ARMAN FINANCIAL SERVICES LTD.

“Arman Financial Services Limited Q4 FY '25 Earnings Conference Call”

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MR. VIVEK MODI – GROUP CHIEF FINANCIAL OFFICER

MODERATOR: **MR. SHREEPAL DOSHI – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Arman Financial Services Q4 FY '25 Earnings Conference Call, hosted by Equirus Securities.

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. Please note that this conference is being recorded. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touch tone telephone.

This conference may contain forward-looking statements about the company's which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Shreepal Doshi from Equirus Securities. Thank you. And over to you, sir.

Shreepal Doshi: Thank you, Shruti. Good evening, everyone. I welcome you all to the Earnings Conference Call of Arman Financial Services to discuss the Q4 and FY '25 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 questions and answers. Over to you, Mr. Alok.

Alok Patel: Yes. Good evening. Hopefully I am audible to everybody. On behalf of Arman Financial Services Limited, I warmly welcome all of you to our Q4 and FY '25 Earnings Call.

I am joined today by our Vice Chairman & Managing Director – Mr. Jayendra Patel, our Group Chief Financial Officer – Mr. Vivek Modi, and the Investor Relations team from SGA.

I trust you had the opportunity to review the earnings documents, including the quarterly and Annual Results, the Investor Presentation and our Press Release, all of which are available on Stock Exchanges and our Company's Website. I would like to begin with an "Overview of Industry Developments, Highlighting Key Trends in Business", followed by "Financial and Operational Performance".

The Financial Results for the Quarter and the full year ended 31st March 2025 reflect the challenging environment that the microfinance sector has been facing. In FY '25, our wholly owned microfinance subsidiary, Namra Finance reported a net profit of Rs. 7.8 crores compared to Rs. 138.3 crores in FY '24. However, in Q4 FY '25, Namra posted a marginal loss of Rs. 26 lakhs against the profit of Rs. 38.8 crores in the same quarter last year.

The key driver behind Namra's performance, or lack thereof, was the higher provisioning, largely due to ongoing stress in the rural pockets. We have been prudent in aligning our provisions with on ground realities and have proactively taken accelerated write-offs when necessary. That said, we remain confident in the long term potential of microfinance sector. However, we believe the overall growth rate in MFI segment is unlikely to normalize until the sector deleverages and adapts to the evolving dynamics of the rural markets.

Over the years, we have taken several steps to adapt to both temporary and structural changes in the industry. Our philosophy has always been to stay agile, to seize opportunities if and when they arise, but also be prudent enough to step back when needed. As of March 31st, 2025, Namra finances AUM declined by 23% from Rs. 2,193 crores in FY '24 to Rs. 1,686 crores in FY '25. Similarly, our overall consolidated AUM declined by 15% from Rs. 2,639 crores to Rs. 2,245 crores over the same period. For Namra of finance, quarterly disbursements stood at Rs. 393 crores, reflecting a year-on-year decline of 26%. For the full year, disbursements amounted to Rs. 1,232 crores compared to Rs. 1,895 crores in FY '24.

In FY '25, the company undertook two key strategic decisions aimed at ensuring long term sustainability and growth of the business. First, we have begun to completely separate the credit and recovery function from the branch operations. These decisions are based on data and logic rather than sentiment. While we would love for rural borrowing culture to return to its earlier form, the current evidence so far indicates this may not happen entirely.

Traditionally, the MFI industry has operated on the foundation of joint liability group model and population-based credit decisioning frameworks. These include rules such as, any one customer cannot have more than X number of lenders, or a customer cannot have more than Y amount of outstanding, or an EMI burden cannot exceed a certain amount. While these standardized norms served the industry well in the past, we believe this one-size-fits-all approach is no longer adequate. Our systems must involve to assess each customer based on their individual merits and unique circumstance.

Achieving this will require building a strong and independent credit culture on the ground level, along with fully eliminating the long-standing conflict of interest between credit and sales that has existed in microfinance since the industry's inception. Naturally, this decision will result in higher operating cost. However, the alternative is to accept elevated credit cost. Between the two, we are far more comfortable with the former.

The decision to establish collections as separate vertical was not particularly difficult. Field officers will continue to handle regular collections and early-stage delinquencies to ensure their FO customer relationship and the essence of JLG culture will remain intact. Higher delinquency buckets will be taken over by recovery officers. Currently, we have implemented the new credit structure in about 140 of our 391 branches, with the remaining branches to be implemented by Q2 of FY '26. Early indicators in asset quality for loans originated under the new credit structure are quite encouraging.

In addition, starting from November 2024, all disbursements in the MFI segment are now covered under the Credit Guarantee Fund for Micro Unit or CGFMU scheme. As of March 2025, 34% of our MFI AUM is now covered under this scheme. And this will increase significantly quarter on quarter. We are also fully compliant with the new MFIN guardrails as of March end, and we have also successfully completed an ARC transaction in March of 2025.

For the MFI book, zero bucket collection efficiency for the quarter stood at about 98.5% and improved to 98.8% in March 2025. While still below our expectations, it does represent a meaningful improvement over Q3 FY '25. On a consolidated basis, collection efficiency for the quarter stood at 95.3 for all buckets combined.

