Operator: Ladies and gentlemen, good day and welcome to the Tata Capital Ltd. Q2 FY24 Earnings Conference Call. As a reminder, all participant lines will be in 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 the operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Rajiv Sabharwal, Managing Director and CEO of Tata Capital Ltd. Thank you, and over to you, sir.

Rajiv Sabharwal – Managing Director and CEO: Thank you very much. Good evening, everyone, and thank you for joining us today.

Let me begin with a brief overview of the macroeconomic environment and its implications for the financial services sector. As the Indian economy continues to demonstrate resilience, supported by domestic demand and investment, GDP grew by 7.8% in Q1 FY24, reflecting strong economic momentum. While external uncertainties remain, the underlying growth outlook continues to be constructive. However, a sub-par monsoon and El Niño are affecting food prices, while prolonged tensions in West Asia continue to exert pressure on fuel prices. Headline inflation has subsequently firmed up to 5.54% in September. We are monitoring these developments closely, particularly their implications for consumption and the interest rate environment.

Credit momentum remained healthy through the second quarter, with bank lending growing by over 19% in September and NBFC lending by about 16% in August. Activity remained broad-based, aided by sizable FCNR(B) inflows and a strengthened bank deposit base. Growth in bank credit was also partly supported by funding substitution, as elevated bond yields prompted corporates and NBFCs to increasingly turn to bank borrowings. Overall, underlying demand across the lending channels remains healthy.

In October, the MPC raised the repo rate by 25 basis points to 6.50% and shifted its stance from neutral to calibrated tightening amid rising inflationary pressures from food and energy prices. Given the evolving inflation outlook, we anticipate about 2 further rate hikes in this financial year. Liquidity conditions remained comfortable and in surplus during the quarter, averaging nearly {? 2.5 lakh crore ?}, supported by robust foreign currency inflows. More recently, the RBI has been calibrating liquidity conditions through open market sales and daily CRR maintenance requirements, resulting in surplus liquidity moderating to a level below 1 lakh now. Consequently, we expect marginal funding costs to rise progressively and overall funding conditions to become less accommodative over the following months.

Looking ahead, the RBI's upward revision of its FY24 growth forecast to 6.5% signals continued economic momentum, although the pace is expected to moderate from the first quarter. While geopolitical tensions in West Asia pose risks to inflation and currency stability, and an uneven monsoon could exert pressure on food prices and rural demand, industrial activity and festive season demand are expected to provide support and partly offset these headwinds. In this environment, disciplined underwriting, prudent pricing, sustained asset quality, and capital-efficient growth will remain key priorities for lenders.

Now, let me turn to the key highlights for the quarter.

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Performance snapshot: Q2 FY24 saw broad-based growth, stable asset quality, and improved operating efficiency, reflecting disciplined execution across businesses. As of September 2023, consolidated AUM crossed the 1 lakh crore milestone and stood at 1 lakh 38,030 crore, up 26% year-on-year and 6% sequentially. Excluding the motor finance business, our AUM grew by 32% year-on-year and 7% sequentially. Consolidated profit after tax for the quarter stood at {? 860 crore ?}, registering growth of 51% year-on-year and 7% sequentially. Return on assets stood at 2.3%, which, excluding motor finance, was 2.5%, and ROE stood at 14%.

As far as the housing finance business is concerned, Tata Capital Housing Finance continued its strong performance trajectory during Q2 FY24. AUM reached {? 42,098 crore ?}, growing by 26% year-on-year and 6% sequentially. The portfolio remains well-diversified across home loans, loans against property, construction finance, and affordable housing. The affordable and micro-housing portfolio within Tata Capital Housing Finance grew at 22% year-on-year and 5% sequentially. As we continue to deepen our presence in under-penetrated markets, we expect affordable housing to progressively become a larger contributor to our overall growth. During the quarter, Tata Capital Housing Finance Limited reported profit after tax of {? 222 crore ?}. ROA stood at 2.5% and ROE at 18%.

Let me take you through our performance across our 4 key themes and updates on our digital and AI initiatives.

Book growth: I am pleased to share that Q2 saw sustained disbursement momentum across all our businesses. Consolidated disbursements increased by 29% year-on-year to 21,665 crore, supported by healthy growth across businesses. Our consolidated AUM grew by 26% year-on-year and 6% sequentially. Excluding motor finance, AUM grew by 32% year-on-year and 7% sequentially. Within this, our housing finance segment continued its strong momentum, delivering 26% year-on-year AUM growth. Retail and SME portfolio accounts for 84% of our AUM and remains the cornerstone of our strategy, driving sustainable growth, greater resilience, and superior risk-adjusted returns.

Our high-margin businesses continue to show robust growth. Disbursements across these businesses grew by 40% year-on-year, while AUM growth increased to {? 40% ?}, up from {? 31% ?} in Q1, while maintaining healthy yields. With disbursements continuing to outpace AUM growth, we expect these businesses to contribute increasingly to margins and ROA.

