OnEMI Technology Solutions Limited (Kissht)

Q2 FY27 Earnings Conference Call

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AND SENIOR MANAGEMENT TEAM

Moderator: Good afternoon, everyone. Welcome to the Q2 FY27 Earnings call of OnEMI Technology Solutions Limited.

We have with us today Mr. Ranvir Singh, Chairman, Director, and Chief Executive Officer, Mr. Krishnan Vishwanathan, Director and Chief Financial Officer, and the Senior Management Team. I shall now hand over the call to the management for their opening remarks. Over to you, gentlemen.

Ranvir Singh: Thank you, Mehak. Good afternoon, everyone, and welcome to Kissht's Q2 FY27 Earnings call. Let me start with a simple thought. Lending is one of the oldest businesses in the world, but the way we practice it, is decidedly new. We have compressed what traditionally took days into a matter of minutes. Today, a customer can go from the first tap on a phone to money in their bank account in just a few minutes. Behind that simplicity sits years of investment, across data science, AI, machine learning, underwriting intelligence, and technology-led collections. What looks effortless to the customer is enormous complexity behind the scenes. And that, in many ways, is the essence of what we have built at Kissht. In lending, one good quarter proves very little. Growth is remarkably easy to achieve: just lower your standards, and the applause comes immediately, but the reckoning comes later. So the only honest measure of a lender is consistency, which means growing without loosening credit standards, and earning without shortcuts… quarter after quarter. This quarter for us, registered users reached 79.5 million, up 32.6% year-on-year. We have now served 12.8 million customers, up 22.5%. AUM reached Rs. 9,317 crore, up 68.4% year-on-year, and 16.4% quarter on quarter. Profit after tax was Rs. 125 crore, double of what we earned a year ago, and 31.6% above last quarter. Return on average AUM was 5.78%. We believe growth without profitability is, expensive ambition, while profitability without growth is comfortable stagnation. The real achievement is to deliver both - not at the expense of tomorrow, but on the strength of what we built today.

On the macro picture, India's economy remains remarkably resilient, despite an unsettled world. GDP grew 7.8% in the first quarter, and the RBI has raised its FY27 growth forecast to 7.1%. Despite a below-average monsoon and some softness in urban discretionary spends, consumption is turning up. FMCG value growth hit a six-quarter high of 8.6% in Q2. The festive season and industry tell the same story. E-commerce festive season sales are up 20-22%. Electricity consumption rose 11.4% in September, a strong signal of industrial activity. Further, GST collection is up 14% year-on-year. At the same time, the RBI has raised the repo rate by 25 basis points to 5.50%, in what is clearly a calibrated tightening. The message is clear : Growth remains robust, but money is getting dearer. Even as borrowing costs rise across the system, our cost of borrowing has fallen by approximately 70 basis points, from 14.45% to 13.76%. The total finance cost, as a share of average AUM, has also fallen by 100 basis points quarter on quarter. Policy tightening may slow this improvement, but we do not expect it to reverse the trend, and we will continue to see reduction in our cost of fund for future. On regulation, the proposed IRDAI changes on insurance commissions and loan-link insurance have drawn a lot of attention. Insurance is less than 1.4% of our total income, our offerings have always been voluntary, and we expect no material impact on earnings.

We also welcome the RBI's move to make account aggregators interoperable by December 2026. In lending, better information is not merely an advantage, it is the foundation of better judgment. Consent-based access to verified financial data will make our underwriting both faster and more precise. The macro environment offers reasons for confidence, but none for complacency. Our priorities remain unchanged, which is basically disciplined underwriting, prudent funding, and sustainable growth.

Let me turn to what we are seeing in the retail credit market. Across the industry, retail loan sanctions are up by nearly 20% year-on-year. Lenders are favoring larger loans and better quality borrowers, and the share of below-prime and new-to-credit customers is falling. Yet, as per Bureau, the industry Retail credit balances have grown 19%, while the number of borrowers has grown less than 9%. The implication is clear, indebtedness is rising far faster than the borrower base. That warrants close attention. At Kissht, we have been moving deliberately in the opposite direction, which is going after less leveraged customers. The share of new loans to customers with 3 or more live loans has fallen more than 35% over the past 12 months, and more than 7% quarter on quarter. While the industry's borrowers are getting more leveraged, we are steadily lending less to leveraged borrowers. Our shift towards higher quality borrowers continues. Loans to customers with bureau scores above 760 has risen from 20.8% to 24.8%. And only about 4% of our loans go to customer scoring Below 700. Gold loans are another example. We flagged rising gold loan exposure as a risk in September 2025, and 13 months back began restricting lending to consumers carrying gold loan. Which has now come down to as low as sub 8% of the total book, with tighter curbs in the North than in the South. We've acted well before the industry began worrying about stress in gold loans. Our machine-learning models continuously flag early signs of stress, and the segments where exposure needs to be cut. The objective is simple… act before the stress reaches the balance sheet. And let me tell you, this is business as usual for us, not an occasional intervention. This is something that we do daily, day in, day out. Our underwriting discipline doesn't depend on a kind credit cycle. We tighten early, grow selectively, and lend only where the numbers earn it.

Talking about key numbers, AUM grew to Rs. 9,317 crore, up 68% year-on-year, 16% quarter-on-quarter. Disbursements were Rs. 4,612 crore, up 56% year-on-year. AUM is growing faster than the disbursement, and that is by design. Our better customers take longer-tenure loans, so each rupee we lend stays on the book longer, and with a better quality outcome. Average tenure has risen to 17.8 months, and the average ticket to Rs. 43,380. We have a high latitude to increase our ticket size. Let me repeat, we have a high latitude to increase our ticket size; however, given our overall prudence in limiting customer-level exposure, we have kept it deliberately moderate.