On the other side are standalone segments which include MSME, micro-LAP and 2-Wheeler financing have continued to perform well and show resilience. As of March 31st, 2025, standalone AUM stood at Rs. 560 crores, registering a year-on-year growth of 25%. Disbursement in FY '25 was Rs. 481 crores, up 20% compared to FY '24. Importantly, this portfolio continues to maintain a relatively healthy asset quality with a gross NPA at 3.38%. March zero DPD collection efficiency in MSME portfolio was 99.5% and 99% plus for the quarter as a whole.

The standalone business benefits from a diversified customer base, lower delinquency levels, and although not in a relatively stable operating environment. Focused execution and prudent credit policies in this segment have helped us offset some of the pressures seen in the microfinance vertical. Our consolidated balance sheet remains strong, supported by healthy debt equity ratio of 1.3x and surplus liquidity of Rs. 269 crores. This gives us the financial flexibility and resilience needed to navigate the current operating landscape. While near term economic outlook remains cautious, our strategy remains clear, stabilize the portfolio, drive operational efficiency, and further strengthens asset quality. The last one, of course, being the most important.

Coming to the consolidated operational and financial highlights of Q4 and FY '25:

Gross total income for FY '25 stood at Rs. 730 crores, registering a year-on-year growth of 10%. Gross total income for Q4 FY '25 grew by 9% year-on-year to Rs. 199 crores. Net income for FY '25 amounted to Rs. 491 crores, registering a 24% year-on-year growth. Net total income for Q4 FY '25 grew by 23% year-on-year to Rs. 148 crores. Pre-provisioning operating profit or PPOP for FY '25 registered a 14% year-on-year growth to Rs. 333 crores. PPOP for Q4 FY '25 grew by 15% for year-on-year to Rs. 102 crores. Profit after tax for FY '25 stood at Rs. 52 crores, reflecting a year-on-year decline of 70%. PAT for Q4 FY '25 stood at Rs. 13 crores.

Our continuous emphasis on collection and underwriting processes helped us improve our asset quality. As of 31st March 2025, our gross non-performing assets stood at 3.37%, representing an improvement of 75 basis points from 4.13% in December 2024. In FY '25, the company has adopted an aggressive provisioning policy with cumulative provisions for the year standing at Rs. 117 crores, covering 5.23% of the consolidated AUM and 6.55% of the on -book AUM. As

of 31st March 2025, the capital adequacy ratio stood at 37.34% for our standalone business and a robust 48.37% for Namra finance.

Before I open the floor for questions, I would like to take the opportunity to thank all the stakeholders and especially our employees for their continued support and commitment to our mark. Thank you very much. And operator, please open the floor for the Q&A session.

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

Abhishek: Yes, sir. Yes. I just wanted to know what is the status on the ground? Like are we seeing improvement or it is the same since Q3? Like is it giving us confidence to grow in FY '26?

Alok Patel: So, definitely there was an improvement in Q4. So, the continuous decline had kind of stopped and there was an upturn also in the repayment rate, especially market improvement in the zero DPD bucket, which is like the first sign of trouble kind of a bucket if you look at it. So, that went from a low of about I think 97.3% in what was in November, I guess, in November of 2024 to 98.8% in March of 2025.

Now, as far as your question about, has the situation improved enough where we are confident of growing well in FY '26? I would say, my honest answer would be no, it has not improved to a level where I would be comfortable. But we are not too far away. We will reassess and maybe ask me the same question next quarter.

Alok Patel: By the way, excuse me, I am sorry, I have been living and breathing. Vivek, thank you. So this is applicable only to the MFI book. Of course, our other books, which is MSME, 2-Wheeler and micro-LAP, which are now over 30% (Errata: Actual Number to be read as 25%) of the overall book, these we are quite confident, and we are also expanding in those segments with branch openings and other factors. And those will definitely continue to grow well in this financial year.

Abhishek: Okay. What percentage of our book is exposed to Karnataka?

Vivek Modi: Under 1%.

Alok Patel: Under 1%, frankly. We had just gone in and now we are kind of stable at that point. So we have a very small portfolio.

Abhishek: Okay. So which state is showing maximum signs of stress in our book?

Alok Patel: I mean, honestly, that changes. Every state seems to be taking its own turn. So if you were to ask me right now, it's probably Rajasthan. I mean, Maharashtra is showing significant improvement, so is MP. Certain areas of Gujarat have trouble, eastern Gujarat side. UP is showing signs of improvement. Bihar for us at least is showing signs of improvement. I know some people are reporting the other way, but I am not exactly sure, for us it is showing signs of

improvement. So, yes, I think overall if you consider the states right now which are for us at least, it would be parts of Gujarat, Rajasthan which are more deeply impacted.

Abhishek: And in this quarter, we saw that in comparison to last year ROE has come down. So what kind of ROE you think will we end in FY '26?

Alok Patel: I do not think I am comfortable giving an estimate at this point.

Abhishek: Okay. Thank you.

Alok Patel: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Apoorv Singh from Panchratna Investors, please proceed.

Apoorv Singh: Yes. Just wanted to ask, how are we handling the juxtaposition between asset quality and growth? Because every time growth in year disbursals is attempted, but you might falter in asset quality.

Alok Patel: I did not get the last part of your question, every time what did you say?

Apoorv Singh: Sir my question was, how are we balancing between the asset quality versus the growth in AUM?

