Aditya Birla Capital

Operator: Ladies and gentlemen, good day and welcome to the Q2 FY27 earnings conference call of Aditya Birla Capital Ltd. 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 this conference call, please signal the operator by pressing star then zero on your touchtone phone. I now hand the conference over to Ms. Vishakha Mulye, MD and CEO, Aditya Birla Capital Ltd. Thank you, and over to you, ma'am.

Vishakha Mulye - MD & CEO: Thank you so much. Good evening, everyone, and welcome to the earnings call of Aditya Birla Capital Ltd. for Q2 FY27. Joining me today are senior members of my team: Bala, Rakesh, Pankaj, Kamlesh, Mayank, Pinky, Vijay, Deep, and Subhash.

I will cover our strategy and financial and business performance, followed by a discussion on the performance of our key businesses by our business CEOs.

The Indian economy continues to do well despite heightened global uncertainty, elevated commodity prices, and tighter monetary conditions. Domestic demand remains healthy, supported by strong investment activity, robust credit growth, and continued momentum in the services sector. While a deficient monsoon and higher food and energy prices have added to inflationary pressure, the overall growth outlook remains encouraging.

At Aditya Birla {? Com ?} Capital, we continue to focus on driving quality and profitable growth by leveraging data, digital capabilities, and technology.

Now, coming to our financial performance during the quarter:

We delivered robust growth in revenue and profitability. Consolidated profit after tax was 1,288 crore rupees, up 38% year-on-year and 10% quarter-on-quarter. Total consolidated revenue grew 31% year-on-year and 12% quarter-on-quarter.

The quarter reflects the strength of our diversified business model, disciplined execution, and the ability of our businesses to deliver consistent performance.

Talking about our growth across businesses:

Our NBFC AUM grew 26% year-on-year, driven by healthy growth across all our segments. As we had discussed in our previous quarter's earnings call, we have rolled out gold loan products and opened dedicated branches. Rakesh will talk about this in detail.

Our HFC AUM grew 30% year-on-year.

In our insurance businesses, we continue to be among the fastest-growing companies and continue to gain market share. In H1 FY24, individual first-year premium for life insurance grew 25% year-on-year, against industry growth of 12%. The gross written premium of our health insurance business grew 43% year-on-year.

In our AMC business, quarterly average mutual fund AUM grew 4% year-on-year.

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Talking about our profitability and quality:

I am delighted to share that in the NBFC business, profit after tax increased 41% year-on-year to 1,008 crore rupees. ROA expanded by 25 basis points year-on-year and 6 basis points sequentially to 2.45%.

In the HFC business, profit after tax increased 73% year-on-year to 261 crore rupees, with an ROA of 2.12%.

Despite volatile market conditions and uncertainty in the operating environment, our asset quality across both lending businesses remained best-in-class.

In the NBFC business, our credit cost improved by 24 basis points year-on-year and 11 basis points sequentially to 0.92%. Gross Stage 2 and Stage 3 in both lending businesses continued to improve year-on-year and sequentially.

In our AMC business, fund performance remained strong, with approximately 80% of our equity AUM in the top quartile.

In the life insurance business, our VNB margin increased by 450 basis points year-on-year to 16.1%.

The combined ratio of our health insurance business was 107%.

We continue to leverage data and technology as growth enablers. AI is now becoming the core operating layer for us, and we are scaling up its use across various areas such as underwriting, sales, voice calling, audit and compliance, customer service, and operations to drive better decision-making, efficiency, and customer outcomes.

We believe AI will help us scale efficiently, enhance underwriting and customer outcomes, and unlock productivity across our businesses.

Our business CEOs will take you through select use cases in more detail.

Looking ahead, we remain confident in the long-term growth potential of the Indian economy and our ability to capitalize on the opportunities ahead.

Supported by a robust strategy and disciplined execution, we will continue to strengthen customer relationships, scale our franchise, and create value for all our stakeholders.

Now, I request Rakesh to talk about the performance of the NBFC business. Over to you, Rakesh.

Rakesh: Thanks, Vishakha, and good evening, everyone.

I am pleased to report yet another strong quarter for our NBFC business.

In Q2 FY24, our AUM reached 1,76,557 crore, registering year-on-year growth of 26.5% and quarter-on-quarter growth of 5.4%, with robust asset quality and strong profitability.

