“Asset Reconstruction Company (India) Limited

Q2 & H1 FY27 Earnings Conference Call”

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“E&OE - The transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th October 2026 will prevail”

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Moderator: Ladies and gentlemen, good day and welcome to Asset Reconstruction Company (India) Limited Q2 and H1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. Without taking any more time, I will now hand it over to Mr. Phanindranath Kakarla for his opening remarks. Thank you, and over to you, sir.

Phanindranath Kakarla: Good morning, ladies and gentlemen, and welcome to the earnings call of ARCIL for the 2nd quarter and half year ended September 30th. At the outset, my warm wishes to all of you for the festive season. I am Phanindranath Kakarla, CEO and MD of ARCIL. Joining me is Mr. Pramod Gupta, our Chief Financial Officer and the Strategic Growth Advisors, our Investor Relations Advisors.

I think you may have noticed the image on the cover of our presentation. Kintsugi is the Japanese art of repairing broken pottery with gold so that the restored piece carries more value than before. That is a fair picture of our work. We take assets that are broken and restore their value, guided by the same approach. Buy with discipline, resolve with urgency and deploy capital with a clear focus on returns.

This half year also marked a milestone for us. In September, ARCIL became India's first listed ARC. Since then, we have multiple investors and more than 1 lakh shareholders and we take seriously the transparency that comes with being a listed company, including being clear about how our business should be read.

Given our recent listing, it has only been a few weeks since our first call so I will keep the context brief and spend most of my time on what this half year tells us. Pramod will then take you through the numbers in detail. The scale of the opportunity has not changed, in fact, likely to grow.

CRISIL estimates total stress across banks and NBFCs at about INR23.7 lakh crores in FY26. About INR15.9 lakh crores of it, two-thirds is NPAs and written-off loans, which is what stressed lenders actually sell. The remaining 7.8 lakh crores are special mention accounts. Over the last couple of years, we have seen that banks and NBFCs have also started selling special mention accounts.

In fact, in the retail book across the industry, close to over 25% of the accounts being sold by number of accounts is of special mention accounts. Corporate written-off loans alone account for about INR6.4 lakh crores and retail and MSME for the remaining about INR9.5 lakh crores.

This pool has been growing by around INR1 lakh crores a year while ARCs buy below 10% of it, which is our own estimate, internal estimate, each year as per our estimates. That gap and the growing stressed asset market is the industry's runway. As India's first and largest private ARC, we are well equipped to use that runway. We price with discipline.

Our AUM is about 14% of the INR1.4 lakh crores of dues we manage. And in this half year, we acquired assets at about a fifth of their dues. We draw on more than two decades of resolution experience and relationships with more than 140 lending institutions. Our technology platform serves more than 3.29 million retail borrowers, supported by 15 offices across 12 states.

And with net worth of over INR3,300 crores, debt-to-equity of 0.37 times and capital adequacy of 70.5%. Our balance sheet has clearly room to grow. These trends are visible in our market position between FY24 and FY26, our share of industry AUM rose from 11% to 15% and our share of industry acquisitions from 6% to 17%.

Compared with the half year of last year, our AUM grew 21% to INR20,274 crores. Acquisitions rose 18% to INR1,707 crores and recoveries rose 21% to INR2,135 crores. Total income rose 48% to INR516 crores and profit after tax rose 54% to INR290 crores. The half also shows the pattern we described on our first call.

Acquisitions build through the period. Quarter 2 acquisitions were nearly 4x those of Q1 and 43% higher than the same quarter last year. Recoveries crossed INR1,000 crores in both the quarters even though the timing of individual corporate resolutions left Q2 below the strong Q2 last year and the ECL provision taken in Q1 has been partially reversed. That is why we ask you to look at our business over longer periods.

Resolution cycles are long, corporate recoveries are lumpy and acquisitions are seasonal, concentrated in the second half as lenders review asset quality ahead of their year-end. A half year smooths some of that variation, a full year smooths it more. We have also made progress on collection as a service, which puts the platform we built for our own retail book to work for banks and NBFCs.