Alok Patel: Well, I mean, growth is really not our priority at this point. As I said, we are in a kind of a situation right now where specifically about Arman, historically, whenever there is uncertainty in the market, we take a step back and kind of evaluate the situation and not really grow until we are comfortable with the asset quality. And so this has happened during demonetization, COVID and other times of our history. When the opportunity is available to us, especially right after a crisis, we have grown very, very quickly also. So I think consistent growth is really or are trying to achieve consistent growth is really not advisable in this business.

And so, in this case we are at least trying to maintain the portfolio, at least for the next couple of quarters, and then we will concentrate on growth during Q3 and Q4. So there are other also considerations on growth right now. So for example, the entire sector is trying to deleverage. That is the purpose of the new guardrails. So the overall industry portfolio has gone, I believe, from a high of Rs. 4.5 lakh crores to Rs. 3.9 lakh crores in December. I do not think I have the exact March numbers, might be close to Rs. 3.7 lakh crores. So, our rejection rate I think in the micro book and in the MSME book also is almost 80%. So while the inquiry is there, there is just a lot of stress in the rural markets.

People have been really, if you look at real income growth, it has not happened in the last four years. But that on the household level, retail debt on a household level has gone up by 40%, 50%. So, that has to deleverage. And I think until that happens, it's of course very painful when you stop access to liquidity in any market. But unfortunately, it's a bitter medicine that has to be

followed through. Only then you can start looking at growth. I do not know if that answers your question.

Apoorv Singh: Got it. Actually wanted to ask basically while growing what are the things which we concentrate so that the asset quality does not get impaired? That was what I was wanting to understand, what are the measures to take in a growing market.

Alok Patel: We are doing everything, so we are following the guardrails. Now frankly speaking, guardrails is not, I mean, it is required but it is not a long term solution. It is the short term solution to deleverage the entire segment. As I made in my opening remarks, what we feel is that the market has evolved to a point now where you must manage instead of having a one-size-fits-all credit policies which MFIs are typically used to, we must evolve to a place where we are able to assess each customer on his or her own specific attributes and conditional judgment.

So we have separated, at the nations level completely remove that conflict of interest between disbursals and credit. We have started putting on a new structure called BCMs, essentially in control of approving or rejecting loans. So, when you put people like that, obviously your rejection rate again is going to go up, right. And over and above the guardrails, you have a special credit person that will be in place. So, I mean, we are taking all necessary steps as much as it is humanly possible to ensure that fresh disbursements that we make are pristine quality.

I will just give you one statistic that even though credit scores are not all customers in MFI segment have them. But about 76% of all disbursements that we did in Q4 for the MFI book were 600-plus scores which are considered you proper kind of customers. So, whatever is possible to do, we are doing it. Now, over and above that, the rest is up to, if you are superstitious, rest is up to God I guess. Quality is more important than growth. Vivek, you had something to add?

Vivek Modi: I think we have covered up in terms of kind of enhancing the credit through the BCM model, that we have covered.

Alok Patel: It's surprising that, another thing is that, see, why we are confident on this model. If you look at our any book, I mean, it's largely servicing similar customers as MFI, maybe slightly one step above or two steps above MFI customers, but from the same area. And definitely there is some stress there, too. It would be very surprising if there wasn't. But the stress is nowhere close to the kind that we are seeing in the MFI book. And if we kind of really look at what we as a company are doing differently in MFI versus MSME, is that that complete separation of credit and sales, right. So that also gave us some level of safety or some level of confidence that this is something that could work.

Apoorv Singh: Got it. Just last question, do we expect the accelerated provisioning to slow down or we might need to keep on revising that?

Alok Patel: No, I mean, so in absolute numbers you will see it definitely come down according to me. But sometimes you also see a reverse denominator effect. If the portfolio declines, you are running into the reverse denominator where if the denominator is declining faster than the than the numerator, then the percentages might look higher. But absolute terms may, yes, we are expecting lower provisions.

Vivek Modi: Additionally, what is also important here, Apoorva, is that we have already subscribed to the CGFMU.

Alok Patel: Correct.

Vivek Modi: So the credit guarantees being offered through the NCGT by the Government of India itself for this kind of borrowers, 34% of the portfolio as of March is covered under the scheme. And it will continue to kind of increase. There the coverage literally is 75% of the default is covered by the CGFMU. Hence, I think from the provisional aspect, I think one can expect things to improve because of that.

Apoorv Singh: Okay. Thanks a lot. All the best.

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

Kartik Srinivas: Hello, sir. Thank you for your time. Sir, first question, how much percentage of the borrower base will have different lenders in MFI segment? That is the first question. The second question is, what will be the frequency that a company has to report for agency for the exposure? That is my second question.

Alok Patel: Yes. So, as far as your second question first, so by RBI law, I think they are expected to report it on a monthly basis at least. We are reporting on a daily basis. And I think most larger MFIs are reporting on a daily basis. As far as this thing about only Arman and plus one, two and three and four, honestly, we are not tracking it much anymore because I did not find. Frankly, I know a lot of people have been doing it so I do not want to. Maybe people find good use out of it. I did not find too much correlation anymore, nor too much help to concentrate on it. Obviously, the new disbursements that we have made have been less than three, or even lower than that on a household level. So, Vivek, but if you track those numbers, if you have fresh numbers, but I think three plus would be about 23%, I think it would have come down to 23%. So that's probably a close answer. It might be plus or minus 1% here and there, somewhere along those lines.

Kartik Srinivas: Yes. Sir, one more question. So now that at the branch level we have introduced the individual credit assessment and we are collecting at the branch level, how do you expect the increase to cost to go up at the branch level? And do you think that these kind of measures will help us tackling these kind of cycles better?