PAT for the quarter crossed a significant milestone of 1,000 crore, with an ROA of 2.45%.

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Our new business sourcing was robust at 24,708 crore and was nearly at par with the highest-ever sourcing in Q4 last year.

In Q2, we added 9,101 crore in AUM. In Q2, 85% of this was contributed by the retail and MSME segments. This was driven by strong traction in the retail and MSME businesses, which are our chosen segments for growth. Put together, these segments accounted for 71% of the share in total disbursements in H1, up from 57% for the same period last year.

In our personal and consumer business, our growth trajectory remains robust, with disbursements growing 18% year-on-year in Q2 to 5,877 crore. AUM in this segment grew 7% sequentially and 37% year-on-year to 24,955 crore. Consequently, the AUM mix improved by 108 basis points year-on-year to 14%.

This growth was supported by the scale-up of new programs introduced and consistent improvement in turnaround time, driven by journey simplification and process automation.

Asset quality for this segment has improved, with gross Stage 2 and Stage 3 declining by 140 basis points year-on-year and 10 basis points sequentially. Gross Stage 3 for this segment stands at 1.3% as of September 2023.

I am excited to share that we launched our gold loan business in August last quarter, which strengthens our offering in the personal and consumer loan segment. During the first 70 days, we opened 70 branches, and our AUM stands at 12,200 crore. These are early days, and our focus is on building resilient systems and processes by leveraging technology to support future scale.

We plan a phased rollout of 200-300 dedicated gold loan branches by March 2025 across high-potential markets, with an aim to scale up the distribution to more than 1,000 branches over the next 3 years.

We aspire to scale the gold loan business and strengthen our position as a lender of choice in one of India's fastest-growing retail credit segments.

Our MSME business achieved a significant milestone in Q2, crossing 1 lakh crore in AUM, and we continue to be a category leader in terms of growth and asset quality for MSMEs.

Our MSME AUM grew 30% year-on-year to 1,01,119 crore, representing 57% of our overall AUM, with a prudent mix of 79% secured and 21% unsecured exposure. So, almost 80% of our MSME exposures are secured.

In Q2, we disbursed 11,252 crore to MSMEs, delivering 16% quarter-on-quarter growth, supported by deeper geographic penetration, a broader product portfolio, and faster customer onboarding.

Our disbursements in secured MSME grew 17% sequentially and 22% year-on-year in Q2. AUM grew 26% year-on-year, which is faster than industry growth.

The asset quality of this segment continues to be healthy and best-in-class on the back of strong cash flows and collateral. Gross Stage 3 for this portfolio stands at 1.2% as of September 2023.

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In the unsecured business loan segment, we saw disbursements grow by a healthy 9% quarter-on-quarter to approximately 1,500 crore in Q2. AUM in this segment grew 11% sequentially and was supported by the scale-up of new product launches, which now contribute nearly 28% of new business sourcing.

Our proprietary MSME platform, Udyog Plus, further complements the scale-up by facilitating an end-to-end digitally enabled suite of trade solutions, establishing a strong position among NBFCs in trade.

Quality in this segment also improved significantly, with gross Stage 2 and Stage 3 down 40 basis points sequentially and 170 basis points year-on-year. Gross Stage 3 for unsecured business loans stands at 1%. Forty-six percent of the gross Stage 3 book in the unsecured MSME business is covered under the government guarantee scheme, which means that if we exclude that, GS3 is only 0.6%.

Moving now to our corporate segment, AUM grew 3% quarter-on-quarter and 15% year-on-year, and now contributes 29% of our overall portfolio.

Asset quality in our corporate business also continues to improve, with gross Stage 2 and Stage 3 declining by 40 basis points year-on-year. Gross Stage 3 in this segment stands at 1.6% for the quarter.

Coming to portfolio quality at the entity level, our gross Stage 2 and Stage 3 stands at 2.31%, improving by 72 basis points year-on-year. Gross Stage 2 for the quarter stands at 1.03%, improving by 32 basis points year-on-year, and gross Stage 3 stands at 1.28%, improving by 40 basis points year-on-year.

I further wish to highlight that about 71% of our overall loan book is secured. Our overall Stage 3 book is well provided for, with a PCR of 48.4%, which has improved by 20 basis points compared to last quarter.

Our credit cost is now below 1%, at 92 basis points, which would be our best in the last 7 years. This has been an outcome of the disciplined risk and cohort corrections we have undertaken over the last few years.

