 quarters? Or how is it?

Aalok Patel: Accelerated write-offs as a strategy, we have been doing since the last 3 quarters or so.

Vivek Modi: Yes. I mean that 3 quarters, largely beginning from December '24 onwards.

Shubham Jhawar: Got it, sir. And my second question is, sir, in case when a borrower defaults, right, so how do we know that the borrower is only defaulting to us? Or are they also defaulting to, let's say, MFI 2, MFI 3 lenders as well? Like is there any way we are tracking that or anything on that sort?

Vivek Modi: Yes, we do obviously track that. So there are 2 stages. your first level is trusting or having your field people kind of track that. But let's say, if you see a sizable issue in a particular area, there are things like scrub analysis reports that are available from the bureaus, wherein you can really establish if a borrower or a particular group of borrowers is just not paying to us and paying to some others.

Aalok Patel: Yes. So we have triggers available. So just last month, there was a branch in Bihar where there was a lot of accelerated kind of defaults that were happening. So we have risk teams and audit teams that go in and kind of check what went wrong and what's going on there.

Shubham Jhawar: And sir, how effective is that exercise, like?

Vivek Modi: How effective is that exercise?

Aalok Patel: Exercise.

Vivek Modi: So again, look, monitoring and efforts will have different results in different geographies and there could be multiple variables. So you might have floods in a particular area and there is an increase in the delinquencies, that may be addressed much faster.

Aalok Patel: So I mean operation teams has a lot of experience to deal with a lot of kinds of situations. By the time you are sending teams of risk and audit, usually that is postmortem. So after that, you would just try to salvage. But before that, the operation teams usually does dealing with 8 out of 10 kind of issues that come up, they manage dealing with it. Anyways move on.

Shubham Jhawar: Yes, these were my questions. Thank you so much.

Aalok Patel: Yes, next question please, Shruthi.

Moderator: The next question is from the line of Ashlesh Sonje from Kotak Securities. Please proceed.

Ashlesh Sonje: Firstly, you spoke about the increase in rejection ratio. Can you tell me what the rejection ratio was last quarter? And what was the reason for the increase Q-o-Q? Was it primarily the 3 lender cap which impacted it?

Aalok Patel: Yes, yes. So it was primarily the guardrails and increased defaults. So obviously, 10%, 15%, 20% of the customers might be depending on areas, might be showing as defaulters now or having overdue. Default is a strong word, but if they have anything like that, we are rejecting them. Over and above that, the guardrails have also pushed up the rejections quite a bit.

Ashlesh Sonje: Understood. And this 81% number, what would it be last quarter, roughly?

Aalok Patel: Roughly, it would be about 75%. So not a big dip, but from our perspective, 6%, it's significant enough. It doesn't sound a lot, but it is.

Ashlesh Sonje: Yes. Understood. And you spoke about borrowers trying to get access to liquidity through other products. Which are the main products where you have seen the borrowers borrowing from? And how prevalent has this become now?

Aalok Patel: Which are the main borrowers that I have seen doing what?

Ashlesh Sonje: In terms of mainly products...

Vivek Modi: So, typically, a microfinance borrower largely tries to approach multiple lenders, right?

Aalok Patel: I am sorry, I wouldn't have anecdotal data perhaps, but I don't have any hard data on that.

Ashlesh Sonje: Understood. Perfect, sir. Those were the only questions I had. Thank you.

Moderator: Thank you. The next question is from the line of Amit Mantri from 2point2 Capital. Please proceed.

Amit Mantri: Hi, Aalok. How much was the interest reversals this quarter?

Aalok Patel: Interest reversals Vivek, what was the interest reversal?

Vivek Modi: Typically, on the NPA assets, probably not too large, but about a couple of crores, if that's what you are trying to ask.

Amit Mantri: Yes. And on the PAR, 30 to 90 has shown a good decline both on a percentage and absolute number basis in Namra. How is PAR 1 to 30 trending Q-on-Q?

Aalok Patel: It's lowering. Q-on-Q, it's obviously coming down. But flow forward rates are also getting better slightly at all bucket levels, except 180 plus. So as I said, if I was a more optimistic man, I would be like, oh, things are looking up. But unfortunately, we have been here before, where things go well for a month or 2, so like that happened in the fourth quarter where January to February was slightly better and then Feb to March was better and everybody was like, okay, we are done and dusted. And then April again took a hit.