Alok Patel: Yes. So as far as operating cost is concerned, we expect this to add it, I mean, the new recovery function and credit function to add at least 1% to the OPEX overall, that was our initial estimate.

Now I will only come out ahead if I am able to save more than 1% in credit cost. I am very confident that it will. And in fact, it's too early to tell, but there is a 3x difference between early delinquencies in BCM originated customers versus non-BCM originated customers. So, as I said, it's too early to tell right now, but early indicators are quite encouraging for us. What was your other question? I am sorry.

Kartik Srinivas: Yes, that was my question. But if you want to continue the credit guarantee scheme and creating a parallel credit structure both at the same time or you will discontinue this credit guarantee scheme, because both will add to the cost?

Alok Patel: Yes, yes, we might consider to discontinue it down the line if things stabilize enough. People ask me, oh, why are you being so careful? You have CGFMU. And I said that, just because you bought life insurance does not mean you should go out and play in traffic. Obviously, it's something that I hope that we do not have to use, but it's available if we need to use it. Now, in this case, of course we will use it. The question is that, what if that the premium that we paid is more than the eventual claims that are there. If that happens, there will be nobody happier than myself, let me tell you. So, I am not worried about that. But the expectation is, given the scenario in the market and overall deleveraging, which is happening right now, despite your best efforts, the claims will be higher than the premium that you are paying.

Kartik Srinivas: And my last question sir, what is the attrition rate at the street level for branch officers or the sales officers is it very significant.

Alok Patel: So, yes, I think last year we ended at about 62% or 63%, which is overall it had reached all the way to like 68% I believe, so Q 4 was a lot better. But still it is very, very high. We need to get that number, so the target is to get that number down to about 40% in the first half of this year.

Vivek Modi: Look, this is with reference to microfinance. For Arman and the MSME in the LAP, it's much stabler.

Alok Patel: Yes, I mean, it is still high, Vivek.

Vivek Modi: But comparatively it is better.

Alok Patel: Yes, comparatively it's better. But, overall, no matter how hard you try, until the credit cycle improves, the attrition is not really going to improve. I mean, you can give more benefits, you can give more salary, you can give more a better working environment and everything. But when you are facing select trends that a lot of people can handle, we would like handling it, to be honest with you. So until that problem gets resolved, I do not think we are going to manage, the industry itself is going to manage the attrition.

Kartik Srinivas: Got it. That's all from my side, sir. All the very best. And thank you so much.

Alok Patel: Thank you.

Moderator: Thank you. The next question is from the line of Saravanan from Unifi Mutual Funds. Please proceed.

Saravanan VN: Thanks for the opportunity. Post COVID RBI had deregularized interest rates that provided room for MFI companies to recover some of the COVID losses. And then last year we also had RBI pull up a few MFI institutions for maybe on account of overcharging interest rates. So where does this leave the industry? So, on the other hand interest rates have been deregularized, also RBI is pulling up of institutions for more charging. So, in the current cycle do we have room to increase interest rates and recover the credit costs?

Alok Patel: I mean, that's a complicated question. I am sorry, that's a complicated question. If I could, I would, but I do not see a scope right now. RBI has been very clear about what is acceptable and what is not acceptable to them. And we are not looking to buy ourselves out of this by raising interest rates, unless the industry as a whole kind of follows that practice. But based on my research, I do not think anybody really is drastically increasing interest rates to kind of take care of this issue. And honestly, I mean, raising your interest rate by percent or something is not going to solve the issue in the MFI book. So, we will have to unfortunately take the more difficult route, which is figuring it out what is causing this and solving it.

Saravanan VN: Got it. So, see, one of the MFIN guardrails is to restrict the number of lenders per borrower. So, do you expect some consolidation to happen in the industry?

Alok Patel: Yes. I do believe that there will be some level of consolidation, but not until the green shoots are there of definite improvement and getting out of this. Because realistically, I mean, in microfinance I do not think anybody has the guts, I want to say, of purchasing or making acquisitions until and unless you know what the future may hold. I do not know, Vivek, you have a different opinion.

Vivek Modi: I mean, honestly, consolidation in terms of inorganic way, maybe yes, there could be some room for some specific areas. But at a borrower level, I mean, you really do not have very robust cash flows to be able to analyze to kind of move your ticket sizes from existing 50,000 to 75,000 to 2 lakh, if you meant that by consolidation.

Alok Patel: Sir, did you mean debt consolidation?

Saravanan VN: No, no, no, I meant only from lot of MFI entities might be up for sale.

Saravanan VN: So, I think you have partially answered that question, you will wait for some green shoots. Not only you, I think the players with high capital adequacy may not rush to buy the weaker assets, they may in fact wait and watch for some more time.

Alok Patel: Correct. Yes, absolutely.

Saravanan VN: And the second question is on the credit guarantee premium that we are paying. See, one, you quantified the increase in OPEX cost because of you are adding credit at the branch which is I

think structurally a very progressive step for industry as well as for Arman, if all of them follow suit. But in the time being, you are also taking on credit insurance, so what's the cost of that insurance on a per annum basis?

Alok Patel: So, it's about 1% of the portfolio outstanding of the custom per year. So that should come out to be about 1.6% or 1.75% for the life of the customer, the average loan tenor is two years only.