Further, we continue to see sustained improvement in collection intensity, with technology, analytics, and AI capabilities driving better contact efficiency and significant improvement in forward roll rates.

Our interest income for the quarter increased by 25% year-on-year and 4.6% sequentially to 2,488 crore. Net interest margin, including fees, was 6%.

Of late, the macro environment has seen some tightening, with the RBI's repo rate action, rising interest rates, and inflation. Against this backdrop, we have increased our benchmark rate by 25 basis points effective October 26 on our variable-rate portfolio, which constitutes nearly 70% of the overall loan book. This has been done as a proactive measure, which will ensure that the increase in the cost of borrowing is transmitted effectively and in a timely manner.

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Our efforts to enhance productivity in the retail and SME businesses have started yielding fruitful results. The opex-to-AUM ratio for the quarter is at a healthy 1.84%, down 11 basis points sequentially and 19 basis points year-on-year. This gives us the ability to make further investments in our business, including the gold loan franchise, for future growth.

Moving to profitability, ROA for the quarter improved by 25 basis points year-on-year and 7 basis points sequentially to 2.45%. We delivered profit after tax of Rs. 1,008 crores, registering growth of 8.7% quarter-on-quarter and 41% year-on-year.

Coming to customer service, we have significantly improved service responsiveness through AI-led interventions, enabling faster and more effective customer engagement. In Q2, self-service capabilities across channels reached 82%. Sixty-one percent of contact center interactions and 71% of service emails were processed straight through. Our conversational analytics module now delivers 100% automated analysis of voice and email conversations, generating actionable insights to improve customer interaction and identify new business opportunities.

We remain confident in the long-term opportunity across the retail and MSME segments, where we have demonstrated our ability to scale substantially, and these segments will continue to drive our growth strategy. As we continue to enhance our sourcing capabilities, broaden our product suite, and leverage our proprietary digital platforms, we believe we are well placed to further consolidate our position as a lender of choice. Overall, our approach remains consistent: grow responsibly, stay close to our customers, and deliver steady, long-term value for all our stakeholders.

With that, I will now hand it over to Pankaj, MD and CEO of our housing finance business.

Pankaj – MD & CEO: Thanks, Rakesh. Good evening, everyone. I am pleased to share that Q2 FY27 has been another strong quarter for ABHFL, marked by sustained growth, improving asset quality, and continued progress across our strategic priorities. Let me briefly take you through the key highlights for Q2 FY27.

AUM stood at 57,320 crores, registering 50% year-on-year growth and 11% sequential growth. Disbursements stood at 8,957 crores, growing 55% year-on-year and 19% sequentially. NII increased by 53% year-on-year to 641 crores. Profit before tax grew 73% year-on-year to 335 crores. ROA stood at 2.12%, while ROE was 11.47% for the quarter. The ABG ecosystem contributed 17.5% of retail disbursements during the quarter.

Let me now provide an update on our strategic priorities.

Distribution continues to be one of the most important growth levers for ABHFL. Marking a significant milestone in our distribution expansion strategy, we have already launched 101 new branches in this financial year so far across metros, tier 1, tier 2, and tier 3 markets, further strengthening our presence in high-growth, emerging markets. We are very encouraged by the early traction from these branches, as they continue to build our sales and partner ecosystem. The objective of this expansion goes beyond increasing our physical footprint. It is about deepening our presence in high-potential micromarkets, strengthening customer access, and creating a scalable distribution platform for the next phase of growth.

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Alongside branch expansion, we are sharpening our distribution architecture through a differentiated focus on top and emerging markets. This will help enable greater localization of our product, policy, and sourcing approach, while improving our ability to address distinct customer segments across markets.

The second strategic priority is AI, data, and analytics. Technology, data, and AI continue to be core pillars of our strategy, with 15 AI use cases now live across the customer lifecycle. These initiatives are focused on enhancing productivity, improving customer experience, improving partner experience, reducing turnaround times, and strengthening process governance. During this quarter, we continued to build on our AI roadmap, with progress across several key initiatives, namely FinGenius, which went live, enabling AI-assisted document verification and further strengthening process efficiency and standardization. FinShift, our off-market journey for channel partners, has recently been introduced to enable a more seamless partner experience and strengthen digital sourcing. Collectively, these initiatives are helping us build a more scalable and digitally enabled operating model.