Distribution and customer reach: During the quarter, we continued to grow our branch network, with a net addition of {? 54 branches ?}, expanding our footprint to approximately {? 1,215 branches ?} across {? 1,094 ?} locations in 26 states and union territories. The additions were primarily focused on scaling our growth businesses, with affordable housing and micro housing expanding into 23 new locations during the quarter. We will continue to deepen our presence across these businesses by expanding into newer geographies. Our phygital distribution model enables us to expand efficiently across existing and under-penetrated markets, while leveraging our customer base of over {? 3.2 million ?} to deepen customer relationships and unlock cross-sell opportunities.

Overall, our growth remains healthy and diversified, supported by a strong focus on portfolio quality. Our continued investments in distribution, technology, data, and product capabilities strengthen our ability to navigate business cycles and withstand external shocks.

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The second theme I would like to cover is asset quality. Credit cost declined 17% year-on-year, driven by improvement in the retail portfolio. The annualized consolidated credit cost for Q2 FY24 stood at 0.9% compared to 1% in Q1 FY24. Gross Stage 3 assets remained stable at 1.6% as of September 2023, while the provision coverage ratio improved to 59%. Slippages remained benign across the portfolio. This performance reflects the strength of our portfolio, disciplined underwriting, and robust collections infrastructure. Our portfolio remains diversified and granular across secured and unsecured retail, housing, SME, corporate, and motor finance segments. We continue to closely monitor evolving macroeconomic conditions and business trends. Based on current indicators, we remain confident in our risk-calibrated approach and the underlying resilience of our asset quality.

The third theme I would like to touch upon is our funding, capital, and liquidity. Our AAA credit rating continues to underpin a well-diversified and stable funding profile. Through a disciplined ALM framework, we continue to optimize our borrowing mix while proactively managing liquidity and interest rate risk. Our cost of funds increased marginally from 7.28% in Q1 FY24 to 7.33% in Q2 FY24. Total borrowings stood at approximately 1.16 lakh crore as of September 2023. The borrowing mix remained well-diversified, with bank loans accounting for approximately 39%, NCDs 35%, ECBs and MTNs 12%, commercial paper and WCDL 9%, and NHB borrowings and others 5%.

NIM declined marginally, primarily due to a modest increase in cost of funds and a slight moderation in yields in the mortgage business. Our asset-liability mix provides us with flexibility to manage interest rate movements, with 48% of our liabilities on floating rates and 66% of our loan portfolio on floating rates, enabling us to reprice our floating assets in response to benchmark rate increases. In response to the repo rate hike and the evolving interest rate environment, our ALCO has approved a 20-25 basis points increase in PLRs across products in the floating-rate portfolio. This is expected to help sustain NIM plus fee in Q3 and support an improving NIM plus fee trajectory from Q4 onwards.

Our strong capital position, diversified liability franchise, and prudent liquidity management provide us with sufficient headroom to pursue growth opportunities while absorbing potential market volatility without compromising on financial discipline. As of September 2023, consolidated equity stood at {? 21,778 crore ?} and debt-to-equity at 5.5x. Tata Capital Ltd. standalone capital adequacy stood at 17.3%, with CET1 at 14.7%, comfortably above regulatory requirements. We continue to maintain a prudent liquidity position, with total available liquidity of approximately {? 16,400 crore ?}.

Our fourth theme is operating leverage. Our cost-to-income ratio improved by {? 138 basis points ?} year-on-year to 35.3% in Q2 FY24, while cost-to-average assets remained well-contained at 2.3%. As of September 2023, our on-roll employee strength stood at {? 21,655 ?}, with over 80% deployed in frontline sales and collections. Against year-on-year AUM growth of 26%, our headcount increased by just 6%, reflecting sustained gains in employee productivity and operating leverage across the organization. Our investments over the past few years in technology, data, infrastructure, artificial intelligence, and distribution are increasingly translating into structural improvements in productivity, operating efficiency, and scalability. Looking ahead, we remain on track to deliver our medium-term guidance, with operating leverage expected to be an important lever of further improvement in ROA.

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Next, at Tata Capital Ltd., talking about our AI initiatives, technology is deeply embedded in our operating model, and AI has become a key pillar of our digital-first strategy. We are building an AI-first NBFC, leveraging AI across the lending value chain to enhance customer experience, improve productivity, strengthen risk management, and create a scalable operating model for future growth. The focus is no longer on isolated use cases, but on enterprise-wide AI-led transformation.

Our strong digital DNA is reflected in the scale of adoption across the customer lifecycle. Today, 99% of our customers are onboarded through digital channels, 98% of retail disbursements are enabled through scorecards and business rule engine-based decisioning, 99% of collections are through digital channels, and 98% of our customer queries are digitally addressable. We have also built a network of over 180 digital partnerships, significantly enhancing customer reach and accessibility.

AI is now embedded across customer acquisition, underwriting, operations, servicing, and collections. In customer engagement, AI-generated content powers the majority of marketing creatives and campaign communications, while AI-led onboarding initiatives have enabled over 30 lakh customer interactions. In underwriting, our AI-powered credit intelligence and [cut off]

Management: Underwriting engines have processed over 7.8 crore documents and have achieved over 95% adoption across personal loan and business loan underwriting, resulting in meaningful improvements in productivity and turnaround times.

Across operations, AI-led workflows now process approximately 70% of retail applications, driving productivity gains, faster turnaround times, and lower operating costs.