Vivek Modi: Yes. Right.

Alok Patel: So yes, I think I have not considered that in the OPEX because I think that will definitely be offset by the credit cost.

Saravanan VN: Got it. Okay. Yes, that was my second question. Thank you. All the very best.

Alok Patel: Yes. Thank you.

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

Ashlesh Sonje: Hi, team. Good afternoon. Sir, first question is around the revamp in the team structure that you have done, can you specifically talk about what is the task that the credit officer will do? And more recently, how have the rejection rates trended for you?

Alok Patel: Yes. So the rejection rate, I would say, so from inquiry to actual disbursement, I believe it was 22% in March for the MFI book. And I think it was about 23% or 24% in MSME book.

Vivek Modi: But in MSME it's always been there, yes.

Alok Patel: That that's always been there. I mean, MSME was closer to about 70% rejection that has bumped up to about 75% given the scenario. So that is fine, within expectations, overall.

So there's different kind of pilots going on. But largely speaking, he is responsible for evaluating the customer on an individual customer basis, that means he has to do the house visit, fill out the forms, do a scoring of the customer, talk to the customer, there's a whole kind of a system that we have created. We have hired a new credit head to oversee that who's reporting to the CRO. And as I said, are in different states we are trying slightly different modified versions to see which one works best.

We have also developed an internal scoring mechanism. So after they punch in all the different parameters of the customers, it does give out a scoring. And the other thing that we are doing which is actually the most important is to do a good guesstimate on their household income. So, earlier that task was there with the operational people, obviously, they could not do it right because of that conflict of interest. And so we are hoping the BCMs have a better luck or whatever you want to call it in doing it. This is what would definitely create a better quality in

terms of assessing the income. So with BCM's and everything, I mean, just by removing that conflict of interest, I would say, that 1% will be well worth it.

Ashlesh Sonje: Sir, one follow-up on that remark, are you able to now get a good estimate about at least the household leverage? Because I understand there could be operational issues in getting bureau records for other members of the household.

Alok Patel: We get good hits on the bureaus, I would say, at least 80% hit rate is there in the bureaus now. We are of course pulling it at the household level, the member and spouse both. Our system combines those and gives an output on the overall indebtedness. Listen, to be quite honest with you, it's not 100%. But given the scenario today, it is as good as it can possibly get. The way to make it better is actually if the government allows us to use to seed them with Aadhaar cards.

And obviously at the industry level, we need to ensure that we are using biometric or some kind of Aadhaar verification tool. So only then will we get to our system which is much better. Today, at Arman level, we are doing e-signatures for every customer, so obviously the Aadhaar gets verified automatically that way. But we are not allowed to share their Aadhaar numbers or seed the Aadhaar numbers in the credit bureau data. So until, like we get on a common ground. So what we have internally decided is voter ID and then the secondary ID, whichever one that you want to take, that is fine. Primary would be voter ID for credit bureau. So that's how the industry is getting by that.

Now, voter ID, you will find a lot of fakes, you will find multiple voter IDs with the same people. State to state handles it in a different way. So, theoretically, it's possible for some customer who has a bad credit to go out and get a new KYC number and pretend he's new to credit, if that makes sense. And does that happen? Yes, of course it happens. Can we prevent it? Not always, unfortunately. So by that, hopefully that answers your question. Yes, I mean, the way to improve it better is to just have everybody start using a unique identifier.

Ashlesh Sonje: Understood. Sir, and just lastly, can you speak about the competitive intensity now in the MFI industry?

Alok Patel: I do not know what can I say. I mean, there is still plenty of competition. But everybody, thankfully, I mean, minus a few cowboys, I guess, which I shall not name, but apart from that , everybody's being very cautious, and everybody's books are sort of declining.

Vivek Modi: Yes, I think everybody has made peace with the fact that degrowth is not a bad word.

Alok Patel: Yes, it happens.

Vivek Modi: It happens. And asset quality is going to be the key concern.

Alok Patel: Yes. You grew for 15 years straight. It's fine. One year, I have made my peace with it, along with everybody else. So, everybody is kind of following along. But the problem that will come into be is that we have a very wide variety of opinions and correctly. I mean, because there are

some people who are saying that we got to go back to basics. Others are saying that we have to move forward with the new realities. And so there is not real consensus amongst industry practitioners about what to do. And actually there is not much consensus on the nature of the problem also, while there are many, many factors which are leading to this.

So, I have made a decision that credit is the way forward, separating credit completely and individually assessing each customers. Because I am of the opinion that JLG culture is diluted to a level where it is not going to go back to what it was, let's say, five, 10 years ago. And so you must evolve your systems to accept the new reality. And there are many who are saying that, no, we must go back to basics and try to revive the JLG culture. So, neither I am wrong neither that other person is wrong. It is just a matter of perspective and what your expectations are. But somewhere along the line you have to draw your line, right, what you are comfortable with.

Vivek Modi: And additionally I think as the digital footprint also keeps on improving, though the pace has been pretty slow, but still as it keeps on improving in the MFI, I think it's leaning towards more and more individual kind of a model. When we talk of digital footprint, MSME was all doorstep cash collection, but in the last year or so it has moved to almost 20%, 25%. In certain districts it is as high as 35%, 40%.

Alok Patel: Honestly, if we can do 100% more or less model, which we are trying, I mean, looks like where that is headed towards, I am okay making individual loans as well. I know that’s sacrilegious to say in the open, but maybe JLG now is a concept which has outfit its usefulness. And I am open to that, I am not saying that that is something that I am thinking about doing.