The third strategic priority is asset quality. Asset quality strengthened further during the quarter. Stage 2 and Stage 3 assets reduced by 45 basis points year-on-year to 0.65, while Stage 3 independently stood at 0.37. This performance reflects the discipline of our risk and collections framework, supported by early warning mechanisms, predictive analytics, digital collections infrastructure, AI-enabled engagement tools, and focused pre-delinquency interventions.

To conclude, Q2 FY27 has been a quarter of sustained momentum and disciplined execution for us. We have continued to scale the franchise, strengthen asset quality, expand our distribution footprint, and accelerate adoption of digital and AI capabilities. With sustained momentum, improving market share, and a strong execution engine, ABHFL remains well positioned for its next phase of growth. As I had mentioned earlier, for the next 8 to 10 quarters, we remain focused on building a 1 lakh crore-plus AUM franchise, while moving towards 15% ROE and sustaining top-decile asset quality.

Thank you for your attention. With that, I will now hand over the call to Bala, MD and CEO of our asset management company.

Bala - MD & CEO: Thank you, Pankaj. Good evening, everyone. I am glad to share some key business highlights for Q2 FY27.

Overall assets under management, including alternate assets, crossed the {? 4 lakh crore ?} milestone, which we achieved last quarter, and now stand at {? 4.06 ?}, representing growth of 14% year-on-year. This includes the mandates that we received from both ESIC and EPFO. Our mutual fund quarterly average assets stood at 4.02 lakh crore, up about 4%. Within this, our equity mutual fund average assets stood at approximately 2.09 lakh crore, growing about 9% year-on-year. Our equity mix for the quarter stood at 47.4%. Our SIP contribution for September 2026 stood at 1,404 crores, supported by 41.7 lakh contributing SIP accounts. Total folios for September 2026 stood at 1.14 crores, up 15% year-on-year, with approximately 7.07 lakh new folios received for the quarter, compared with 5.2 lakh in the earlier quarter.

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We continue to show consistent and meaningful improvement across our equity and hybrid fund performance. Over the past year, we have strengthened our investment capability, which is now resulting in improved performance across periods ranging from 1 year to 3 years, including 5 years. Almost 80% of our funds are delivering 200 performance, which is now supporting the building of momentum for overall sales activities.

Coming to our alternate business, it witnessed strong growth during the year. Our PMS and AIF assets increased from 13,300 crores to 14,500 crores, again on account of an increase in the EPFO and ESIC mandates. Our real estate business AUM has also shown an improvement, with 860 crores of assets under management, while total commitments for our growth are close to about 1,000 crores, representing year-on-year growth of 43%.

Under GIFT City, we launched a retail fund offering, enabling Indian and global investors to access inbound and outbound opportunities through a dedicated platform. With a growing product suite, we are well placed to build our scalable offshore franchise. In the coming year, we are offering products at a low ticket size of about $500 to tap domestic retail investors abroad, as well as overseas investors investing in India. In fact, we created a pipeline of products in addition to ABSL Flexi Cap Fund for inbound remittances. We are now looking to build about another 6 funds in the high-ticket category, both for inbound and outbound remittance funds, in GIFT City.

Passive is one of the key anchors of our growth strategy. We are committed to building a leadership position in this segment. We have also done so in the last 3 quarters. During Q2 FY27, our passive quarterly average AUM stood at about 39,200 crores, and the investor base continued to expand, with total folios reaching around 70 lakh folios—70.09 lakh, sorry. We were the first in India to launch the BSE Total Market Cap Index Fund and BSE Total Market Cap ETF, which are very unique categories in the passive investment basket. We need to build smart-beta products, perhaps the mother of all passive products, to meet the growing needs of investors as well as the distribution community.

Our ETF franchise delivered particularly strong momentum. ETF quarterly average AUM grew by 40% year-on-year, significantly ahead of the industry growth of 27%. The unique category was added to the FPI segment. We launched an equity long-short fund and an equity ex-top 100 long-short fund. Backed by a strong investment team, our private platform now comprises 3 products, with a 3-member team managing close to 100 crores. We have now seen momentum in this space.

We remain focused on building our investment performance, leading to higher productivity in the coming quarters. With this, I hand over to Kamlesh Rao, the MD and CEO of Aditya Birla Sun Life Insurance.