We have started pilots with a couple of lenders, and we expect to scale it through the second half. We go into the second half seasonally our strongest period for acquisitions. With a healthy pipeline. Our priorities are to grow our corporate book, particularly mid-sized assets with sound underlying value, to increase the share of retail and SME, to scale collection as a service for banks, to evaluate stressed microfinance portfolio selectively and to keep investing in technology and analytics to lift recovery outcomes. With that, I will hand over to Pramod. Thank you.

Pramod Gupta: Thank you, Phani and good morning, everyone. I will take you through our performance for the half year, touch briefly on the second quarter and then cover our balance sheet and our consolidated results. Unless I say otherwise, all comparisons are with the first half of FY26. As of September '26, our AUM stands at INR20,274 crores, up by 21% from INR16,784 crores as of September 30, '25.

Corporate, retail and SME represented about 66%, 25% and 9% of our AUM respectively, against about 69%, 24%, 8% earlier, as retail continues to grow share. Dues standing under management rose 20% in the same period to about INR1.4 lakh crores from INR1.17 lakh crores.

During the half year, we have first time crossed our retail AUM to INR5,000 crores. We acquired INR1,707 crores of stressed assets in H1FY27 compared with INR1,445 crores in H1 FY26 an increase of 18%. The build through the half was marked INR353 crores in Q1 and INR1,354 crores in Q2, with Q2 up 43% on the INR949 crores of Q2 FY'26.

ARCIL invested INR718 crores of its own capital in H1FY27 acquisitions, an investment ratio of 42%. Recoveries for H1FY27 were INR2,135 crores compared with INR1,765 crores in H1 FY26, an increase of 21%. Q2 recoveries were INR1,069 crores compared with INR1,339 crores in Q2 FY26, a quarter that included large corporate resolutions.

There is lumpiness in corporate recoveries and that why, the half-year comparison is more meaningful. . SR redemptions for H1FY27 were INR1,583 crores compared with INR1,500 crores in H1 FY26 and our cumulative SR redemption ratio remains at about 52%, up from 50.8% as of March 31st, '26.

Revenue from operations for H1FY27 was INR512 crores, up from INR337 crores in H1 FY26, a total income of INR516 crores, up by 48%. The strongest line was fee and other income, which rose 82% to INR227 crores from INR125 crores on the back of large AUM and higher resolutions. Other operating income, essentially Investment Upsides were INR122 crores compared with INR87 crores in the previous half.

Writebacks, the recovery of security receipts, fees, and expenses written off in earlier year contributed to INR129 crores compared with INR37 crores earlier. As we stated earlier this month, write backs are our regular revenue every year but vary in timing. Net unrealized mark-to-market gain were INR26 crores compared to INR72 crores in the H1 '26.

On expenses front, expenses and finance costs were INR43 crores compared with INR7.5 crores, reflecting borrowings drawn to fund acquisitions. Impairment, depreciation, and amortizations were INR13 crores compared with INR4 crores. This is ECL provision made in Q1. A part of that was reversed in Q2.

Employee expenses were INR39.2 crores compared with INR30.8 crores in H1 FY26, net of INR3.5 crores reversal of an excess provision for the previous year. Other expenses were INR25 crores compared to INR18.3 crores. Profit before tax for H1 was INR390 crores, up 54% from INR254 crores, and profit after tax was INR290 crores, up 54% from INR189 crores.

A PAT margin of about 56% against 54% in the H1 FY26. Our diluted annualized EPS comes around INR18.50. On an annualized basis, return on equity for the half year was 18% and an ROA of 12.6%, compared with 14% and 10.6% respectively for FY26. As these are annualized from a half year these are best read alongside our full-year returns.