Our base keeps broadening. We have served 12.8 million customers, up 22% year-on-year, and active customers grew 58% year-on-year to 3.61 million. Total income was Rs. 740 crore, up 43% year-on-year. As a share of average AUM, it moved from 35.9% to 34.2% quarter on quarter. That reflects our relentless focus on better-credit worthy customers. And as our own costs fall, we share part of the gain with our customers, which attracts even better borrowers.

It's a virtuous cycle : lower costs, better customers, and then lower risk. Pre-provisioning operating profit was Rs. 287 crores, up 40% year-on-year, and 12% quarter on quarter. Profit after tax was Rs. 125 crore, which has doubled year on year, and is up 32% quarter on quarter. Return on average AUM rose 73 basis points to 5.78%, and return on average equity was 21.65%.

Talking about asset quality. It improved on almost every measure, rather emphatically and unambiguously. Credit costs fell to 6.2% of average AUM, from 6.8% last quarter and 9.3% a year ago. Last quarter, we said the rise in Stage-2 was seasonal. It has reversed, as we said it would. Stage-2 is back to 2.37%, from 3.15% in June, and 4.11% a year ago. The Stage-2, we expect to remain constant throughout the year. Gross NPA improved to 2.18%, down 7 basis points over the quarter, and 75 basis points over the year. Net NPA was 0.34%, better by 2 basis points compared with last quarter. The earliest signal of loan quality is improving, too. First EMI 90+ delinquency fell to 0.69%, from 0.73% last quarter and 1.16% a year ago. Collection efficiency was 97.12%, which is better by 30 bps compared with last quarter. We continue to provide conservatively, with Stage-3 coverage at 84.6% and Stage-2 coverage at 77.6%. As far as asset quality goes, we would rather be accused of caution than caught without it. Talking about our LAP business, we continue to scale steadily. AUM is Rs. 737 crore, or 7.9% of the total, up from 4.1% a year ago. We now operate across 107 branches in 9 states and union territories. More than 40% of LAP customers are existing Kissht customers. One important thing on LAP is, LAP has turned positive this quarter, a quarter ahead of the break-even we guided, which is in Q2, it has happened, as against Q3, what we had mentioned in the past.

Talking about the balance sheet, net worth stood at Rs. 2,377 crore as on September 2026. Capital adequacy is 34.76%, down from 40.19% last quarter. That is exactly what should happen as IPO capital is put to work, and it remains well above what regulation requires. On book debt to equity is a conservative 0.94X. Our average cost of borrowing is 13.76%. Finance cost fell 12% over the quarter, even as borrowings grew, that is the roll-off of legacy borrowings at work, rather. Funding remains well spread… on-book AUM of Rs 4,199 crore, and off-book AUM of Rs. 5,118 crore, a 45:55 split with more than 45 lending partners. Our NBFC subsidiary is rated A-/stable by CRISIL and India Ratings, and A/stable by Acuite, which upgraded us this quarter.

We also completed a preferential allotment of Rs. 832 crore, approved by shareholders at the EGM on 14th October, and subsequently received in-principle approval from the exchanges. The benefit of this net worth, we will only see from next quarter onwards. It drew large marquee investors, a clear vote of confidence in the long road ahead, for us. Talking about technology, rather than walk you through our architecture again, let me tell you what changed this quarter. I believe AI is easy to talk about and much harder to put in motion, where it delivers a strong P&L impact. The only claim worth making is one you can measure. On underwriting, I would say AI improves our decision in two ways, very, very emphatic ways, rather. First, better models, now in their 42nd iteration, with an AUC (Area Under the Curve)

of 75%, up from 66% in 2023. AUC measures how well a model separates those who will repay from those who will not. The higher it goes, the fewer good customers we turn away, and the fewer bad loans we make. Transformer-based sequence models alone added 2.5 points of that gain… trained on more than 10 million data points, by a team of over 50 data scientists. The second benefit is, the faster feedback… monitoring agents watch the portfolio, and the models themselves, for drift. They flag deterioration by location, by customer profile, and in model performance. And they do it in real time, not months later when defaults show up. Mind you, I reiterate real time, not a month later, not a week later, now. Our risk team acts on each flag tightening policy for a region, or a segment, or recalibrating a model. Last quarter, that meant 7 such actions. And for us, that is simply business as usual. Our job, every single day, as I mentioned, is to catch every signal, big or small, and to act on it before it becomes a loss. On collections, our voice agents in early buckets now recover at more than 85% of a human caller's rate. This is up from 80% last quarter, and 70% before that.

On fraud management, we use specialist AI agents for documents and images, text, data patterns, and networks. The AI agent proposes new fraud rules on its own as patterns emerge. In LAP, AI now reads and verifies income proofs, bank statements, property documents of myriad types with vernacular fluency, and flags any anomaly in valuation. Each of these AI initiatives, I should say, lowers a cost or lowers a risk, because for us, AI is not at the periphery, not at the boundaries, but it is very much at the core. On cybersecurity, all our systems are fully patched against PHP2Shell, the critical PHP weakness flagged by cybersecurity agencies last week.

Moving on to the guidance for the future. Given the momentum in the first half, we are raising our FY27 AUM growth guidance from 40% plus to 60% plus. We are also raising our target for reduction in impairment cost, we had said it will come down by 10-15%. We are now saying it will be emphatically more than 15% reduction year on year. The rest of our guidance stands : return on average equity would be above 20%, and the gross NPA below 2.25%. I reiterate, we remain firmly on track on all other profitability-related guidance.