Kamlesh Rao – MD & CEO: Thank you, Bala. I will give you some quick highlights of the life insurance business. The overall industry registered growth of 13% in H1 of '27, with the private life insurance industry growing at 12% in the same period. Aditya Birla Sun Life Insurance clocked a premium growth rate of 25% in the individual life insurance segment. The growth was across both lines of business, with proprietary business growing 10% and partnership business growing 31%. In the proprietary business, the growth was backed by better productivity as well as growth in the retail part of our business. We will continue to invest more in people as well as in the 400-plus

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branches that we have in this line of business in the current financial year.

The partnership growth of 31% came across all our existing 11 partner banks. In the bancassurance space, we continue to have a healthy mix of private as well as public-sector banks, including banks that have both a large national presence and those that dominate the regional space. The partnership business has a balanced product mix, with margins going up through the year for all banks. We have further strengthened our bancassurance franchise by onboarding IndusInd Bank as our latest partner, and are targeting commencement of business by December of this year. This partnership adds another important growth lever as we continue to broaden our distribution footprint even more in the banca space.

In the product mix of the individual business, traditional business, including protection, is at 66% and ULIP is at 34%, helping us expand margins for the year. We are seeing healthy growth in the annuity segment, with 14% of our retail new business coming from this segment this year.

In the group life insurance segment, the private industry grew 35% and the overall industry grew 25%. In the same period, Aditya Birla Sun Life Insurance recorded a growth rate of 90%. We continue to rank number 2 in the group credit protect industry, with an AUM of 17,000-plus crores. Credit life business delivered growth of about 44% in the first half of '27, supported by all partners. In the group term life insurance business, we continue to do business at 20%-plus ROE, on the back of strong underwriting and favorable claims experience. Group premium now contributes 26% of the overall AUM, at 31,400 crores.

Our total premium for H1 stands at 10,656 crores, up 42% from last year, with 13th-month persistency of 83.4 and renewal premium growth of 20%. Our digital collections now account for 85% of our renewal premium. We continue to work on customer lifetime value, which is reflected in our upsell ratio of 43%. On quality parameters, our overall customer NPS now stands at 69 versus 61 at the same time last year. Our opex-to-premium ratio stands at 21%.

Total AUM is now at 1,20,736 crores, with year-on-year growth of 16%. Twenty-three percent of this AUM is in equity, and the balance is in debt. On a year-to-date basis, more than 55% of our funds continue to outperform their respective benchmarks. Our digital adoption across various areas is demonstrated in slide number 48.

Coming to our Sun Life Insurance business, our AI journey through Saraswati AI is moving from experimentation to scaled adoption. We are expanding AI across underwriting and policy issuance, sales and advisor enablement, customer conversations, employee productivity, and technology delivery, with solutions already live across several areas. As we scale, equal emphasis is being placed on responsible AI, AI governance, and human oversight. Our focus is to embed AI deeper into our operating model, delivering measurable improvements in speed, productivity, consistency, and customer experience.

Our solvency stands at 190%. Our net margins for H1 are at 16.1%, 447 basis points higher than last year's 11.6%. We observed margin expansion due to an increase in annuity mix, apart from healthy rider attachment. Better productivity across all channels also helped margins, apart from favorable interest rates in the first 6 months of the year. Our guidance continues to be to grow individual NBP at a CAGR of 20%-plus for the next 3 years. While achieving this growth, we intend to expand VNB

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margins above 20% and, in absolute numbers, double the value of our net VNB in 3 years' time.

With this, I hand over to Mayank, MD and CEO of our Health Insurance business.

Operator: Thank you.

Mayank: {? ...overview ?} of the performance of our health insurance business. We had a very strong Q2 and therefore H1, as we continued to build on the growth momentum, particularly in this financial year, continuing our track record of consistently outperforming market growth. We achieved gross premium of 4,543 crore, representing strong year-on-year growth of 48% in H1. Our market share thus increased in SAHI from 13.6% to 14.2%, {? a 206 ?} basis point increase in market share.

We grew strongly across both our retail and group franchises. The retail franchise experienced 43% growth and continues to be diversified across all our retail channels. The proprietary channel is backed by an agent base of more than 2.4 lakh agents, which registered year-on-year growth of 51%. Our digital alliance partners and media banks also grew very well.

Our corporate business delivered year-on-year growth of 55%, driven by our focused and disciplined strategy to create a sustainable franchise in this segment. As we had shared, our renewed effort to take a corporate wellness model to this segment is paying rich dividends, and we have also received very good feedback from clients.