For the 2nd quarter compared with the same quarter last year, total income was INR240 crores, up 8% from INR222 crores, and profit after tax was INR146 crores, up 23%. As of September 30th, 2026, our net worth stands at INR3,337 crores compared to INR3,079 crores in March '26. And our net owned funds are at INR2,882 crores compared with INR2,540 crores a year earlier.

Capital adequacy was very comfortable at 70.5%. Our borrowings rose to INR1,224 crores from INR1,100 crores as of June 30, 2026 , as we funded Q2 acquisitions, taking debt-to-equity to 0.37 times, which is quite moderate. That leaves us well placed to fund the second half, seasonally our stronger period for acquisitions.

Finally, our consolidated results for H1. Consolidated profit stands at INR219 crores against standalone profit of INR290 crores. And consolidated income stands at INR496 crores compared to INR516 crores. As explained earlier, our Standalone financials remain the major reflection of what accrues to our shareholders and the basis of our regulatory ratios, CAR and net owned funds. It is how we run the business. We would therefore ask you to focus on our standalone results, where you access ARCIL performance. and the reconciliation of is given on slide 22 of our presentation.

To summarize, compared with the first half of the last year, acquisition rose 18%, recoveries rose 21%, and profit after tax rose 54%. And the half year followed the seasonal pattern we described. We would ask you to judge us on our standalone numbers and over longer periods.

We enter the second half with a strong balance sheet and a healthy pipeline. Our approach is unchanged. Buy with discipline, resolve with urgency, and deploy capital with a clear focus on returns.

Once again, thank you for joining early morning, and we now open for the questions. Thank you.

Moderator: Thank you sir. The first question is from the line of Murli from Oman Investment Advisors. Please go ahead.

Murli: Hi, good morning. So the revenue part, I think this time we have some other operating income last time we have a recovery. So some components is like a big chunk in every quarter. So how to look at this ramping. Fee is consistent, but other components, how to look at in annual basis?

Phanindranath Kakarla: I think this is what we have been talking about. The ARC industry still has large corporate assets, and, and that means that it is lumpy, any recoveries. But given our large corporate book itself of about INR13,000 crores of AUM, we will continuously have one or the other asset which will keep getting resolved.

And I think that is what you should be looking at rather than analyze any one single recovery, because given our large portfolio of corporate assets, we will continuously have assets being resolved, and given the size of those assets, there will always be 1 or 2 large assets on a regular basis which will show. I think that regularity is what you should be looking at rather than looking at individual large items. I hope I answered your question.

Murli: Yeah. And secondly, on the strategy of entering into microfinance industry of recoveries. So how would it be different from the normal bank NPS? So do you think that we have some better pie over there?

Phanindranath Kakarla: Look, I think microfinance is a very large part of the entire credit book in the country and thereby that is something as an ARC we should be looking at, we are looking at, but it has very specific drivers in that industry. So thereby, as I have said in my speech, we are looking at it very selectively as of now to understand the market. The opportunity which is there is obviously there because of the sheer size of the market. But I think how we get in and all that, I think it's more our own experimenting to understand the market and to move ahead.

Murli: Okay. And any guidance on the, AUM front by year-end or maybe 2-3 years down the line?

Phanindranath Kakarla: We are not giving any guidance on any specific numbers. I think we can only talk about our historical performance and the regular growth trajectory that we have been having.

Murli: Okay. Thank a lot.

Moderator: Thank you. The next question is from the line of Rikin Shah from IIFL. Please go ahead.

Rikin Shah: Hi, good morning, sir, and thanks for the opportunity. I had a couple of questions. So first, good to see that the fee income momentum is sustaining. And what we are also seeing is that versus the recoveries, the upside income has come through. So I know that this upside income can be quite chunky and difficult to predict, but on a full-year basis, is there something that you would like us to kind of guide through how that sustains? That's my question number 1.