As closing remarks, I should say two quarters as a listing company is a short period, but even a short record can tell you a great deal. What it tells you is a bigger book and a cleaner one, rising profits and a falling cost. In lending, these pairs are not supposed to travel together. When they do, it is because the hard work was done long before the numbers showed it. In the models we built, in the collections we ran, and in the loans we had the discipline to refuse. I should say ambition is easy to announce, discipline has to be demonstrated. And here, trust is not asked for, it is earned, one quarter at a time. The opportunity in India is vast, and we intend to pursue it with conviction as much as with care. With that, my thanks to our lending partners, our team, our investors, including all those who have joined us on this call for this quarter. We are happy to take your questions now.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Meet Trivedi. Please go ahead.

Meet Trivedi: Thank you for giving me the opportunity. So, I just had, one question that, like, if I'm, correct, the AUM for this quarter has grown by 68% year-on-year, whereas the customers that we cater to have only grown by 21-22, odd percentages. So, like, just wanted to ask that what… where is this growth coming from in the AUM? Like, is there an average ticket size increasing, or is there something else?

Ranvir Singh: Yeah, absolutely. The growth is coming from three big sources. Number one, it is coming on account of deepening the existing customer base. When I say, deepening the existing customer base, if you look at our repeat customer rate, it has gone up. Not only the repeat customer… so the deepening reflects not only in the share of repeat increasing, but more importantly, the ticket size of the repeat has also increased. So that's one big driver of growth.

The second big driver of growth, where I think one of the strategies we have tried communicating unambiguously without any scruples, that with every passing day, we are going after high-quality customers. When I say high-quality customers, it simply means the probability of default I attach to them is significantly lower. And when I do that, these customers come at a higher ticket size. So because they are high quality, their requirement is high, their income levels justify a higher income, etc. So that's the second, part, you know, which is adding to the growth, because the ticket size is increasing.

Last but not the least, there is an overall growth that we see, which is also happening on account of our tenure increasing. We have been extremely prudent in increasing the tenure. But, if you compare it with, you know, say, last one year, there has been a slight increase in the tenure. It is actually linked to point 1 and 2 only, because when you cater to high-quality customers, their expectation is higher. You want to give them at a lower rate to make the economics work, you actually offer them a slightly higher tenure, where the confidence on, for us to. On the economics, plus also on the risk is pretty high, so that's the other reason this contributed to the growth. Thank you.

Meet Trivedi: Alright, sir, thank you so much. And sir, I had just one more question. That, you have raised your ROA guidance to 20% plus, for the coming quarters, and also, if I'm right, you pass on your lower funding costs to the customer. So, just wanted to understand, how do you balance the trade-off between these margins and the returns that you target for the coming quarters?

Ranvir Singh: Yeah, so the reason we are so confident on the 20% ROE is, because, as I have mentioned in the past, I'm mentioning it again, there are three big changes happening in my ROE. The first is, I'm getting a cost of fund benefit. I know the repo rate has increased and many other things, but despite that, I'm getting a cost of fund benefit. I mean, the best example of this is if you look at my cost of borrowing, it is at 13.75%. But if you look at the rate at which I raised NCD, it was almost 150 basis point lower than that. So, that decrease is happening because I'm going to get benefit on account of my rating has improved that has to play out fully. Of course, there's another matter that very soon I'm hoping another rating upgrade should happen, because I have done two fundraises since, you know, the rating, since, the, A- was given by CRISIL, and A

has recently given by Acuite. But the point I'm making is there are three big changes which are happening. Number one : the cost of fund is coming down. Number two : with every passing day, operating leverage is playing in, so I'm getting the benefit of that. Sometimes we tend to not extract the full benefit of operating leverage, because we tend to over-invest in collection. But that is a benefit nonetheless. And, last but not the least is my risk cost is coming down, which is the, you know, the guidance that I have given is 15% emphatically, year on year it will come down. So if you take all these benefits, the strategy that we follow is we pass part of the benefit to the customer, and hence the reduction in the margin, while still maintaining our ROAs and ROE to the level that we have delivered in the past, plus a cushion more, so as to take care of any eventuality if it may come in future. And then that's how we manage it.

Moderator: Thank you. Next question comes from the line of Dhir Thakker.

Dhir Thakker: Good afternoon, sir. So, I just had a couple of questions. Firstly, on your profitability side, I see your revenue income has grown by about 43%, but your PAT, on the other hand, has nearly doubled year-on-year. I just wanted to understand the key drivers of this improvement.

Ranvir Singh: Dhir, thank you for this question. It's rather very simple. Though my revenues have increased so much, but my profitability has increased by a higher margin, because of the same phenomena that I was laying out as a response to my earlier question, that I am getting benefit on cost of fund, on the operating leverage side, and also on the risk cost. Now, the same benefit has played out in the past, and because it has the same benefit I have seen playing out in the last 3-4 years. I can say with a lot of conviction that it will play out the same way in, you know, next few years as well. So, if you have this, what you see is your revenue may have increased by only, you know, 43%, as you said, because we are following a deliberate strategy of passing on the benefits, part of the benefit to the customer. While your eventual profitability will only be much, much higher. I think the right number to compare is with respect to our AUM, because one of the things we had said is we are not going to compromise on our profitability, which is coming as profitability defined as return on average assets and return on average equity. So, if you compare it with this, then you will see the 100% doesn't look like too stark a difference. My AUM has also grown almost similar level. As much as my, my, profits.

Dhir Thakker: Got it, sir. So, just one more question from my side. This is on, cost of funds and cost of borrowing. So, I see, cost of funds have, fallen down by about 12% quarter on quarter. So, just wanted to understand if there is any further room, for improvement in the coming quarters on this side.

Ranvir Singh: Hey, Krishnan, you want to answer that?