So I am being a little cautious. But right now, things, if you look at, let's say, June, July, things are only on an improving trend. August, it's a little early to say. As I said, there's a lot of holidays and other things going on this month. So let's see how we wind up with August. But yes, I mean, I should be able to answer better about how well things are probably by next quarter.

Amit Mantri: Okay. And in terms of the consolidated loan book growing, when do you start to expect that growth to come back?

Aalok Patel: So I am hoping at least by September, at least the decline will stop. As far as growth, I don't really expect it at least until Q4.

Vivek Modi: Amit, just to add to it...

Aalok Patel: You disagree with that.

Vivek Modi: No, slightly adding to it only. The MSME and 2-wheeler book are likely to grow, because 2-wheeler, we are getting into the festive season. So I think in terms of September, October, November, that book is likely, though again, just a 4% of the entire AUM, but that grows in the 3 months only, right?

MSME, again, historically has given better kind of disbursement levels in these festive months. So to that extent, I think the Arman standalone has been growing consistently for the last multiple quarters, and we don't see too much of a challenge there. And that's wherein the Arman book anyway, a 20% growth in Arman book, which was 20% only of the entire AUM will have a reasonable, not a very significant impact on the overall book. But still, things are moving forward there.

Micro, We have had a good monsoon overall as a country. Things probably look slightly better for microfinance as well. And with hope and a prayer, I think we feel that Quarter 2 and onwards should start looking better from the disbursement front.

Amit Mantri: Sure. Sure. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek from AB Capital. Please proceed.

Abhishek Murarka: Yes. Some of our larger competitors, they have given some growth guidance for this year, how much we can grow. Do you want to give any such number for this year?

Aalok Patel: No, no. Absolutely not. I wish I knew myself.

Abhishek Murarka: Okay. Okay. And do you think we will need to do more provisions going forward?

Aalok Patel: See if your question is whether we are adequately provisioned, that answer, I can quite confidently tell you that, yes, absolutely, we are adequately provisioned without getting into any kind of crazy tactics or anything like that. So yes, we are adequately provisioned at this point.

And I mean, I don't know. I think if your question was, do we expect more provisions? Yes, in the business of lending money, there's always going to be provisions, at what level is the question.

Abhishek Murarka: No, I meant to ask, do you think, again, we will have another loss-making quarter we might have or we have done.

Aalok Patel: Now that's a tricky question. I hope not. To be honest, in our 32 years or 31 years of existence, we have only had losses in 2 quarters. So I don't really want to make it a third quarter, but might be close, let's see.

Moderator: Thank you. The next question is from the line of Umang Shah from Banyan Tree Advisors. Please proceed.

Umang Shah: Hi. Thank you for the opportunity. Sir, our disbursement ticket size has moved to almost INR 50,000 per borrower in MFI. For the longest, we were at a much lower level to the overall MFI industry. And now when we are saying that we are at the cusp of the JLG model ending, how is it that our ticket size are increasing?

Aalok Patel: Because we have changed our model, right? So we are basically assessed. So again, we are kind of getting away from this one-size-fits-all model. What was the model earlier in JLG? What we were saying is if you are a first cycle customer, you are good for INR 40,000. And for second cycle, you might be good for INR 60,000. And for third, you might be at INR 75,000. And then after that, I will move you into some individual loan. And if you have an EMI of INR 12,000, you are a good customer, if it's INR 13,000, you are bad.

If you have borrowed INR 190,000, you are a good customer. If you have borrowed INR 210,000, you are bad. If you borrowed from 3 MFIs, you are bad. If you have borrowed from 2, you are good. So we are trying to move away from that and assess each customer based on his or her cash flow and FOIR and other factors.

And whatever loan that he or she will be eligible for, hopefully, it's more than INR 50,000 at this point, right? Like I mean, if I am doing a proper underwriting, then it's no longer about first cycle, INR 50,000 and second INR cycle 6000. It's what each customer is good for.