Second question is on the acquisitions. I do appreciate that first half is usually slower, but 2Q has seen very good acceleration already. Almost up 40% Y-o-Y in 2Q. Would you want to hazard a guess how the full-year pipeline looks like versus full-year FY26? That's my second question. And lastly, on the impairment on financial instruments, there was an ECL writeback in this quarter versus provisions in the last quarter. Could you just explain why this writeback could have happened and how should we think about this line item on a sustainable basis? Thank you. Those are my three questions?

Phanindranath Kakarla: Yeah, again, thanks, Rikin. I'll answer the first two questions, and for the third one, I'll pass it on to our CFO who will answer that. Again, I think on these lumpy things, I will repeat, I think you should look at the regularity of such lumpy things which are coming in for us, because as I keep saying, our corporate book is still INR13,000 crores while the share of retail and SME is growing, our corporate book is still a large part, close to 65% of our overall AUM.

And thereby we will regularly have such lumpy recoveries. I think the regularity of those lumpy recoveries is what you should be judging us on. And I think over the past few years, if you have seen our records, our regularity has been fairly consistent. And I would hope that is the way it progresses.

While on acquisitions, again, we are not giving any guidance, but traditionally about 60% of the last year, if you see, I think about 60%, correct, of our acquisitions have been in the second half, and that seasonality is of the market itself. The market is driven by that and that seasonality will continue. However, we evaluate with every opportunity which comes and given our own

liquidity position and capital position, we are well established to take advantage of any increased activity which might take place in this field.

Pramod Gupta: Just to add, Rikin, as far as write-backs are concerned, you see in Q1 we had large write-backs of INR125 crores, and Q2 this is lower. Overall, on an H1 basis, we have INR140 crores of write-backs. So, as we explained earlier, write-backs continues to be part and parcel of our main revenue stream.

And because of regulatory stipulations, we take write-offs. We have in the past taken write-offs of assets which could not be realized within the stipulated period, and our efforts continues in the system to recover that. Against these write offs we realise and therefore, write-backs would continue to be part and parcel of this thing.

Of course, it has been bulky in the H1. So going forward, we don't expect this to be as much in H2, but this would continue to be a part of revenue item going forward. Just to add upside has been in the range of INR200 crores plus consistently for last 2-3 years. That is the outcome of our sustained investment in the 100% cash assets where we buy on all cash basis, and that portfolio has grown up considerably.

So, we hope to have a consistent flow of investment upside income going forward.

As far as ECL provision reversal is concerned, it's a quarter-to-quarter phenomenon. In one particular quarter, if the receivables increase, then it incidentally goes up, which we have seen in Q1, which has now been partly reversed in Q2. But on overall at macro level, , it is unsubstantial part, about Rs 15-20 cr ECL is done on yearly basis based on the RBI regulations. Thank you. .

Phanindranath Kakarla: Yeah,

Rikin Shah: Thank you, Pramod that answer my questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Kunal Shah from ANOVA Capital. Please go ahead.

Kunal Shah: Hi, so with our fee income growing 82%, like against the AUM growth of like 21%, so what is driving that divergence? Like how much of this income is sustainable?

Phanindranath Kakarla: I think fee income is, straight from the acquisitions we have had, and that's why as we continue to focus on acquisitions, to increase our focus on acquisitions, that is something which is directly a result of the AUM which we are managing, and that's what it is. I think it's directly proportional.

Pramod Gupta: And, and also to add, the fees income also comprises of collection fee, etcetera, which is based on collections. While one side it connects to the AUM, it also is a factor of the collections we do. So therefore, fee income, as a mix of both the things. And as you see, the fee income is now stabilized at around INR115 crores- INR120 crores per quarter. So, you know, that's one of the structural changes in our revenue stream which has happened. Thank you.

Kunal Shah: Okay, thank you.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Dymon Asia. Please go ahead.

Sameer Bhise: Yeah, hi, congrats on a strong set of numbers, sir. Just wanted to get a sense on how are you seeing at, say, next, three to six quarters given the way macro is shaping up. And especially, is there a more, opportunity that you see in terms of new acquisitions, especially on the retail and SME side?