In servicing, AI-powered voice and email platforms are enabling automated customer interactions, same-day query resolution, and significantly lower cost to serve.

AI is also strengthening portfolio monitoring and collections through automated risk surveillance, stock audit {? report ?} monitoring, and AI-assisted customer engagement, contributing to stronger collection effectiveness and operating leverage.

Importantly, we continue to invest in the foundations of an AI-led organization through enterprise AI platforms, robust governance, and workforce enablement.

Together, these initiatives are helping us deliver faster turnaround times, higher productivity, better customer experience, lower cost to serve, and stronger risk monitoring.

Alongside these transformation initiatives, we remain equally focused on navigating the evolving regulatory landscape.

On the regulatory front, we continue to engage proactively with evolving regulators across key areas. On revolving credit, the SRO, {? FIDC ?}, has submitted its recommendations to the RBI. We await the final guidelines and hope they will adequately address practical customer requirements. In parallel, we are also evaluating alternate product structures to mitigate any potential impact.

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On insurance, the draft proposals are under discussion, and we have submitted our feedback to the regulators, both directly and through the industry forum. While the proposed changes could have implications for the industry, it is premature to quantify the impact until the final regulations are issued. Insurance remains an important risk cover for our customers and an integral part of our underwriting framework. We, therefore, continue to see a strong underlying need for these products and will assess the implications more clearly once the final guidelines are available.

To conclude, Q2 FY24 was another quarter of healthy, diversified growth, underpinned by strong disbursement momentum, resilient asset quality, and disciplined execution. We remain focused on building a larger, stronger, and more resilient franchise through prudent risk management, customer-centric innovation, and consistent execution. We are on track to deliver on our guidance across all parameters and remain confident in our ability to sustain growth and create enduring value for all our stakeholders.

Thank you for your continued trust and support. We will now be happy to take your questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may please press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets and also to limit their questions to 2 per participant. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Shreya Shivani from Nomura. Please go ahead.

Shreya Shivani – Nomura: Thank you for the opportunity, and congratulations on a good quarter. My first question is on your FY28 guidance. You have spoken about how you are expecting 2 more rate hikes and we are in a rising-rate environment. Do you have any thoughts or any revision that you would like to make to the ROA/ROE guidance that you have given us for FY28, given that in a rising-rate environment, we can never be sure if you will be able to grow your new portfolio in the deeper geographies by hiking lending rates? That is my first question.

My second question is on the rural exposure. While we know that MFI is about 0.9% of your mix, is there any other segment or product through which you are exposed to rural or agricultural markets? Alternatively, can you give us any details of how much exposure you have in the states hit by droughts—Maharashtra, Telangana, Andhra Pradesh, Gujarat, and Rajasthan? That is my second question.

My last question is on Tier 1. We are under 15% now, so any commentary around that would be helpful. Thank you.

Management: Thanks, Shreya. First of all, talking about the guidance, we had given detailed guidance on growth, cost-to-income, credit cost, PAT growth, ROA, and ROE. We are fairly confident of meeting each of these requirements. In fact, we have already met some of them, and we see no challenges in meeting all of them. I do not think we have any doubt on the same.

As far as revision is concerned, we do not want to revise anything. We will look at the end of the year if we want to revise on the upward side, but we are not looking at revising anything downward.

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As far as the rural portfolio is concerned, our presence in rural areas is only through the microfinance business. If we look at the microfinance business, it forms less than 1% of our book. In fact, we are seeing an improving trend in portfolio quality in microfinance, as well as on the growth side of the microfinance business. That is positive for us. We do not have any presence in tractor or farm loans, so that does not impact us. In fact, we have also looked at our portfolio in Maharashtra. We hardly have any presence even in microfinance in Maharashtra. Therefore, we are not concerned about any impact of drought or anything else as far as the rural portfolio is concerned.

On capital, based on the current growth plans, we expect to raise capital sometime towards the second half of FY28. We will keep evaluating our capital position as the business grows and will take a call at an appropriate time. But that is the plan as of now.

Shreya Shivani – Nomura: Right. Thank you. I have one follow-up on the PLR increase of 20-25 bps for which you have received board approval. Is that effective from today, or did you already implement it from October 1?

Management: The PLR decision is taken by the ALCO, and the ALCO took a decision to increase it by 25 basis points. That is what the Tata Capital Ltd. ALCO decided. Tata Capital Housing Finance has decided to increase it by 20 basis points, and both increases will be effective from November 1.

Shreya Shivani – Nomura: All right. That is useful. Thank you so much, and all the best.

Management: Thank you so much, Shreya.

Operator: Thank you. Ladies and gentlemen, we would request you to please limit your questions to 2 per participant. The next question is from the line of Avinash Singh from Emkay Global Financial Services. Please go ahead.

Avinash Singh – Emkay Global Financial Services: Good evening. Thank you for the opportunity. I have just 2 questions. First, a comment on the fact that your motor finance book is still shrinking. If we look at the last few quarters, the GNPA trend was declining, even on a percentage basis. However, there has been a material jump in this quarter. What is happening there, and when do you expect this motor vehicle book to start growing?