Krishnan Vishwanathan: Yeah, yeah. So you're right, the finance cost has gone reduced by 12% quarter on quarter. As Ranvir had alluded in his, earlier this thing, our cost of borrowing for the quarter has come down to 13.7% from what was 14.5% in the previous quarter. I think what is missing in this is the incremental borrowing that we did in quarter two was 12.1%. So, if I were to just extend

this forward and assume no further benefit in cost of funds, in the next 6 to 10 months, our old debt, which was, of course, raised at a time when we were rated lower, will drop off, and all of the new borrowings will kick in. So, we expect the 12.1% raise to reflect in the overall cost of borrowings over the next 3 to 4 quarters. Of course, there is a strong belief that in the same time, we should get re-rated by our other rating agencies - CRISIL and India ratings as well. So, the incremental borrowing cost itself will come down. So, at the very least, there will be a 150 basis point reduction in the next 3 to 4 quarters. But it could be higher as well.

Moderator: Thank you. Next question is from the line of Nidhesh Jain.

Nidhesh Jain: Hi, Ranvir. Hi, Krishnan. So, when you're talking about increasing the share of better quality customers, how are you attracting those customers to your platform? Because in the past, the customer segment was different. So, which channels we are targeting, and what is the CAC for those customers?

Ranvir Singh: Yeah, yeah, no, that's a very good question, Nidhesh. So, there are, there are three prominent channels which are adding to this so-called high-quality, better credit-worthy customers. First and foremost, Our app sourcing, is geared towards going after customers who have income levels at least 20-30% higher than what we have done in the past. So, for example, there is a big campaign that we run where the income level of the customer is greater than 1 lakh. These are a combination of salaried and self-employed. If it is a salaried person, it is mostly working in a decent, mid-size, sometimes even a corporate, company. These are specific campaigns that we run on, these set of customers. We also see an overlap between these customers and who are basically non-revolvers in credit card. So, I'm just giving one example, but that is one big segment that we go after, through App. Just within that app, I should also mention, we have, iOS app, basically the Apple app and the Android app. The quality of customers coming from Apple App, is better than the Android, so there is also a more focus. In fact, if you see how our numbers have changed in the last 3-4 quarters, we get higher share of customers who have had, Apple app as, against the Android app, so there's more spent on Apple as much as, so that's the other nuance around it.

But second, more importantly, there are specific aggregators we work with. And when I say aggregators, these are basically people who have large base of customers. They vary from, you know, people who provide UPI services to the payment companies, to broking companies, wealth companies, etc, etc. Now, even when we look at that full landscape, we see there are you know, mutual fund owners, or people who invest in mutual fund, or who are into markets who generally have a higher, you know, income levels and higher net worth as well. We try to, attract those customers, so basically partnership with some of the big, you know, wealth firms, big broking firms. Here, again, the cutoff that we take is people who have income levels greater than 1 lakh per month across all segments, salaried, self-employed, etc, etc. Usually, we find this opportunity primarily in the top, I would say, 30 centers. So, let alone, you know, Tier 2 or Tier 3, it is the top 30 centers opportunity where we find, so that's the second area which becomes very critical from a sourcing standpoint.

The impact on CAC is as follows. So, our normal CAC overall is around, Rs. 850 odd the blended CAC. The CAC for this segment goes to as high as Rs. 1,200, and again, I'm talking about blended. Now, the increase which is there, of around Rs. 350-400 gets well compensated because the ticket size for these customers is higher, the high-quality customers who we are talking about, and they have a longer tenure, so we end up making, on an absolute level, much more than whatever is the delta in the CAC that we see. And slowly and steadily, we are becoming a fixture, showing a presence in this segment.

Moderator: Thank you. The next question comes from the line of Pranav Nakti.

Pranav Nakti: Yeah, so I have a question regarding the credit cost. So, you know the credit cost has decreased to around 6.2% of the AUM and which is a really good number, but how do you see this number moving forward? Will it reduce, or stay sustainable, or, you know, increase in the future?

Ranvir Singh: Okay, I will request Neha, who is our head of analytics and data science, to answer that, but let me just give a first preliminary answer. The 6.2% is going to further reduce, for all the reasons I mentioned that, you know, credit, we are going after high-quality customers, and it also ties back with our guidance that we are going to see more than 15% reduction in the credit cost, so we only are hoping that this will further, not hoping, but we say with full conviction that it will come down. Neha, you may want to give a broader commentary on why we believe we don't see a stress and this will come down.

Neha Shivran: So, yes, our credit cost has improved. It has declined, to 6.2 of average AUM from 6.8 and 9.3 a year ago. Along with this, our GNPA has also come down to 2.18%, down by 75 basis points, and Stage-2 also has come down. Like we said, we remain focused on this sustained improvement, and we expect, the number to go down by another 15% year-on-year. Now, this, follows the same trajectory that we've been talking about. We are, every single passing day, looking at high-quality customers, deepening our existing base and, trying to reduce the risk cost. This is what we wanted to state.

Ranvir Singh: Yeah. Hey, just one other thing I will add, that, you know, some of the concerns which have been raised in the economy If I just, you know, jog my memory and say, in the last four quarters, the concerns have come on the back of Gold Loan, which is a more recent thing as I mentioned in my introductory speech, that we have been telling people who know us, who have had more bilateral discussion with us, we have been telling this almost for the last 12, 15 months, that we see, you know, in pockets, not in overall, customers overlapping gold loan exposures. You know, and we have taken a firm stand to reduce it quarter on quarter, month on month.