Probably there are some initial signs of stress emerging. We don't know how it plays out, but generally, how do you evaluate this environment for, for your business, both in terms of acquisitions as well as for resolution of existing pools. So some sense there will be helpful.

Phanindranath Kakarla: Yeah, I think for some time there have been some signs of, you know, stress. I think there's been this divergence between macroeconomic factors and the growth of the credit industry and the performance of the credit industry, over a period of time. Yeah, but I think we position ourselves with a strong balance sheet and liquidity to take advantage of any such opportunities which may arise.

As you have seen, we are very thinly leveraged, we are only at 0.37 and our capital adequacy is at 70.5%. It places us in a prime position to take advantage of any new stress which may happen in the industry. While I say this, I think the current stress which is there, which we talk about, about INR23 lakh crores, a little over INR23 lakh crores including the written-off assets, is still large enough for the ARCs to grow at a good pace.

So I think opportunities will come with cycles. We make sure we are always available, keep ourselves strong to take advantage of these cycles. And while we continue to focus on the core stress which is there in the system, which is there given the growing credit market, there will always be a small stress growing in the market and thereby we are, while the core remains strong, we also keep ourselves ready to take advantage of any cycles which come.

Sameer Bhise: Sure. How are you also seeing, competitive intensity, if any, especially after looking at your delivery, over the last couple of years or, or three to four years, are you seeing any increase in competitive intensity from other ARCs?

Phanindranath Kakarla: Yeah, I mean, competitive intensity, I think we've always been participating in the same, industry. We've performed well till now. We've been growing our market share. I think the industry itself is moving towards retail. I think over the last couple of years, the industry like us has grown far more in the retail space.

I think that's where our investments which we made in the retail space, whether it is technology, people building out of our CAS platform, will stand us in good stead as we take on the competition. I think we should also focus as much on, while competition is there, how much can we grow the ARC industry to take care of the stressed assets. We are very focused on that.

That runway itself is very large, and that is where I think both ways, I think really as the retail stress grows, I think the investments we have made ahead of time on technology, people, processes is going to stand us in good stead in this market. And that you will see through our increased collections of our retail pools, our ability to increase acquisitions on the retail assets.

Sameer Bhise: Great. Thank you and, and all the best.

Moderator: Thank you. The next question is from the line of Himanshu Taluja from Aditya Birla Sun Life. Please go ahead.

Himanshu Taluja: Hi sir, good morning and, congrats on the quarter. Just few questions at my end if you can just help us. Given still the large part of the book in our AUM is more corporate in nature and incremental acquisitions are more in retail and the SME space. If you can just help us some colour of the assets being acquired in both SME and, and the retail, on the retail side?

And second, if you can just help us, given our first lot more, much more stronger franchise in the corporate, how well are you protected in retail and SME from a newer acquisition so we will not see in future any negative surprise or write-off story in the newer acquisitions? These are my first two questions, then I have a few more? Thanks.

Phanindranath Kakarla: Yeah, I think we are well established in all three of the segments, whether it's corporate, SME, and retail. I think your question on corporate, as the fresh NPAs are small, what do we see? I don't think we see too much of, I mean, this thing. We are there, we will take advantage. I think currently what has moved the market has just moved from corporate, in corporate, from fresh NPAs to written-off assets.

We have seen this coming for some time, and thereby we have built the capabilities to take advantage of that, and thereby we've been growing. Even last year, I think about 45% of our acquisitions were, corporate, and thereby we are well established there, we have a strong team, acquisition team there, and we continuously look for growing that book.

In retail, again, I think that structurally has changed in the market that there are a lot more retail assets which are available for the ARCs and we are taking advantage of that. And to your question on any negative surprises on write-offs. Yeah, I mean, write-offs actually happen eight years after acquisitions from a regulatory perspective while we can recover from that. Our own estimates are that over the next three years you will see a very, very small amount which is becoming more than eight years due. It's very small.

Pramod Gupta: If I can give the number at.