Second, considering the remainder of FY27 and FY28, the rate environment that you alluded to or guided toward, the product mix changes that will take place, and the fact that in a segment such as your mortgage business, large banks will continue to compete in the prime segment, how do you see the NIM trajectory going forward in H2 FY27 and FY28? Thank you.

Management: Thanks, Avinash, for those questions. Let me answer the motor finance question first, and then we will talk about NIM.

As far as the motor finance business is concerned, as we had mentioned in the previous call and in previous quarters, we are proceeding very well on all parameters except growth. In terms of credit cost and slippages, they have all been coming down. If you look at our move toward non-Tata vehicles for diversifying the portfolio, that is also proceeding very well. The cost-to-income ratio is also coming down. However, portfolio growth was lagging by about 2-3 quarters compared to what we had expected. This is the same situation as of now.

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If you look at the portfolio run-down, it is coming down every quarter. The run-down in Q2 is lower than in Q1, and Q1 was lower than Q4 of last year. We expect the portfolio to stabilize in Q3 and start growing from Q4. That is the plan as far as motor finance is concerned.

The growth in NPA, if you look at our overall NPAs, has remained stable at 1.9% compared to last quarter, and we have come down compared to the same time last year. However, if you look at motor finance, that has gone up. It appears to be increasing for 2 reasons. First, the book is falling, so the denominator is coming down. Second, it is seasonal. If you look at our numbers from the past, Q2 is the quarter with the highest growth in NPAs, which moderates in Q3 and then further in Q4. We are seeing the same trend this year as well. It is more seasonal in nature, and if you look at absolute slippages and so on, they are significantly lower in Q2 compared to Q2 of last year. We are quite positive about the fact that we are on the right track, except for portfolio growth, where we are lagging by 2-3 quarters.

As far as NIM is concerned, I want to tell you a little bit about how our liabilities are constructed and then come to NIM. If you look at our liabilities, 48% are floating-rate liabilities. On the asset side, 66% of our assets are floating. Structurally, we are very well positioned in a rising-rate environment. As I mentioned earlier, the ALCO decided to increase the interest rates for our floating-rate liabilities.

As far as NIM is concerned, we have seen a drop in Q2 compared to Q1 of about 10 basis points. This is primarily due to 2 reasons. About 5 bps is due to the increase in cost of funds, which is also in our investor presentation, and another 5 bps is due to competitive intensity in the prime home loan business.

As far as our Q3 assessment is concerned, we expect NIM plus fee in Q3 not to have any further drag. In fact, we expect it to remain stable or marginally improve, but more toward being stable. Based on all the measures we have taken, our Q4 NIM plus fee should show an improving trend. We are quite positive on Q4. This is what we had mentioned before: Q2 would see some moderation, Q3 would see stability or marginal improvement, and Q4 would see a distinct improvement as far as NIM plus fee is concerned.

This is coming on account of other factors as well. Our high-margin business has shown growth of 40% in disbursements and 14% in AUM growth. We expect this AUM growth of 14% to increase every quarter, and by Q4 it should mirror our overall book portfolio growth and should start getting better from the next financial year.

Avinash Singh - Emkay Global Financial Services: Thank you very much for putting it together.

Operator: Thank you. The next question is from the line of Anuj Singla from B&K Securities. Please go ahead.

Anuj Singla - B&K Securities: Good evening, Rajiv and team. Thank you very much for the opportunity, and congratulations on a good set of numbers. I have 2 questions. The first is on the growth side. This has been an outstanding performance. If I look at it on a sequential basis, a lot of it has come from SME, and I see that there may also be a component of channel financing in the run-up to the festive season. Can you give us some idea of where you are growing in the SME

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segment? I think it contributed 45% of the incremental growth in this quarter. Is there a significant portion of channel financing in that? That is the first question.

Management: Thanks, Anuj. As far as growth is concerned, it is well-diversified, but you are right that SME has shown better growth. The [trails off]

Rajiv Sabharwal – Managing Director and CEO: The big areas for growth are 2-fold. One is on the supply chain side, where we have seen good demand emerging. We had also looked at increasing the number of locations where we offer our SME products. That has helped us get new clients and increase our term loans toward this segment as well. I would say the growth is from both term loans and supply chain, but supply chain has obviously had a significantly better quarter compared to the other products.

Anuj Singla – B&K Securities: Also, Rajiv, the follow-up to that is that this will also turn into retail assets next quarter. Therefore, this will decline and retail assets will increase. Should we expect the growth number that you have shown to moderate to your guidance number, which was 25%? Is that how we should expect the trajectory to develop?

Rajiv Sabharwal – Managing Director and CEO: If you look at our supply chain, it has become extremely diversified over the last 4 years or so. Four years ago, auto used to constitute about two-thirds of our supply chain. It is now down to about 40% or less than 40%. I am told it is down to about 35%. To that extent, it is well diversified. Even if there is a challenge in any particular sector, we do not expect the overall supply chain business to suffer. That was from a diversification perspective.

As far as what will convert into retail is concerned, yes, on the vehicle side it will help us convert. However, our retail story is not guided by this alone. Our retail story continues to be guided by the same factors: expanding geographically, bringing down our turnaround time, and being fairly competitive as far as product structuring is concerned. We expect retail momentum and growth to pick up further in Q3 and then pick up even more in Q4. We are clearly on a trend where the retail business will pick up further.