Similarly, there's a risk on drought affected areas. There again, our contribution, or the business which comes from drought-affected areas, is around sub 6%. That also is well within our, and that 6% is doing fairly well. There is no stress that we see. I know MFI is no longer seen as that big an issue, but our overlap with MFI customers is also very, very small. Our overlap with customers who may be impacted by, say, Monsoon, for example, who may have taken Kisan

credit card, that also is sub some 3% odd or so, people having exposures on, you know, KCC, or have some portion of their income dependent upon, agribusiness. So, the point I'm making is, see, one is, of course, the numbers which is an accounting number of 6.2%, and this will come down. But more importantly, I think the point that, we have been trying to convey is we just have a very different approach of running a business, and the approach is… our day job, when I say our day job, my job, Neha's job, the 50-member team day job, is always to pick up those signals. And don't wait for the signals to get converted into losses, and then put a curve. And based on that, we keep making tweaks every now and then. Some of those tweaks are, in retrospect, maybe too much of conservatism, that it leads to a business loss that also have been learning, but that's something that we do almost day in, day out. Thank you.

Moderator: Thank you. The next question comes down the line of Shubham Karvande.

Shubham Karvande: Hi, sir, good afternoon. Congratulations on a good quarter. I have a few questions: I'll start with the first one. The effective tax rate fell to 19% from 26% last quarter. I just wanted to understand what drove it, and is this going to continue for the next one or two quarters? I think maybe you can answer this question, then I'll ask the rest of them.

Ranvir Singh: Hey, Krishnan, you want to answer that?

Krishnan Vishwanathan: Yes, let me take that. So the reduction in the tax rate, effective tax rate, is because there are some benefits linked to the ESOP expenses that the company has incurred. As you may know that, from before the listing period and, of course, the post-listing period, the company has 3 ESOP policies, and on the back of which it has been giving ESOPs to the employees. The company, over a period of time, incurred a lot of costs linked to these ESOPs. And there are some tax codes which allow for, you know, some of the tax… effective tax to reduce on the back of these ESOPs. So, it's basically a reflection of the expenses in the past that the company has incurred, and will likely… well, not likely, but will definitely be incurring in the near future. So, this benefit will accrue, the pace of the benefit will, of course, reduce over the next few quarters, but there's going to be some benefit that will keep accruing over the next three to five quarters.

Shubham Karvande: Okay, understood. Thank you, sir. Next question is, on the provision coverage. The Stage-1 coverage was raised by roughly 45 bps in this quarter, while Stage-2 coverage did come down a little. Is that a deliberate policy call? And also, you know, the Stage-1 coverage has been increasing for the past few quarters now. What would be the steady stage, you know, coverage ratio that you'd be looking for for stage-1 and also for Stage-2, Stage-3?

Krishnan Vishwanathan: So, just saying, first at a policy level, the thing that has changed is that the provision coverage in LAP, there has been some changes where it is not, the 1 to 30 bucket in Stage-1 and, Stage-2 and Stage-3, rather Stage-2, there has been some modifications that have happened in terms of just being more prudent and therefore higher provision coverage ratio. What you see at the overall level is more a function of the ratio of, you know, LAP AUM and the PL AUM that is

getting reflected. There is no policy change or any change that we are anticipating in the personal loan. Even for LAP, we don't foresee. This is just a correction we did as we basically took some more prudent calls in terms of how we should think about delinquent portfolio provision coverage in LAP. No change in the standard LAP portfolio. So, it should remain stable going forward.

Moderator: Thank you. The next question comes from the line of Chinmay Joshi.

Chinmay Joshi: Good afternoon, sir. So, my question is regarding, at what point do you expect the operating leverage to kick in, given that the OPEX is growing around 58% YOY faster than income?

Krishnan Vishwanathan: So, you know, the operating leverage still has significant headroom for improvement. As Ranvir had alluded to, we see that benefit continue to accrue, I would say, for multiple quarters. This is a reflection of the fact that a large part of the OPEX is embedded in indirect fixed cost. And as we continue to scale and grow at the pace we are right now that part of the leverage should give us enough headroom for many quarters. I would, the only caveat I will say is that, as much as, you know, the OPEX to AUM is improving on a quarter-on-quarter basis. We would never hesitate in investing behind you know, added collection if it is required, if there are any stress situations that develop in the economy. We would not hesitate to invest additional money if required for AI initiatives. But, you know, leaving all of those aside, we should see the improvement, which is anywhere from 40 to 50 basis points on a quarter-on-quarter basis, to sustain itself for many quarters.

Chinmay Joshi: Okay, sir, got it. And the follow-up question is, how do you see LAP scaling from current 8% of AUM, and how are the branches performing in driving this growth?

Ranvir Singh: Yeah, so, first of all, we are extremely, extremely pleased with the way the LAP business has grown over the last many quarters. And I don't know if you missed out my comment, but LAP has become profitable from Q2. Our earlier estimate was that it will become profitable in Q3, but it has become on Q2, largely on account of, better than expected risk. As far as the scale-up is concerned, the growth in LAP is only going to be upwards of around 15% to 20% quarter on quarter. So we are expecting a high growth rate scenario there as well. The base, of course, in LAP is much smaller. As a proportion of total business, it has moved from 7.8 to 7.9. But that is only because our PL is growing at a faster rate, so it will be very, very inappropriate to measure the LAP business only as a proportion of total business. The overall growth, as I mentioned, in this business, has been almost the same level as, the PL business. So, we feel it will continue to grow at least for the next two years, almost at that rate. If you apply that rate, we are almost talking about business becoming two and a half times. Last thing I would say is, the branch profitability has improved quite significantly. We feel great about it. It's a contribution coming, from not only the Kissht customer base, but also, also people who are, you know, outside of the Kissht system, which we acquire either through open market sourcing or our partnership with, you know, people who are distributors in the market. One other mentionable thing on the LAP is, given the outcome that we are seeing, with every passing day,

the comfort on our ability to deliver ROE of upwards of 20% is only being higher. We see a benefit of increasing the ticket size only slightly, because, you know, when you increase the ticket size, you're able to serve to a much larger base of customers, high quality, etc. So, all in all, to your question, the growth rate is going to be almost, in next two years, 2.5 times of what we are today.