Himanshu Taluja: Pramod sir, sorry, just, if you can just help us given this is the first typical ARC got listed for us and we have also been, still learning in this, in this kind of the business model. Can you help us how we should see and understand the quality of the portfolios that you acquire in retail and the SME? So if you can just help us, which are the, which are the key metrics that we should track to understand the colour of the newer acquisitions?

Pramod Gupta: So if I can add, Phani can add subsequently. See, Himanshu, regarding the retail and SME acquisitions, we started Retail business way back in 2008 . So we have a very strong franchisee in place by which our ability to underwrite at the right prices play a very critical role along with our resolution capabilities.

We have pan-India presence, we have all our own collection services, well-established network is in place, that gives us the edge for collections. So if you look at our unsecured book, what we have picked up, it's in the single-digit acquisition price. Secured book is in the mid-40-something. therefore, we have a very good margin is in place.

When you have the good recovery capabilities, then there is no actual write offs involved and as Phani said, we do not see any major write-offs, frankly, because the entire cycle has moved to three to four years, in which we generally recover our entire capital. So we do not see any risk of write-offs going forward in retail, SME, and even in corporate book.

Phanindranath Kakarla: Okay, if I may add to that, I think a couple of things you should look at. I think just to say, I think the mark-to-market which takes place every quarter already incorporates what are the possible write-offs which could come in. So I don't think there'll be any, sort of surprises, and I think we as a management team very strongly work to ensure that there are no surprises on this.

Himanshu Taluja: Sure. So can I get the breakup of this newer acquisitions that is happening? What is the mix between corporate, retail, and SME?

Pramod Gupta: Yeah. we have corporate about INR700 crores. And the rest of that is about INR1,000 crores is in SME and retail in H1.

Himanshu Taluja: Sure, fair. And so given incremental thrust is more, towards more cash investments versus structured basically format, how one should see the mix of the fee income and the upside income in your revenue mix to evolve over a period of two, three years? Can you just help us?

Pramod Gupta: See, while it's well established that our cash deals typically give us the upside, which is a little back-ended, it starts from the second to third years, and our other AUM and collections principally gives us the management fee. So while our average investment on acquisitions currently is in north of 40%, it is 42% exactly currently, which was 33% last year. It's growing,

While cash acquisitions also, we are selectively acquiring and building up our cash book. But even in the normal SR deals, our average investment is higher than the stipulated 15%. So this will facilitate that while our investment is growing, our fee income would continue to grow. The way we have seen in the last two years, that its average of INR200 crores while currently we have a run rate of INR450 crores of management fee per annum. And similarly, upside income , because of our large cash acquisitions, would increase. So put together, fee and upside investment income should be about 70% to 80% of our overall revenue.

Phanindranath Kakarla: Just to add, I think while some part of the market is moving towards cash, I think over the last two years if you see over 70% of our acquisitions are still on an AUM basis. I think this sort of mix which is out there, it will stabilize at a certain level. IIt gives us both an upside, like how,

you know, you work in an AMC and things like that, and also gives us a regular fee income. It's a combination of both the fee income and an upside based on performance. I think it gives us a good mixture.

Himanshu Taluja: Sure. And the last question, given the second half to typically remain a better, as you said, from an acquisitions point of view as well. Should one think from a P&L and from the profitability point of view, to which to remain operationally strong? Given from a newer acquisition, it doesn't play a key role from a P&L point of view, but overall just trying to understand how the second half plays from a profitability point of view typically?

Phanindranath Kakarla: Yeah, I think you're right that acquisitions do not immediately play a role on the profitability, but it does give you an indication of the future profitability. I think, maybe I, I want to just sort of restrain myself in giving any sort of guidance on the second half, on the thing. I think we can only talk about historical performance, and that's what you should be looking at from our own perspective too.

Himanshu Taluja: Yeah, sure. Thanks a lot, sir. Thanks, thanks a lot.