The same is true for our housing business in retail. We expanded in Q2, but the expansion in the number of locations in Q3 and Q4 will be even stronger as per our plan compared to Q2. That should help us with affordable housing as well as micro housing.

Anuj Singla – B&K Securities: Understood. The second question is on asset quality. We draw a lot of confidence from your statement on slippages across the portfolio. Can you explain the logic or thought behind increasing the PCR? I see a significant jump in personal and business loans, and I think there is some increase in the other retail loans as well. What is the thought process around that? Thank you very much.

Rakesh: This is Rakesh. I will take the question. PCR is based on Stage 3 assets, and it often depends on the mix or the aging of the assets that are moved into Stage 3. We apply the ECL rate and staggered provisioning over and above the point at which the asset moves into Stage 3, which gives you the PCR. It is primarily the aging of the assets within Stage 3 that determines the PCR percentage.

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Anuj Singla – B&K Securities: Understood. Thank you.

Operator: Thank you. The next question is from the line of Nishin Chhabra from Kotak. Please go ahead.

Nishin Chhabra – Kotak: I have 2 questions. One is a small item of around 186 crore relating to derecognition of an associate. If you could explain that. The second is whether you have tightened your screens in the last couple of weeks given the crude oil situation and the increase in crude prices.

Rajiv Sabharwal – Managing Director and CEO: Let me take the second question, and then I will request Rakesh to cover your first point, Nishin.

As far as tightening is concerned, we monitor our portfolios at a fairly short frequency, looking at the trend and what we need to do. We have obviously been watching the impact of the war. While fuel prices have not increased, there are many products that are supported by crude prices, and there has been a cost increase there. In certain SME segments, both unsecured, which is our business loans, and secured, which comes under SME, we have tightened our screens. We have tightened our screens for lending to these SME sectors, which are part of our secured and unsecured business loans. I will let Rakesh answer the question on that.

Rakesh: Nishin, on your question about the derecognition of 186 crores, as you are aware, we have private equity businesses within Tata Capital Ltd. and hold investments on our balance sheet. During the quarter, one of the funds exited one of its portfolio companies, which was classified as an associate. That is why you see a separate line item that earlier reflected a gain of 186 crores. However, if I exclude the amount pertaining to the other LPs, only 27 crores of it flows into the PAT of Tata Capital Ltd.

Nishin Chhabra – Kotak: Understood. Thank you very much, and all the best.

Rakesh: Thank you so much.

Operator: Thank you. The next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg – Ambit Capital: Thank you for the opportunity, and good evening. I have one question. I am looking at some of these data points for the motor finance business, such as increased dealership presence, completion of IT integration, and rollout of the CV products in more retail branches. On the other hand, you have the oil price risk and the risk from a deficient monsoon, which could impact utilization. In this backdrop, for FY24, how do you ensure that the CV finance portfolio continues to scale up without creating asset quality issues?

Rajiv Sabharwal – Managing Director and CEO: The CV industry is cyclical, and we need to monitor the impact of fuel prices on it. As far as we are concerned, we are at a different stage in our business. As we had mentioned before, we are clearly looking at how we can improve our ROA through a mix of yield, cost efficiency, and credit cost. We remain on track for that.

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In terms of our approach toward this business, we are conscious of growing it in a moderated manner. As I mentioned before, we expect to bring down the de-growth in this book in Q3 and then start growing it. We have tightened our collections and made them stronger. In fact, all collections in the CV business are managed in-house, which allows us to be more proactive as far as collections are concerned.

We have also created a macro provision of about 30 crores in the CV business during this quarter, and we will monitor how it progresses in the future. That is our approach as of now. We will be calibrated in our approach and will focus on improving efficiency.

The whole idea behind going to more dealers is that we can be more selective in choosing which proposals we take. Similarly, our investment in creating an integrated technology model allows us to be more efficient and improve our turnaround time. All of this is important, and it flows from the fact that we are pursuing improvement in profitability rather than volumes at this point in time. In fact, this book constituted 14% of our total book in March 2021 and is now down to about 7.5%.

Raghav Garg – Ambit Capital: Understood. Just one more question. Based on your disclosures on the motor finance NPAs in the book, it seems that the problematic portion is somewhere around 2,000-2,100 crores. Have you considered offloading this portion to an ARC and channeling all your energy and efforts toward growing the book without putting in substantial collection efforts, since that is something the ARC can do?

Rajiv Sabharwal – Managing Director and CEO: No, we have not looked at that. Our philosophy in all businesses has been that we know our business well, whether it is credit or collections. I would be surprised if any other ARC were more efficient at collections than us. We probably have a very good collection team that is helping us with our approach.

Our general philosophy on collections has also been to keep increasing collections handled by our own team and, within our own team, to handle more of them digitally. That has been our approach, and we would like to continue with it. We have not looked at that option, but since you have suggested it, we will reevaluate it and see what we need to do.

Raghav Garg – Ambit Capital: Can I ask one more question related to this? The 2,000 crores of GNPA that you have in the motor finance book would mostly be from the book before March 2021. Is that the correct understanding, and would most of it therefore comprise Tata vehicles?

Rajiv Sabharwal – Managing Director and CEO: You are right. The majority of it does come from a portfolio from before March 2021.