Vivek Modi: Yes, the models which some people are talking about is where the center meetings will keep on happening. But payment will come digitally or the payments are coming in digitally.

Alok Patel: Right, people are doing. So in Karnataka or in Telangana where we have started, we are doing 100% cashless. So it's possible if you really put your head, if you really kind of make sure on the ground level from inception of a branch, okay, this is the only way we want to do it. Any other way, we do not want their business. It's possible to do it.

Ashlesh Sonje: Perfect, sir. Thank you for sharing your thoughts. Very useful.

Alok Patel: Thanks.

Moderator: Thank you. The next question is from the line of Amit Mantri from 2.2 Capital. Please proceed.

Amit Mantri: Yes. Hi, Alok. Hi, Vivek. Just wanted to understand how the trends have been in April and May with the new guardrails coming in with the 2.0? Has that also further resulted in some deterioration in ex-bucket collections?

Alok Patel: Yes. So, April and May have been quite slow for industry, so disbursements have come down quite a bit. Zero DPD buckets have stabilized but are not improving overall. So, there might be a marginal improvement in May. Of course, we will know better in the next couple of days.

Overall, the industry, it's very typical actually for the industry, for a lot of industries actually to have a weak first quarter, right, because fourth quarter is usually quite high up there. And this has historically been the case for us as well. But, yes, unfortunately not that booming recovery that I was hoping for in the first quarter.

Amit Mantri: And on the cost of borrowings front, how is that trending?

Alok Patel: Vivek, its stable?

Vivek Modi: Generally stable, Amit. In fact, the marginal cost of borrowing for the last six months has incrementally kind of come down only by about 25 to 50 basis points. And though immediately we are not seeing any direct benefit coming in from the RBI reduction in the repos. But still I think as we move towards the next couple of quarters, maybe the overall interest softening should start happening.

Amit Mantri: Okay, so none of our borrowings are linked to the repo rate, is it?

Vivek Modi: No, not directly repo rates, but MCLRs have not really come down. None of the banks have really brought down the MCLR, which is the expectation which probably you would always carry that if RBI is softening the rates that somewhere the benefit will start passing out to the ultimate borrowers. But maybe that might happen with the lag effect of one or two quarters.

Alok Patel: Yes, it's very typical, increases get passed on right away and decreases takes some time.

Amit Mantri: And on the Rs. 36 crores of income from ARC sale, just want to understand, sale is in cash or it is in security receipts?

Alok Patel: SRs.

Vivek Modi: This is SRs, I mean, cash and SRs to be specific.

Amit Mantri: And what is the provision that has been taken against the security receipts?

Vivek Modi: So, just to explain this, this has been completely written off book for FY ’24-‘25 accounting for about 95% of the Rs. 185 crores which have been assigned to the ARC.

Amit Mantri: 185, right?

Vivek Modi: Rs. 185 crores, out of which about 95% was the write-off done in ’24-‘25 itself, and the balance the year earlier. So the valuation that we got was about Rs. 35.75 crores for this entire pool of assets. The transaction has happened on 28th of March, so Rs. 36.75 crores is the mark to market kind of value.

Alok Patel: It is about 19%

Vivek Modi: Yes.

Alok Patel: And historically that is what we wiped up collecting between about 20% or so of these types of assets.

Vivek Modi: Right.

Amit Mantri: So basically, typically other banks, when they sell to SRC, they take a provision against the security receipts. And then later on when there is any collection against those receipts, that gets booked as income. So for us, in accounting we haven't done that, is it?

Vivek Modi: For the accounting, it's actually very simple. All the assets that we sold we have written-off, and whatever proceeds we got, we recognized as income. So, I mean, it's really a done deal, what additional other provisions would I require. So, Amit, to best of our understanding, what you are saying does not apply here.

Alok Patel: Yes, I guess there are dozens of different structures with these ARCs. Certainly I am not an expert, this is the first time we have done it.

Amit Mantri: Okay, I think maybe I will separately reach out.

Alok Patel: I am embarrassed to say that I am not exactly sure what you are talking about.

Amit Mantri: Yes, maybe I will reach out separately on this. Thank you.

Moderator: Thank you. The next question is from the line of Anant from My Temple Capital. Please proceed.

Anant Mundra: Hello. Thank you for the opportunity. Sir, just following up from the earlier participant's question, how much of the proceeds from the ARCs sale was cash income and how much was SR?

Vivek Modi: So it's a 15:85, 85 is SR, 15 cash.

Anant Mundra: So about so Rs. 36 crores, Rs. 37 crores that we have realized, out of that 85% is SR and 15% is cash.

Vivek Modi: Yes, Rs. 31 crores is the SR, Rs. 5.5 crores is ARC.

Anant Mundra: So would you like to be kind of testing this quarterly to understand what kind of further provision will be needed to be taken on there?

Vivek Modi: Right, absolutely. So you are right, this will have to be tested quarterly and valuation has to be done on a quarterly basis. So identified valuation likely to happen now in probably Q1 or Q2 or in June.

Alok Patel: June Q1.

Anant Mundra: But I think Rs. 3.5 crores was already recovered.

Vivek Modi: So recovery department itself was about, I mean, post the transaction itself is about Rs. 3.5 crores, Rs. 3.3 crores that has been done, and then the recovery seems to be okay.