Moderator: Thank you. The next question is a follow-up from Shubham Karvande.

Shubham Karvande: Thank you so much, sir, for giving me the opportunity once again. I just had a few more questions. One, on the other expense, on the expenses part of it, I can see the LAP branches did increase by 6, but the overall number of employees that you have for LAP that, has not quite increased, you know, quite as much. So, you know, what would be the policy or average, employee per LAP, branch going forward? Two, and I ask this because the, you know, employee cost that you had this quarter was, a bit lower than the first quarter but while your other expenses did end up rising, maybe you could just give a brief breakdown of, you know, other expenses, what part of it is rising, and how much do we expect it to go ahead. Along with that, I'll also have to… I'll squeeze in a couple of more questions. One, a data-keeping question. What is your organic sourcing percentage as in this quarter? As you had mentioned, 31%, as I remember in the last quarter. And There's… okay, maybe you can just answer this for now.

Ranvir Singh: Yeah, yeah, thanks for asking a very eclectic set of questions, Shubham. First is, both question one+ and question two, the answer is, similar. We are in the LAP business. In the beginning, when we created, we did the thing of getting everybody on our payrolls. And we realized that the more efficient model is not to have everybody on the payrolls. We should have limited number of people in the branches, and keep other people not on your payrolls. It just delivers a better performance management structure. You can do, their fixed plus variable breakup in a far more, you know, appropriate, flexible manner. So, what we did is, we transferred a set of people who were earlier on our payrolls to a third party. And we will continue to do that. We did it only in the LAP business, and I don't think we have completed the full thing, so you may see the same thing happening in Q3 as well. So, the important point is, you will see a reduction in the employee cost, but you will not see a reduction in the overall cost as far as this transition is concerned.

I think there's a broader point as far as the overall cost is involved. If you look at our overall employee cost, I will break it into three parts in terms of, you know, people who are people who are central office staff, people like me, Krishnan, and all the people who are there on the call, and a full team of, you know, all the technology, product, analytics, all that team. There are a set of people, a large number of people who are collections people. And then there are all other functions. Now, those all other functions are broken down into support functions and people who are, I would call it a direct cost. And I think the point which Krishnan was also alluding to, as we scale up, we don't see any increase in the cost, which is at the central office level, and the operating leverage benefit is crystal clear there. While the collection cost, because it's a direct cost, you will not see that benefit, that cost will not, become half just

because the business has become, you know, double. But there are some scale efficiency you realize there also, because once you go to higher ticket size, you end up collecting… the same effort goes into collecting higher amount… higher EMI amount, and so on and so forth. So, you will see some benefit, but not the star benefit that you see on the operating leverage when you talk… see the overall central cause. So that's the phenomena that we will see. I will reiterate what Krishnan said, we will never shy away, as much as we are seeking operating leverage, and I think it is coming out in a very, very prominent form, but if we find anywhere that we want to continue to deliver high-quality risk numbers, we would not mind, over-investing in the technology, particularly the tech-led collections piece. That's that, and the last question which you ask, which is, what portion of my business is organic? You are right, it was 30% odd last, quarter. It remains, 30% only, between 30 and 30.5, for this quarter also.

Shubham Karvande: Okay, okay, thanks, thanks a lot, Ranvir. Just one more question, if I could just squeeze in. You said the better quality of customers that you're bringing in right now have a higher average ticket size. You know, roughly, what ceiling do you have in mind on increasing your ticket sizes going forward, and maybe by what time?

Ranvir Singh: Yeah, so Shubham, one thing I should say, whenever I compare myself with the industry for the same customer, because the same customer sometimes is borrowing from other prominent NBFCs in the market, I realize that I have taken a very, very conservative stance on customer. I mean, the example is, even if somebody who is, say, you and I apply to my platform will end up approving for a very small amount, because I take a portfolio view. So, first thing I want to say is, because I take a very prudent call on the portfolio view, my ticket size is, deliberately, I want to keep it lower, right now. Talking about your question on ceiling, the ceiling at this point is 3 lakhs. We barely breached that ceiling. When I say we barely breached that ceiling, means there are barely, you know, very small proportion of loans which are between 2 to 3 lakhs. The proportion of those loans would be less than 5%. But if you look at our current ticket size, average ticket size is 43,000. But there is a cohort who we qualify as, you know, high-quality customer. There's an internal terminology for that, but those are the customers where we see a ticket size higher than what we have. But the maximum ticket size that we go is, not more than 3 lakhs. And very small proportion of the people who are above 1 lakh and above 2 lakh.

Shubham Karvande: Okay, very clear. Thanks a lot, Ranvir. Thanks, Krishnan.

Moderator: Thank you. The next question comes from the line of Pranav Gupta, Axis MF.

Pranav Gupta: Yeah, hi. Just a couple of clarifications. So, you mentioned that you see risk cost going down, by more than 15%. That's on a quarter-on-quarter basis?

Ranvir Singh: No, so when we say risk cost coming down, we gave the guidance on year-on-year basis. So, the credit cost that we had, Q4FY26, if you compare with Q4FY27, We will be 15% down. More than 15% down. I think we have already covered a good portion in that, but the point is, so we started with 7.0% of Q4, that was the credit cost in the last listing, and it was declining, like,

from 9.3% it became 7.7% odd. So, we are saying that by Q4, we will see this 7% odd, will be lower by 15%, the number comes to almost 5.8% or so.