The company is at the forefront of the transition to IFRS financial statements, and the financial statements for the period ended have been prepared in accordance with that principle. For H1, our reported profit was 46 crores.

We strongly believe our robust growth and superior unit economics are driven by our digitally enabled and differentiated health-first business model. We have now scaled up the impact, and it is visible across acquisition, hyper-personalized health engagement, and business outcomes such as higher persistency and a lower claims ratio, as shown in the deck.

Our health-first model is resonating with our consumers, with more than 50% of our eligible base now engaging with us actively through an AI-driven consumer engagement engine. Close to 13% of our eligible customers are on a good-health-based tenure, up from 9.4% last year, reflecting very deep engagement. These consumers therefore exhibit a 6% lower loss ratio as well as higher persistency, as shown on slides 59 and 60.

We are progressively moving beyond traditional risk protection towards proactive health risk management through targeted interventions for more than 3,70,000 high-risk lives. We have been able to reduce their loss ratio by over 16%. This helps us keep our retail loss ratio in check. We will continue to scale this up across both the retail and corporate portfolios to provide better health outcomes for our consumers and improve portfolio quality.

Our promise of insurance is centered around delivering a superior customer experience. Continued investments in AI-powered automation are enhancing customer experience, including operating efficiency and claims management. Our AI-enabled claims platform now processes nearly 75% of cashless claims, leading to better outcomes in terms of consumer {? health ?} claims outcomes and

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operational effectiveness.

Alongside this, we are also investing in big data analytics and AI capabilities across the business. These capabilities are being embedded across key functions such as customer engagement, underwriting, claims management, and sales governance to achieve better decision-making, improve productivity, and support profitable growth.

Our consumer app, Activ Health, continues to generate very good engagement with our consumers. Our monthly active users are 7.3 lakh customers, but more importantly, each consumer spends nearly 74 minutes per month on the app, using more than 5 features at any point in time.

Looking ahead, we will continue to invest more in our proprietary distribution franchise, scale up our differentiated health-first approach, and embed AI and emerging technology even more deeply in our business. We believe we are very well positioned to outperform the market and deliver sustainable value.

Thank you. Now I will hand it back to Vishakha for her closing remarks.

Vishakha: Thank you, Mayank. This concludes the remarks from each of our segment performances, and we will today have {? [inaudible] ?}.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Participants, you may press star and one to ask a question.

The first question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg – Ambit Capital: Hi. Good evening, and thank you for the opportunity. I have a few questions. First, when I look at the NBFC retail disbursements for this quarter, typically, in the past, we have seen that retail [cut off]

Management: [line issue] Raghav, we lost you.

Raghav Garg – Ambit Capital: Am I audible?

Vishakha: Yes, you are audible now, Raghav.

Raghav Garg – Ambit Capital: Okay, sure. I was asking about the [cut off]

Management: [line issue] Raghav, your line is breaking.

Raghav Garg – Ambit Capital: I think there is some disturbance. Am I audible? I am audible, right?

Vishakha: You are audible now, but we lost you for a second.

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Raghav Garg – Ambit Capital: Sure. My question is on NBFC retail disbursements. Historically, we have seen that, quarter-on-quarter, retail disbursements in the NBFC business grow by 20% to 30%. This time, the growth is about 12%, I think. How should one read that moderation in growth versus the previous second-quarter trend? Is there any screening tightening that you have done because of which retail disbursement growth sequentially has moderated to this number? That is my first question. Should I ask my other questions as well, or should I go one by one?

Management: Go ahead. Please go ahead with all your questions, Raghav.

Raghav Garg – Ambit Capital: The second question is regarding the NBFC business. I wanted to understand why employee opex declined quarter-on-quarter, despite the business growing and there being new branch additions.

The last question is regarding the HFC business. When I calculate the cost of funds, working with period-end averages of the borrowing amount, there is a 20-basis-point increase in the funding cost quarter-on-quarter. I wanted to understand why that has happened. Also, is there any PLR hike that you have taken after the repo rate hike in the HFC business? Those are my 3 questions. Thank you.

Management: Could you repeat the third question? The first lines were not very clear. I understood the second part. Is there a PLR hike?

Raghav Garg – Ambit Capital: The first point was that when I calculate the cost of funds for the HFC business, there seems to be a 20-basis-point increase versus the first quarter. What is the reason for that?