Umang Shah: Right, sir. Sir, there are 3 major players, banks, SFBs and NBFC MFIs in this sector who've been lending vigorously since COVID, right? Among these 3, do you think any one group has had underwriting, which is worse or better than the other 2?

Vivek Modi: To a certain extent, let's understand that the processes in all 3 tend to be very different. The banks have a problem of reach, and probably the intent of going to the grassroot level.

Aalok Patel: Vivek, sorry to interrupt, but there will be 2 kinds of banks here. One that are operating through co-lending and BC model or DAs. And then the second will be the ones like IndusInd's Bharat Fin or Kotak subsidiaries or somewhat separate entities, but controlled by a bank. So it depends.

Vivek Modi: Yes. Sure.

Aalok Patel: But yes, if you are, let's say, BC or co-lending bank, then your processes will be very different. versus, let's say, I don't know. I mean that's a difficult question to answer. I would say rather than saying banks and others, there are some people who have good credit underwriting, some bad. But the problem is if overleveraging is an issue, then you might assess a customer at, let's say, a loan of INR 50,000.

Nothing is preventing a bank or an NBFC or SFB or whichever entity of coming and overlevering that customer. And so about 85% of defaults happen everywhere at once, right? So people don't pick and choose their defaults.

I know that's a common myth where people say, okay, they will pay a bank, but they won't pay an MFI because they are more scared of a bank. It's really that is an urban legend, to be honest with you. I mean it does happen. There are isolated incidences, but I have not observed it in my years of doing this business. So I don't know. I am not sure how to answer that question.

Umang Shah: No worries sir.

Vivek Modi: It is largely a different league, so it's very difficult to kind of come. And within banks, different banks have had completely different experience. Yes. So--

Umang Shah: Right, sir. Sir, and just last question, if I could squeeze in. 2 parts. One was, how has been the attrition this quarter among the employees? And with separating the credit and the sales, are you getting any pushback from the field force, because their incentives to an extent get capped somehow?

Vivek Modi: Yes. I mean, yes, to all of these. So obviously, attrition has also been very, very challenging throughout this entire crisis or whatever you call it.

Aalok Patel: Attrition last quarter, I believe, was about 45%...

Vivek Modi: So it's slightly improved. Things have started to kind of improve to that extent. And in terms of basically the pushback, because of our credit department, initially, like all changes is something it met with some bit of resistance, but it's fine. It takes its own time, training and normalization between departments is a regular process, and things are going into pretty much a synchronized manner of functioning now.

Aalok Patel: Now if your question is that are your ground level teams on average, making less money per person than they were in, let's say, March of 2024. And the answer is yes, absolutely, they are. We have been trying to offset that the best we can by running R&R exercises and awards and contests and those other things, at least the good performers have that opportunity to earn or earn equivalent or more money. But unfortunately, that cannot be helped, especially at a time like this, and it's really same across the industry with all the interviews, and stuff that we do. It's really the same in banks, SFBs, NBFCs and really everybody.

And that's one of the reasons why the attrition is high as well, because there are alternatives now which were not there 10 years ago, but now there are alternatives where people can earn more money or equivalent money with perhaps less work or less stress, and we as MFIs need to be mindful of that.

Nobody likes collecting overdues. It may sound hard to believe since I am in the business of that. But including myself, nobody really likes collecting money or recovering money. And so when that becomes a big portion of FO's job, obviously, that's going to lead to high attrition. So no matter of how hard you try, until we solve the problem of these credit issues, the attrition we can lower it, but it's certainly not going to go away or return back to where it was.

Umang Shah: Sure, sir. Thank you so much, and all the best.

Moderator: Thank you. Due to time constraints, that was the last question. I now hand the conference over to Mr. Aman for the closing comments.

Aalok Patel It's okay. I will take the closing comments.

Moderator: Yes, sir, sure.

Aalok Patel: So anyway. Sorry, we couldn't answer more questions. I am sure there's a lot more questions. If anybody has any pressing concerns or questions, feel free to e-mail us or e-mail the Investor Relations, and we will try our best to answer them. Otherwise, thanks to everybody for being part of this call, and have a great evening. Bye.

Moderator: Thank you, members of the management. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.