Pranav Gupta: Understood, understood. Second is on the… on the borrowing cost. If I heard you right, did you mention that you can see… sorry, on operating cost, did you mention that you'll see a 50 basis points improvement on a quarter-on-quarter basis?

Moderator: Yes, the improvement would be, more than that. What Krishnan was laying, that we will see almost a 25 to 40 basis point improvement on the OPEX. And the way to put this would be of the total cost that we have, given that we… if we become double. With the growth rate at which we are going, which may happen over a period of 18 months. We will see our, almost 50% of our current costs are indirect in nature. And, that 50% will come almost half. So, if you do the math, it basically boils down to over a period of 6 quarters. We will get a benefit of around 2.5 to 3%. And if you put it quarter by quarter, we are talking about almost, you know, 40 basis point improvement. But yeah, this is what I'm talking about as what will happen, but whenever it comes to giving guidance and saying future, we always take a conservative stance, so it will be around 25 to 40 basis point improvement.

Pranav Gupta: No, that's, that's very clear. And, you know, the third thing, on a more medium-term basis, you mentioned that, overlaps with MFI, overlaps with high-gold loan exposure customers, customers with KCC exposures are fairly low, but just when we look at our risk indicators, which we monitor on a regular basis. Are we seeing, are we seeing anything that, that sort of, any trends that show up, at a, at a broader level, not in micro-markets, but at a broader level in terms of stress increasing, leverage increasing? Any of those indicators that pop up on a, you know, overall level, not just micro-market driven. That'll be good, thanks.

Ranvir Singh: No, no, absolutely. So let me first lay out very clearly, I'm… I was just pulling out the data. Of course, this data is not there in the KPI sheet, but my MFI overlap is less than 3.4%. My KCC overlap is less than 2.6%. Share of customers who are at, who have an overlapping gold loan is sub 8%. And the drought affected area is, almost less than 6%. Now, one thing I should say for these of these segments, when we look at the risk, the risk is only superior. Superior or average. Part of the reason is when we track this day in, day out, some of these things I don't have to hold for a quarter or a one year to elapse for me to pick out whether they are an issue or not. So, we figure that out almost every, you know, day in, day out, and we reduce and we tweak, and that's why you never see any specific thing which may have even an inkling of risk, getting built up, you know, coming into the portfolio.

But I think the broader question that you're asking, am I seeing any stress, and if I'm seeing in which sections? Now, on that, I would say in our investor presentation also, we have mentioned both positive and negative signals, prominent signals I have mentioned. We are reducing… I mean, there are some geographies, self-employed, they are not contiguous geography, by the way, so our own understanding is that they have they are part of the value chain which may be getting impacted. PHP risk, that is almost 0.2% of our portfolio. There is a constant exercise,

day-to-day job I do, which is… we call it location upgrade and downgrade. Location upgrade and downgrade basically means I have categorized location into A to D. In the lower, downgraded location, and after A-D, it is a complete reject, which is I don't do business. So, there is some movement on the location upgrade and downgrade, which keeps happening. So, things like that, nothing out of ordinary, but I would say that I've been doing almost, there are some tweaks or so every week I make. Self-employed revolver, for example, that's a problem area. In specific places, wherever the exposure revolve amount is between 25,000 to 40,000. So, those kind of insights are there.

Moderator: Thank you. This would be the last question for the day. This comes from the line of Gaurav Dhariwal.

Gaurav Dhariwal: So, good afternoon, sir. So, my first question is, could you provide an update on the preferential issue and, when are the proceeds expected to be received, and how will the funds be utilized?

Ranvir Singh: Yeah, so we have received the proceeds, however, there's a final approval which is required that, comes in next, 4-5 days. As I mentioned in my introductory call, we got an approval, we had an EGM on 14th October, we got an approval, we had an in-principle approval from exchanges also. All the investors who were to participate, they had put money as well, so all those things have happened. The issuance of shares will happen by 3rd or 4th November. There is a specific date on the compliance, I mean, because the process takes around a few days. So, somewhere around mid of next week, we should have the shares issued, and we will fully, fully close that. The proceeds will be used in the same manner in which the IPO proceeds were used. 75% will go as infusion into our subsidiary to fund our balance sheet and increase our support, our growth. The remaining 25% will go as a combination of corporate expenses, particularly the investment in AI that we continue to keep doing. We will have more FLDG being given from the corporate to you know, scale up our off book, and so on and so forth.

Gaurav Dhariwal: So, any further fundraising is envisaged?

Ranvir Singh: Not… not right now. We feel extremely comfortable. In fact, given the off-book ratio and the on-book we are running with, I think, till the time we reach 30,000 crore, we don't need any more fundraise. And we are merely 9,317. So, we have a good latitude and comfort, as far as capital is concerned. I should say one more thing, that this is not going to be ROE dilutive. I've said this before, but sometimes, things are not caught appropriately. As much as, we raised an IPO, and you can look at it, this is the first quarter when the IPO proceeds, you can say, came before the beginning of the quarter, and it has been there till end of the quarter. And it has not been ROE dilutive. You can look at our ROE. The same thing will hold for this new capital that we have just received.

Moderator: Thank you. Next question from Mr. Rajesh Kothari from AlfAccurate Advisors.

Rajesh Kothari: Good afternoon, sir. Thanks for this opportunity. First of all, congratulations for, you know, great set of numbers. Just wanted to have a, you know, the two things. One is, you know, when you look at from next 2-3 years perspective, as you are saying, you are planning to double your size in next about 18 months. When you take the three years perspective, how do you see the, you know, the overall organization from, one, the size of the book. Second important thing, as you move towards the, you know, the more high-quality kind of a customer, the kind of, but I would say technology triggers what it requires to highlight the red flags, if any. Does it change significantly? And last but not least, how do you see the… Average ticket size currently, where are we compared to, say, 1 year back, and how do you see that over next 2-3 years?