Raghav Garg – Ambit Capital: Perhaps when I deduct the disbursements of the last 4-5 quarters from the current book, that is how one should look at the GNPA in the older book, just to assess how the older NPA book is moving?

Rajiv Sabharwal – Managing Director and CEO: While what you are saying appears to be right, we will be happy to engage with you separately and go through these numbers.

Raghav Garg – Ambit Capital: Understood. Thank you very much for answering my questions.

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Rajiv Sabharwal – Managing Director and CEO: Thank you so much, Raghav.

Operator: Thank you. The next question is from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah – Citi Group: Thank you for taking the question. I have a couple of questions. First, in terms of the yield optimization that we have been discussing, whether through optimization within various segments or because our high-yielding segment is still growing as a proportion of AUM, what is not actually reflecting in terms of the yield increase, and what will change in the second half? Excluding the PLR increase that you have undertaken, if we broadly look at yield optimization across the AUM, what will work over the next 18 months that has not worked this quarter?

Rajiv Sabharwal – Managing Director and CEO: A few things. First, whenever interest rates are falling, the pressure for balance transfers and the pressure to reprice are much greater. This changes when interest rates are stable or start rising. We saw some impact of this in Q2 over Q1 in more price-sensitive products. Therefore, an increasing interest-rate environment will reduce the pressure on balance transfers and repricing. That is one factor that will help us.

Second, you are right that the increasing proportion of high-margin business will also be supportive. As we mentioned, the growth in high-margin businesses on AUM is about 14%, although disbursement growth is 40%. We expect this 14% to almost mirror our overall portfolio growth by Q4 and exceed it from the next financial year.

We have also looked at our other products that do not feature in this high-margin list. The list we have given you is for high-margin retail products. There are separate high-margin corporate products, and those are performing well. Beyond these high-margin retail and corporate products, we have also looked at how we can increase yields. Each of the business leaders has put a plan in place, which is already in motion from Q2 onward and will begin to show more output from the end of Q3 or from Q4. That is how we are looking at it, and that will help us.

Rajiv Sabharwal – Managing Director and CEO: That is the way we are looking at things. I mentioned earlier that our floating-rate assets are much larger than our floating-rate liabilities. That will also be supportive for us in the future if interest rates increase.

Kunal Shah – Citi Group: Does the reset happen immediately? With the 25 basis points and 20 basis points, is it effective the very next month, or what is the reset period?

Rajiv Sabharwal – Managing Director and CEO: For us, this will happen for almost the entire portfolio from November 1. That is the date from which we have decided to change the rates.

Kunal Shah – Citi Group: Understood. I have a few more questions. On the fee income side in Tata Capital Housing, what is leading to almost 30% year-on-year growth? Is it the sell-downs or something else that is leading to much higher fee income? Is there anything extraordinary when you look at it?

Also, in terms of the run-down in Tata Motors, we are still confident that it will stabilize in Q3 and become positive in Q4. However, when we look at the run-down, it is almost similar to the Q2 level. Were you expecting a similar repayment run rate in Q2, or were you expecting it to be slightly

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lower—perhaps instead of 940 it should have been around 500-600 crore—and then stabilize in the third quarter?

Rajiv Sabharwal – Managing Director and CEO: In Q2, as we had mentioned earlier, when the war began, we became a little conservative and felt that the government would pass on the impact of fuel prices. We became somewhat conservative. Subsequently, when we realized that this was not happening, we tried to increase our disbursements.

Looking at the month-on-month trend now, we believe that Q3 should be flat for us and growth should return from Q4. That is our reading of the situation, and that is how we have invested in different markets and dealerships at this point in time. As far as housing finance is concerned, I will request Rakesh to comment on it.

Rakesh: Kunal, you are right. If you look at total fee income, it has increased by 30% year-on-year, and sequentially it has also gone up. However, if you dissect the fee income, assignment income has increased by 58% on a year-on-year basis. That is what is contributing to the assignment income, which we do...

Kunal Shah – Citi Group: Which income? Sorry.

Rakesh: Assignment income.

Rajiv Sabharwal – Managing Director and CEO: As far as non-assignment income is concerned, it has remained at the same level as it was in Q1. As a percentage, it has remained at a similar level. The increase has been contributed by assignment income.

Kunal Shah – Citi Group: Assignment income. Understood. That answers the question. Thank you.

Operator: Thank you. The next question is from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah – IIFL Capital: Thank you, and congratulations on a good set of numbers. Rajiv, I have 2 questions. The first is on the NIM front, and I will perhaps make a couple of points here. You mentioned the pricing pressure on the HFC side, and when we dissect NIM between standalone and HFC, that is clearly visible. How confident are you that the 20 bps PLR increase you have taken will be sustained, especially in the context of competitive pressures?

The second part of this question is that we have taken this PLR increase from November 1, so it should have 2 months of impact in this quarter. Should we therefore expect greater support to NIM and perhaps even slightly expanding NIM, not just NIM plus fees, in Q3?

The third part of this question is that when we look at the cumulative 75 bps of rate hikes, is this 20 bps and 25 bps PLR increase just for the current 25 bps hike, or is it in anticipation of something more? What could be the trajectory or cumulative quantum in the event of a 75 bps rate hike?