Management: I think {? Mr. [unclear] ?} Okay. I will take the HFC question first, since you just elaborated on it. Raghav, the cost of funds has actually changed by 11 basis points. In Q1, we were at 6.89%, and now we are at 6.99%. So, there is an 11-basis-point increase.

The net increase is also there because of leverage. Leverage is also increasing because we had a capital infusion in September. The cost of borrowing was actually 7.46% for Q1 and 7.47% for Q2. That is how the cost of funds has moved. It is not 20 basis points; it is 11 basis points.

The second part of the question was regarding the PLR increase. Yes, we have increased the PLR by 20 basis points, which will be effective from November 1 for our portfolio.

I will now hand it over to Rakesh.

Rakesh: On the disbursements, especially on the retail side, you asked whether they had slowed down. No. We are looking at this segment in a very calibrated manner, which fits our risk-reward and our risk appetite. That is how we are looking at the growth. We see growth, and, Raghav, what happens is that there are cycles, and there are some quarters where growth is much stronger than in other quarters. That is one of the reasons. Otherwise, if you look at the growth in terms of both personal and consumer, or in terms of AUM, it is 47% year-on-year, and unsecured business is 53% year-on-year. So, it is very strong growth.

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In unsecured business, the supply-chain business has one quarter in which utilization goes up and another quarter in which repayment comes in. That must be the reason for the disbursements, but we are looking at doing this business in a very calibrated manner.

The second question was on opex. In Q1, we had a one-off, and after that it normalized in Q2. Going forward, it should remain in this range of 1.85% to 1.9%, even when we invest in our gold loan branches.

Raghav Garg – Ambit Capital: That is helpful. Thank you.

Operator: Thank you very much.

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

Shreya Shivani – Nomura: Thank you for the opportunity. I hope I am audible. I have 3 questions. My first question is on the NBFC book. Can you help us understand if there are any customers from any geographies or business lines, such as those related to agribusiness in the MSME portion, where we are being cautious, given the macro headwinds we are facing in terms of the drought? 6 states have declared drought. Any color on that would be useful, as well as how we are thinking about the next 2 quarters and how we would like to disburse in these geographies. That is my first question.

My second question is on the life insurance business. It is good to hear that under the new distribution reform you are still targeting another 20%. Your guidance is still intact. What would be your thought process regarding your relationships with the banks? How will they evolve under the new distribution reform? Also, can you provide any thought process on how you will achieve your EoN caps, because you have to come down from about 26% to 12.5%?

The third question is on health insurance. This is again on the EoN caps. What is your thought process around it, and what suggestions have we given to the regulator, given that we are a relatively younger health insurer compared with some companies that have been around for perhaps 20 years? Those are my 3 questions. Thank you.

Management: I will start with the NBFC question on agribusiness and the impact of the drought. We do not have any exposure or any business in the agri segment across our NBFCs. However, there might be some impact on inflation, which we will have to watch and see how we manage interest rates and other factors. Otherwise, we have no direct agribusiness in our book.

Management: On the life insurance question, let me share some numbers first. You probably mentioned somewhere that our opex-to-premium ratio is 26%, but that number is closer to 21%. It is 21.2%.

Obviously, from there, whatever the regulation says in the consultation paper will have to be considered. I would not comment too much on where the consultation paper will go, because right now it is a consultation. It will have to become draft guidelines and then, of course, after that, it will become a reality whenever it becomes applicable.

However, if you look at our various models and some of the large banks where we are present, our coverage ratio is currently not as high as it needs to be. For example, in one of the largest banks,

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where there are 10,000 branches, we do business and are growing by being present in perhaps half of them. A lot of this, when the regulation is finalized next year, will provide opportunities for us to do more than what we are doing. That will help our expansion.

If you look at all our expansion in the last few years, we have been growing at about 25% to 30%, driven by a large number of partnerships. As I mentioned last quarter, we are now investing significantly more in our proprietary business. Relative to this, the change in regulation, whenever it comes, will be lesser because of the differentiation they have made between IDs and IDPs.

The last part is our direct business, which used to be about 2%–3% and is already about 8%–9% of our business. Whatever we have invested in, we see that growing, and it has no dependency on the regulation because it is more direct. In fact, the regulation provides more opportunities in the direct business because it now says that whatever we do in the branches, we can do more. Typically, the first point, at least, says that we can do both life and health together if they are in the same group. Some of these provisions will provide opportunities.