Ranvir Singh: Yeah, yeah. No, I think very relevant question. Thank you, Rajesh, for asking this. First of all, let me just make one thing very, very clear, rather emphatically clear that when I say high-quality customers, it almost gives a sense that I'm going into a zone which I may not have read in the past. Absolutely not. In fact, if you look at my current book, I would, there are some segmentation I do, right? Because the segmentation is based on what is the eventual risk. So, there is a pool of my customer where the eventual risk is less than 3% which is equivalent to 6.2% that you saw in my book. There is a pool of my customers who… where the risk is less than 3%. That pool would be more than, say, 20-25% odd customers, but they are at… which I'll call as high quality. So, the point I'm making is, we are currently serving high quality, and when I go from, say, 9,000, just as a, for the sake of discussion, if I go from 9,000 to 30,000 crore, 3X of our number, it doesn't mean that I drop my, you know, middle-of-the-pack customer who are currently giving me great ROE, great pricing, etc. I continue to serve them.

I think when you become this big, one of the quality you require, if you have to consistently deliver your ROE, is to be able to price risk for different quality of type of customer. And unfortunately, in India, as much as income is a good indicator, sometimes income is not a good indicator of, of risk. Even a person earning 50,000, or the pool of those people who you are targeting can be a much better risk than a person who is earning around 2.5-3 lakhs per month. So, first of all, the point being, today also, we are serving. We understand some of those signals very, very well. We continue to sharpen those signals, we continue to, both for the high quality and, I would say, the middle-of-the-pack customer. And we will, and that is the confidence with which we go to go out and, you know, scale up our book, further reduce our risk, and so on and so forth.

At the same time, there's a section of people who, where the risk may remain at 6% and will continue to serve them. But we are not going to reject those customers. But what would happen over time, the share of those customers will come down. Once you get to 30,000 crore, the share will, of course, today there may be earning, like, 50-60%, they will come down to around 20-30% then. So that's one thing I wanted to say.

Second thing, if I take a step back and see what is going to change over the next three years, there are three, four things as part of our strategic thoughts are very, very clear to us. Number one : it cannot be only PL. It would be other products as well. And that's why you see our

investment in LAP, we have been very, very delicately studying other products also, which is Gold Loan and Auto Loan, with very high degree of, you know, and I know at one level, people are saying Gold Loan may have some issues, but no, there's a large part of Gold Loan, large part of Gold Loan, I repeat, is doing very, very well. And, at the end of the day, the security is also good. We want to run up a business where you immune yourself also to, immune yourself from the risk of the market risk which may which the gold may entail, in future. So, the point I'm making is there will be a sizable contribution coming from non-unsecured PL. So that's one thing which will become important. Second is, just to reiterate, this high-quality customer, when I say we believe in the long run, if we have to succeed and build a corporate of, you know, stature and, something which can formidably, be hand-in-hand with, or be, shoulder-to-shoulder with some of the large, financial institutions in India, you need to have a very strong technology focus, which will lead to, you know, risk reduction. So, all our investment in technology, I mean, on a later date, we can also showcase how we are building our LAP book, which is very, very different. This is not a standard garden-variety LAP, it's very process-driven, a lot of AI usage, which just provides a different level of leverage to the customer, to the person who's interacting with the customer, as much to the customer in terms of going through the journey. So, so, beyond, just high-quality customers, the focus is, on diversification, focuses on continuing to invest on technology, and more importantly, keeping a piercingly strong eye on risk management.

Rajesh Kothari: And the average ticket size, you know…

Krishnan Vishwanathan: Okay, let me take that answer, I think some issue at Ranvir's end. On ticket size, Rajesh, the way we'll put it is, and I'm talking about PL specifically, of course, the average ticket size for the portfolio changes with a mix of LAP and PL, but within PL, you would see, either the ticket size is increasing. It is both a reflection of two things, the share of repeat growing within the overall segment, and repeat, customers typically have an increase in ticket size compared to their older exposure. It's a reflection as the share of higher quality, higher income segment increases, which Ranvir said, you know, today being at 20% will become upwards of 50%. And of course, the GDP growth, the nominal growth that is happening, and the inflation, so keeping pace with that. So, the trend that you saw, where the average ticket size has now reached 41,000, is something that will continue to happen. I'll again reiterate, we are a very risk-first company, Rajesh. What that means is our models have been developed, our underwriting capabilities have been developed for a specific income, but also for a specific tenure or product. So, we are not going to be very knee-jerk in saying that, you know, I'll change my average tenor from 16, 17 months to 3 years overnight. So, it'll be incremental, it'll be deliberate, but the… both the tenure and the ticket size will see an upward trend in, you know, very similar fashion as what's been happening in the last few quarters.

Rajesh Kothari: In last one year, how much it would have increased?

Krishnan Vishwanathan: So, it's there in our sheet. So, if I can recall correctly, it was 34,000, which has become 41,000 over a period of one year. But I'll just quickly check and reconfirm those numbers.

Rajesh Kothari: And the tenure also would have increased from, say, 12 months to 16 months, something like that

Krishnan Vishwanathan: Yeah, 14 months to 16, 17 months.

Rajesh Kothari: Understood. Understood. Great, sir. Wish you all the best, sir. Thank you so much.

Krishnan Vishwanathan: Thank you. Thank you, Rajesh.

Moderator: Thank you. With this, we end the call.

Krishnan Vishwanathan: Thank you everyone.