My second question is that we are currently at 26% growth, including the run-down of the TMFL book. Opex is already at 2.2% of AUM, and credit cost is less than 1% in the first half itself. You mentioned that there could be some upside risk to the FY28 guidance as well. Do you anticipate

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being able to retest the FY28 guidance itself in the first half of FY28?

Rajiv Sabharwal – Managing Director and CEO: [laughs] Viral, thank you, first of all. I will comment on a few items, and I will request my colleague Sarosh to add.

As far as the PLR hike is concerned, it is effective from November 1. This PLR hike is only because of the impact of the 25 basis points repo rate increase that became effective in October. That is the only reason. If there are more hikes in the future, we will evaluate them based on the mix of our assets and liabilities. We will evaluate the impact and then pass on the increase. That is what we have done in the past, and that is what we will do in the future.

Since our floating-rate assets are higher than our floating-rate liabilities on an overall basis, we are well positioned in an increasing interest-rate environment.

As far as the 20 bps increase in housing is concerned, the team has looked at all segments so that it can pass on the same to incremental customers as well, and not only to our existing customers. We do believe, based on our understanding of what other market participants are doing, that everyone needs higher interest rates in home loans. Competition had led to a situation where interest rates were dropping, but everyone is conscious—at least all leading players, as we understand—that they need to increase rates. They need to maintain their margins. We therefore expect that to happen, and from our perspective, we want to make it happen.

The other thing we are doing is increasing our proportion of affordable and micro housing as well as LAP, so that we do not have a negative drag. Another factor that is helping us is that our costs are moving at a much slower pace than our income. We expect the same trend to continue in the future. As far as the year is concerned, if income grows at about 25%, we expect costs to grow at about 15%. That should help us. I will request Sarosh to add.

Sarosh: Thanks, Rajiv. Viral, this is Sarosh. In our housing portfolio, 95% of our assets are floating. Roughly 40% of our liabilities will get repriced because of the rate increase. This will give us an advantage as we go forward because this 20 basis points will provide a lift on practically the entire portfolio.

Secondly, we have pivoted toward a near-prime segment, which is between our prime and affordable segments. Our near-prime as well as affordable growth in AUM will be faster in the second and third quarters and the third and fourth quarters, which will also help sustain NIM plus fee, either at a flat level or slightly better as we move ahead.

Viral Shah – IIFL Capital: I have an incremental question on that. In Q2, market rates had already priced in or were pricing in many more rate hikes. Given that 48% of our liabilities are floating, I would believe that some part of that would be linked not just to the repo rate but also to T-bills. Specifically focusing on Q3 onward, do you see a similar increase in the cost of funds, or is there a lead-lag effect between cost of funds and yields?

Rajiv Sabharwal – Managing Director and CEO: [pause] He is asking what you mean. I could not fully understand. From our perspective, what we want to do is try to time it even better between when the increase happens and when we pass on the impact. In fact, if you look at the regulator's draft

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guidelines, they also want transmission to happen faster in both directions, whether rates are increasing or decreasing. Our endeavor through the PLR would also be the same. I could not understand beyond that exactly what you want to know.

Viral Shah – IIFL Capital: I will probably take it offline, Rajiv. That is okay.

Rajiv Sabharwal – Managing Director and CEO: Okay.

Viral Shah – IIFL Capital: Thank you.

Operator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal – Motilal Oswal: Good evening, everyone, and thank you for taking my question. Rajiv, my first question was about Flexi loans. What proportion of your book was Flexi in nature? During your opening remarks, based on the representations you have made to the regulator, did you indicate whether you think the regulator might allow NBFCs to continue offering Flexi loan products, perhaps with slightly higher guardrails?

Also, during your opening remarks, you alluded to an alternate product that could offset the impact if Flexi loans disbursed by NBFCs are banned by the regulator. What is the difference in profitability between the Flexi loan product and this new alternate loan product that you are working on?

Rajiv Sabharwal – Managing Director and CEO: Let me answer to the best of my ability. First of all, I have no ability to predict [laughs] what the regulator will finally do. We have been trying to convey our viewpoint to them, and they have been very receptive in listening to what the industry has to say. My view is that they will hopefully take a balanced decision that reflects their regulatory needs as well as what is good for borrowers. I would say that 90% of what we do here goes to SME customers, and more specifically to MSME customers. To that extent, this is what they will consider.

When we evaluated our portfolio and looked at what is being called Flexi and what proportion of that we would be able to convert into our modified product without revolver capability, we felt that we could convert more than half of it. We have already been testing some of the alternate products we created in the market, and we will start testing the balance at the beginning of November.

As far as interest rates are concerned, Flexi loans used to carry a higher rate than normal term loans, but our modified products are priced almost similarly to Flexi loans. I do not really believe, first of all, that the guidelines will be the same as those in the draft. We expect the regulator to take into account all feedback and then make a decision. Ultimately, it is their call as to what they wish to do.

From our side, we want to be prepared for everything so that the impact is minimized. That will be our effort. I can comment more on this once the guidelines are issued.

Abhijit Tibrewal – Motilal Oswal: What proportion of our loans are Flexi in nature now?