Moderator: Thank you. The next question is from the line of Pulavarthi Saikiran from Pulavarthi FinServ. Please go ahead.

Pulavarthi Saikiran: Yeah, hi, thanks for taking my question. I was just looking at your slide number 11 where you have given us market share and also the industry size. What caught our attention is that the industry size more or less remains stagnant, both in terms of AUM and incremental acquisitions, while ARCIL was able to [inaudible 39:26]. If you can help us understand how you look at the industry industry-level growth? And also, at the same point of time, what is helping ARCIL to gain market share incrementally? Thank you.

Phanindranath Kakarla: Yeah, I, think it's been a strong performance from ARCIL over the last few years to increase the market share. I think at the same time, NARCL has also come in to take a large part of the market share, of the very large assets. So I think between the two of us, we have grown well in the industry.

I think it's our focus and our ability to continue to focus on all asset classes. I think that is the one thing we are one of the few really ARCs which focuses on all the asset classes, and that's where it sort of moves us ahead of some of the competition which are very specialized on specific asset classes.

Pulavarthi Saikiran: Is it something to do with the pricing or the structure or anything else, or do you think it is a general phenomenon?

Phanindranath Kakarla: I think it's the expertise which we have built over a period of time, the experience which allows us to price it appropriately. And our people are very experienced in structuring the deals such that it is a win-win for both the seller and for us. I think those all play important roles which are unseen but play very important roles, and that's what is a big item which also plays a role in this.

Pulavarthi Saikiran: And lastly, in terms of the industry growth, if you can just provide us any guidance, or how do you think about the industry growth? Thank you very much.

Phanindranath Kakarla: Yeah, as I said, , slowly, over the last few years maybe it hasn't grown, but that's, AUM share, I think from, yeah, it hasn't grown. But they've also been across the industry, I think very important to note that there have been a fairly large amount of redemptions which have happened over the last few years. And I think you should take the size of the industry as a combination of both. It is not just this thing.

And I think there have been some ARCs which have written off fairly large amounts of their AUM over the last couple of years. That has also caused this to be a little depressed from a growth perspective. I think it is not a structural issue. I think it is a couple of things which have happened, large recoveries which have taken place, some large write-offs of AUM which have taken place in some ARCs.

I think it is a combination of the two. We do expect, as I think even in my call I said, the ARC industry is only currently handling about our own estimates let me be honest, is that, it is handling about 10% of the stressed asset market. And I think across the industry, we are all focused on increasing that share.

Pulavarthi Saikiran: Thanks a lot, sir. Really helpful.

Moderator: Thank you. The next question is from the line of Heet Kamawat from IIFL Capital Services. Please go ahead.

Heet Khimawat: Yeah, hi sir, thank you for the opportunity. Just a couple of questions. Firstly, earlier participant asked as to, where the asset quality cycle for the industry is turning, and we are seeing a few banks and NBFCs calling out stress in, agri portfolios, gold loans, we are seeing some stress being called out?

Just wanted to understand, as an ARC business, does a poor asset quality cycle, if it comes in, how does it help? Is it the pricing, that we get better, in terms of acquiring new portfolios? And in case we are actually entering a cycle where the asset quality is going to deteriorate for lenders, do you see this as a big opportunity, for you in terms of pricing acquisitions better, and also resolving them? And how do you contextualize that? That would be the first question?

Phanindranath Kakarla: Yeah, thanks. I think, very interesting, in that I think just to this thing, I think agri and gold loans is something the ARCs do not participate in at this moment. Okay? So yeah, that stress, yeah, at some time hopefully we will, but at this moment both those are not something the ARC is participating in.

Okay, given that, I think, your question is a good question. I, again, in a down cycle, I think traditional wisdom says it's good for ARCs to be at a down cycle. Yeah, it is good from an acquisition perspective because there's a lot more supply and it helps gives us the purchasing power. The power is in our hands.