Anant Mundra: Okay, got it. And the second question was, how much of the provision that we carry on the Stage-1 and Stage-2 assets in Namra? So could you separately just highlight.

Alok Patel: Yes, Anant, maybe you can move on to the next question, I pull that out.

Anant Mundra: No, this was it from my end.

Alok Patel: This will be something to the tune of almost, out of the Rs. 92 crores that we provided for, about Rs. 58 crores in Stage-1, Stage-2.

Anant Mundra: Sorry, I missed out on the number.

Alok Patel: Out of the Rs. 92 crores of provision in Namra, approximately Rs. 55 crores, Rs. 56 crores would be on Stage-2.

Anant Mundra: Okay. And how big would our Stage-2 bucket be in Namra?

Alok Patel: Can you move to the next question, we will answer your question once I found it.

Anant Mundra: Sure. Thank you. That's it from my end. Thank you.

Alok Patel: Just to just to give you the number. The Stage-1 and Stage-2 provisioning that we have for Namra turns out to be roughly Rs. 53.29 crores, and Rs. 38 crores is the provision against Stage-2 assets. The total Stage-2 assets being about Rs. 85 crores. So Rs. 85 crores of Stage-2 have Rs. 38 crores of provisioning, and balance res 15 crores in Stage-1. Stage-1 being defined as current and 1 to 30 buckets.

Anant Mundra: Got it, that answers. Thank you so much.

Alok Patel: It is basically for micro finance, MFI.

Anant Mundra: Got it.

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

Bharat: Hello. Yes. Hi, Alok. Hi, Vivek. Good evening. Thanks for the opportunity. I just wanted to understand the OPEX increase that we have. I can understand the AUM degrowth is a conscious

decision we have taken. But the OPEX relatively has increased, right, by 50% if I am looking at the annual number, right?

Vivek Modi: Right.

Bharat: So if we just want to look at this on the cost to asset side, if you look at it, it is about 7%, right, which last year it was about 3.8%. So this is a very, very large increase. Branches increase about 20%, right, so just wanted to understand this extra OPEX where is this coming from? And also, how does this look like in next year Q1, Q2 and in FY '26?

Alok Patel: See, so if you look at overall OPEX last year on average AUM, it will be higher than what you quoted. And the same thing right now in a scenario where it is declining, if you look at average AUM let's say beginning of the year end plus end of the year divided by two would be slightly lower than 7%. But I take your point, it has increased. And honestly, the only answer I can give you is that we are in the midst of a crisis. I mean, our number of people have increased by almost 25%. I need people to go and collect the money, which is a very human intensive kind of a job.

And frankly speaking, while the inquiries for FOs have remained somewhat, even that has declined quite a bit in fact. But the number of disbursements per field officer has almost halved. So, I am just not getting the efficiency that I need right now from the field officers. To collect money you have to do RNRs, you have to do incentives, you have to do many, many things that people do not like, so that is also pushing up the operating cost. As I told you, we have hired around almost 160 BCMs which are more expensive normally than other people in the team. Plus the structure above them will be another 30 people. Plus another 600 or so recovery officers are on the team right now. Travel has drastically increased, travel allowances because people are travelling a lot more to collect the money. So, all of these things are contributing to higher OPEX. And while we are trying our best to keep that under control, unfortunately this is just the reality of the situation.

Bharat: Do you think it will stabilize next year? I mean, how do you see it going forward?

Alok Patel: Portfolio starts increasing again, it will definitely come down. 100% come down. So this is a temporary phenomena. Even with the BCM structure, I do not think from a percentage perspective this will remain constant. It will come down to about 5.5% or so.

Vivek Modi: Initially this is supposed to add as an incremental cost, but once the BCM starts taking the credit aspect of the metrics, the field team is freed up for raising the number of inquiries. So the efficiencies which have come down because of the overall stress in the sector are likely to go back once things normalize and the disbursement per FO will start picking up from thereon. Plus, as I said, recovery team is also being revamped and kind of we are investing there as well. So, the typical hard bucket collection kind of rests with the recovery officer, hence again the field team has more bandwidth for the portfolio growth, once we are in a situation to kind of start looking at these portfolio growth more aggressively.

Bharat: So obviously from a portfolio growth perspective, percentage wise it will come down, right. If you could give some color on how it looks like on an absolute basis, because this is a very sharp move and I am hoping that this will not grow much in the coming quarters.

Alok Patel: On an absolute amount it will stabilize, so we do not expect any of those operating costs to drastically increase in quarter-over-quarter basis. Depending on the portfolio behavior if we are able to stabilize the portfolio decline, then obviously in that case, on a percentage level it still might increase, but absolute amounts will remain somewhat stable.

Bharat: So, so far the portfolio decline has been stabilized, right?

Vivek Modi: Yes, in Q4 it was stabilized, in fact it increased in Q4. But in Q1, April and May honestly have been a little slow. Which is, we expect that every year to be honest. But I do not know how June will go. If June goes hopefully slightly better, then it will be stable. Otherwise there might be some minor decline as well.

Bharat: Thanks for the answers. This is super helpful.

Vivek Modi: This is again in the micro book. In the MSME book it will definitely be stable. Q1s are usually stable. There's not a lot of growth in first quarters for finance companies.

Bharat: Of course. Sure. Thank you. All the best.

Alok Patel: Thank you.