Rajiv Sabharwal – Managing Director and CEO: As far as Flexi loans are concerned, they form a relatively small proportion, about 2% of our book.

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Abhijit Tibrewal – Motilal Oswal: Understood. The last question I had was—

Rajiv Sabharwal – Managing Director and CEO: Between 2% and 2.5%, I would say, to be honest. Yes.

Abhijit Tibrewal – Motilal Oswal: Understood. We have already had a lot of discussion on margins, where you said that you have taken PLR increases in both the standalone and housing entities. When you said that NIM plus fee would not have any further drag, that margins plus fee would remain stable in Q3 and then show an improving trend in Q4, I am trying to understand the sensitivity of our NIM to a 50 bps increase in repo rates. A 25 basis points increase in the repo rate has already prompted us to think about margin expansion. If repo rates are higher by, let us say, 100–125 basis points {? over 3 years ?}, how can that benefit our margins? I am looking for some sensitivity to that.

Management: From that perspective, we do believe that if there is an increase in the repo rate, because of the composition of our assets and liabilities, it should be accretive or balanced. I would describe it as normal to positive. That is how I would put it.

Abhijit Tibrewal – Motilal Oswal: Understood. Lastly, where are we on the—

Operator: Excuse me, Mr. Tibrewal. May we request you to please rejoin the queue? We have participants waiting for their turns.

Abhijit Tibrewal – Motilal Oswal: Sure. Thank you.

Operator: Thank you. The next question is from the line of Anand Dama from Nuvama Wealth. Please go ahead.

Anand Dama – Nuvama Wealth: Thank you for the opportunity, and congratulations on a great set of results. You have now recorded almost 26% AUM growth in this quarter, while your guidance was somewhere around 20–25%. Was this more opportunistic growth in Q2, and will you return to the 20–25% range and try to manage margins rather than chase growth? Comments on that would be helpful.

Management: I do not think there was any opportunistic one-off or anything similar. However, we are very conscious that we want margins to improve, and we have rejected certain deals because they did not meet our margin requirements. We want to remain within the guidance we have given of 23–25%. While we will definitely focus on growth, we do not want growth at the expense of margins.

Anand Dama – Nuvama Wealth: Have we indicated what the impact of the insurance commission cap could be, if at all, and whether there are any mitigating factors that we can use internally? Peer companies such as Piramal have indicated a 20–24 basis points impact in terms of ROA. Is there any number that you can provide?

Management: We have not provided any number because we honestly do not know what the final guidelines will be or when they will become effective. Once we have that information, we will assess the situation.

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In parallel, we have been thinking through which insurance products we can sell and whether a retail product makes more sense than a group product. We have looked at those options. We have also looked at how we can improve our NIM plus fee through our normal business, which does not involve insurance. If we do not sell insurance, it will also bring down our operating costs, which will be beneficial.

It will be through a combination of all these factors and some additional measures that may emerge. We are at an early stage of working this out, but our effort will be to minimize the impact in all situations.

However, I should admit that insurance is an important product. We believe it is extremely useful for the borrower, and we have seen this in many instances in our portfolio. We would honestly want to be in a situation where the regulator sets a commission that more than covers the cost and also gives us margins, because this is a product that is good for customers. We are engaging with the regulator on this matter.

In parallel, we are working on what we can do to minimize the impact. I will be able to give you a better answer once we know the final guidelines, because there are other matters that are also works in progress at our end.

Anand Dama – Nuvama Wealth: That is helpful. Thank you.

Operator: Thank you. The next question is from the line of Jai {? Vetale ?} from NBIE. Please go ahead.

Jai {? Vetale ?} – NBIE: Hello, sir. Good evening, and thank you for the opportunity. Congratulations on a good set of numbers. My question is regarding CRAR. CRAR has fallen by an average of around 100 bps per quarter since the IPO. Even at 50 bps per quarter, it would be near 15% by the second half of FY28. When do we plan to raise capital?

Management: We continue to look at capital adequacy very closely, including Tier 1 capital and the mix of liabilities, including whether we raise Tier 2 subordinated debt. If you look at the current growth trajectory, we think we will need to raise capital by the second half of FY28, more toward Q3 or Q4.

Jai {? Vetale ?} – NBIE: Understood, sir. Thank you very much, and best of luck.

Management: Thank you.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I now hand the conference back to management for closing comments. Over to you, sir.

Management: Thank you very much. We are very excited about the quarter that just ended. It gave us strong growth across all segments of the business. The good part was that the growth was well diversified for us.

We have seen the benefit of operating efficiency play out because of the investments we have made on the technology and AI sides. Credit cost continues to hold up very well. In fact, all our early

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bounces tell us that there is no cause for worry, so credit cost is holding up very well for us. We had strong growth in profitability, so all aspects were positive.

We are also excited about what is going to happen in the rest of the year, and we have a plan in place to manage it. There are obviously certain regulatory matters that we are watching. We will always comply with whatever regulations the regulator introduces, but we are also being proactive in thinking through what we need to do so that we can manage this entire change.

I would like to thank all of you for your support and wish all of you and your families a very happy Diwali as we end this call. Thank you very much.

Operator: Thank you. Ladies and gentlemen, on behalf of Tata Capital Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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