But again, if there's a downturn, I think the resolutions reduce, and thereby I think that's a thing. I think the ARC has worked on large acquisitions during down cycles and resolution on the up cycle. I think that's a very, very big part of the ARC cycles which happen. Again, while I say there might be increased stress, the current market itself is very large and that is providing us a very consistent base for growth.

I keep coming back to this because I think ARCs have been an invisible part of but a very, very critical part of the entire credit ecosystem. I think with our listing, it started becoming a lot more visible. And I think the ARCs till now have grown and their profitability is based on that base, which is already there, which is very large. As I keep repeating, a little over INR23 lakh crores of stress which is there in the market, and that is what gives us a great base to grow. And any cycles are opportunities. And at least at ARCIL, we keep ourselves prepared for any such opportunities which may come up.

Heet Khimawat: Sure, that is helpful. And secondly, a data-keeping one. So, we have the share of acquisitions, recoveries, and investments incrementally that you're making in terms of different segments of the corporate, retail, and SME. But could you also help us with what are the structures that the new acquisitions and recoveries are taking place in? By that I mean, is it cash, is it more structured, is it the ordinary SRs? So, just some colour around that?

Phanindranath Kakarla: I think a lot more of our acquisitions have been in the structured space, given that I think it's structured is a win-win for both the seller and for us. I think that has started emerging as a preferred option between the sellers and buyers across the industry. So really, I think it started diversifying into, there are cash deals and largely structured SR deals. That's where it is going, the industry. And our acquisitions over the first two quarters majority have been, yeah, substantial majority have been in the structured space.

Heet Khimawat: Okay. Any number that you would like to share?

Phanindranath Kakarla: No, I, think we'll, just a substantial majority.

Pramod Gupta: Heet, you should get the comfort that in INR1,700 crores what we acquired, our average investment is 42%. So, even in the structured deal, we have been proactively investing more. So that's the way industry is moving towards.

Heet Khimawat: But Pramod sir, just on that, if you are investing more in structured deals, that actually doesn't help you, right? Because you are not a part of any upside in structured deals, and in that case you are just blocking more capital and investing more while not getting any upside income out there. So just wanted to understand why would that be the case?

Pramod Gupta: As we explained before, structured deal gives us the fee on regular basis. Almost full amount of IRR is recovered on regular yearly basis, so therefore dependence on upside in case of structured deal is less, whereas in the cash deals we get large proportion of investment upsides on the later part of the period.

So, it's a mix of that we are working upon, and it's working well. As you see, our retail composition, our revenue composition, which is growing. Even in the structured deals, the fee income is so large that, , you are not dependent on the upsides, and yin some structure deals you can still get upside later. But it gives you continuous flow of the revenue, and that's how structured deal helps you and you get consistent flow of upsides. That's how your cash deal helps you to gey regular upside.

Heet Khimawat: Sure. Thank you, That's it from my side. Thank you.

Moderator: Thank you. As there are no further questions, we will hand it over to the management for closing remarks.

Phanindranath Kakarla: Yeah, thanks. Thank you all. I know this call has been in, very shortly after first quarter, so I think from a strategic perspective or something, not much to add. It is just do more of the same, and we expect that the rest of the year also will be do more of the same, as strongly as we have been doing in the past.

Again, this half-year show acquisitions build through the year as we continue to repair recoveries that are strong over the half, even as they vary by quarter-to-quarter, and earnings will reflect both acquisitions and resolutions. As you follow our progress, we would ask you to look at our standalone results, which is important, which show that what ARCIL earns for its shareholders, and to look at them over longer periods rather than by quarter-by-quarter.

We enter the second half, our seasonally stronger period for acquisitions, with a healthy pipeline, a strong balance sheet, and the capabilities to take advantage of the opportunity. If you have further questions, please reach out to our Investor Relations team or to Strategic Growth Advisors. We look forward to speaking with you again next quarter. Wishing you and your families a joyous festive season. Thank you.

Moderator: Thank you. On behalf of Asset Reconstruction Company (India) Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.