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

Shreepal Doshi: Hi, thanks for giving me the opportunity. So my question was on the transition from MFI or JLG to MSME. How much percentage of our MSME customers are typically the JLG customers?

Alok Patel: Very few. I mean, we do not really target the same customers by design. I think most people consider MSME as customers graduated from MFI into MSME. So, we look at it that way. So we are targeting an entire different subset of customers, which is not to say some level of cross movement does not occur, but somewhere around not more than 5% to 6%.

Shreepal Doshi: So in that case, will we be launching a newer product like individual loan product or within JLG the construct only we will try to deploy the credit manager model and continue with that?

Alok Patel: So, we are not doing that, even right now we are not doing individual in the microfinance. We are still following the group model. Down the line there has been discussion internally, especially amongst the upper management, whether this is something that is viable or doable. We will probably launch a pilot I think sometime late this quarter or early next quarter, and we will see where things go, on an individual micro finance product is what I mean.

Shreepal Doshi: Right, right. Got it. Just a couple of questions on data side. So you highlighted that we have Arman plus three at closer to 23%, so is that customer data or is it loan book data?

Alok Patel: Customer data.

Shreepal Doshi: Okay. And this number, how much was it probably let's say in September '24?

Alok Patel: 26%, 27%, I do not remember. I think we had disclosed it.

Vivek Modi: I mean, at that point of, in fact, down the line used to float was Namra plus four also, Namra plus four was I think 12%, 13%, Namra plus three was about 26%, 27%.

Alok Patel: Something like that, yes.

Shreepal Doshi: That's helpful. And just one more data keeping question was on PAR-0. So, I mean, as you also highlighted that the stress levels are sort of coming off, at least we are moving towards the right direction. So just wanted to understand how is the PAR-0 shaped up for us, let's say, from September '24 to March '25?

Alok Patel: So, November zero bucket was 97.4. We peaked at about 98.8 in March and about 98.5 in April. May is yet to get over, but somewhere around that neighborhood or slightly higher is what we are expecting.

Shreepal Doshi: Okay, this is 0 to 30 bucket?

Alok Patel: No, this is the zero DPD.

Shreepal Doshi: That means the customer who had paid last month --

Alok Patel: Yes, yes.

Shreepal Doshi: No, I was asking PAR-0, portfolio at risk, so PAR-0 plus basically.

Vivek Modi: You will have to look at multiple buckets. So PAR-1 to PAR-30 probably that will be like close to 18% or somewhere around that neighborhood.

Vivek Modi: So 1 to 30 would be about --

Alok Patel: What we are saying, all the portfolio of customers who are overdue by even Rs. 1 what is their principle, so in that case it will be about close to 18%. But I do not know what the amount is once you remove the write-offs.

Shreepal Doshi: Right, right, that will be lower right. So today it's 18%, you said?

Alok Patel: Whatever we have to collect. I am giving you more of the operational number. There's an accounting write-off and there's an operational write-off. So accounting write-off happens much, much, much before operational write-off operations. In operations we continue to follow up sometimes for years if there is a chance of getting it back. So that just depends, because once we do operational write-off, that means all efforts completely stop, there's no further efforts that go in to recovery.

Shreepal Doshi: Got it. I think that's it from my end, I will take it offline maybe. Yes, thank you. Thank you for answering my questions.

Alok Patel: Sure.

Moderator: Thank you. The next question is from the line of Amit from Dream Big Wealth manager. Please proceed.

Amit: Sir, I just wanted to ask two questions from the organization. First question is, what is the effect of monsoons on your business? For example, this year there is a chance that the monsoons are going to be very, very good for India. So, do good monsoons have any positive effect on your business?

Alok Patel: Yes. Definite. I mean, it has a positive effect on the country and the economy as a whole, so obviously good monsoons will have a good impact on us. But it's a dual edged sword, because it creates a lot of temporary issues for us in terms of collections and disbursements sometimes, especially in the peak monsoons there are many areas that have really heavy rain become inaccessible other issues. So operationally speaking, it does raise some challenges. But overall, good rains are definitely good for us.

Amit: And I think most of your business is in rural and semi urban areas, so monsoons, do they have a direct effect on the incomes of those families which avail your services, sir?

Alok Patel: I mean, we do not do a lot of direct agri, to be honest. But as I said, there's a chain reaction that reaches all the way to across the entire economy. So, while there is no direct, I mean, there would be minimal direct impact as well, but most of the benefits would be indirect.

Amit: Okay, thank you. And one more question will be asked my colleague, Mr. Santosh Jain.

Santosh Jain: Sir, if this quarter major income come from sale of financial assets, so when are we expecting to get profitable without additional income on financial instrument?

Alok Patel: Well, I mean, here's the thing. So, I mean, on a consol level, we are profitable even without the ARC and stuff. Honestly, by Q2, we are expecting even micro to be independently profitable. But I mean, do not hold me to that. We are trying our best. At consol level, we should continue to remain profitable.

Santosh Jain: Thank you so much, sir, for answering our question. Thank you so much.

Alok Patel: Thank you.

Moderator: Thank you. Due to time constraints, that was the last question. I now hand the conference over to Mr. Shreepal Doshi for his closing comment.

Shreepal Doshi: Yes. Hi Shruti, thanks. And thank you, Alok sir, for giving us the opportunity. And have a good weekend ahead. Thank you. Thank you, all.

Alok Patel: Thank you. Bye.

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