Also, if you take a breakup of the net VNB that we reported last year, 98% of that net VNB comes from our individual business and not from the credit life business. For a lot of other players, 2023-24 would have roughly about 3% to 4% from credit life and the individual business would be at 20%. For us, it is largely based on the individual life insurance business. Therefore, the impact on us would be lesser, and the ability to expand margins would still be there over the next few years. That is why we have kept our guidance intact, both on growth and on expansion of our net VNB.

Mayank: On the health insurance side, Shreya, I think that more than the tenure of the business, our feedback has been to make sure that there is no arbitrage in favor of any one category of players, especially keeping in mind the difference between a monoline and a multiline player. The economic nuances and the environment in which we operate have to be kept in mind in terms of the final regulation they formulate. We are hopeful that this will be kept in mind when we receive the financial support, right, Rakesh?

Shreya Shivani – Nomura: Right. Okay, that is a valid point. Just a follow-up on the life insurance question. The 20%—you are right, it is 21.2%. The math I was using probably implied a deduction of a couple of percentage points, perhaps 3% to 4%, which would naturally come because of the commission caps. But you would still have to do 3% to 4% more. Would that come simply from scale for you, or would you have to make structural changes to your other opex ratio? Any color on that would be useful as well.

Management: As I said, we will have to wait and see what the final regulations turn out to be. The strategy is to focus on whether we can grow well, so that denominator growth will hopefully take care of where we want the opex-to-premium ratio to go, rather than looking at anything structural at this point. We would actually be more keen to make investments to ensure that growth happens, which will hopefully take the opex-to-premium ratio in the direction in which the regulation is looking for it to go.

Shreya Shivani – Nomura: Right, and just one more follow-up on the NBFC side. You did mention the inflation-related impact, which is very much possible and can affect our personal loan customer segment. Are we moderating disbursements or tightening underwriting in any way? This question is

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on the NBFC side.

Rakesh: [pause] We look at through-the-door performance on a monthly basis, and whichever segment we see risk emerging in, we take a corrective call. This is a continuous process, and we will continue to focus on onboarding customers in this environment.

Shreya Shivani – Nomura: Right, okay. This was useful. Thank you, everyone. Thank you so much.

Management: Thank you.

Operator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe – Kotak Securities: Thank you for taking my questions. The first is for Rakesh. What is the outlook on margins? I know you mentioned that you raised lending rates on the asset side by around 25 basis points. What is your view on how borrowing costs are playing out, and therefore on margins? For the last 3 or 4 quarters, we have been increasing the share of personal, consumer, and unsecured loans quite nicely. When does that start feeding into margin expansion?

Rakesh: Clearly, we are focused on building a high-quality book, and we look at how we can optimize the risk-adjusted return on our portfolio. As I mentioned in the previous answer, we look at onboarding and through-the-door performance on a monthly basis, identify high-risk segments, and keep eliminating those segments regularly. We are quite focused on building a resilient book over a period of time.

To answer your question, our product mix has moved toward unsecured loans by 1% over the last quarter. However, whatever benefit we saw was mitigated by the increase in the cost of funds and related factors. That is the reason we did not see any expansion in margins. That is what we have been seeing for the last few quarters. We will stay focused on building risk-adjusted returns rather than simply growing margins. We had committed and guided the market that we would be closer to a 2.5% ROA by Q4 of this financial year. We are already almost there, at 2.5% ROA in Q2.

Nischint Chawathe – Kotak Securities: Understood. But on a pure margin front, I understand that the benefit comes more from opex and credit cost. Is that what you are trying to say?

Rakesh: Yes. Margins will come over a period of time. We are not in a hurry to onboard high-risk customers to improve margins. We are building the portfolio based on whatever fits our risk profile and is within our risk appetite. It will happen, but we are looking at a few more quarters.

Nischint Chawathe – Kotak Securities: Sure. Taking this forward, even in the housing finance business, Pankaj mentioned that you raised lending rates by 20 basis points. I know you operate across segments, but given the competitive scenario, do you really see competition also raising rates and this going through smoothly, or do you expect BT outs to increase?

Management: No, I think the competition has also already increased. All the leading players in the HFC space have announced increases, including Bajaj, Tata, and all the other relevant organizations. So, there should be a level playing field. As we were mentioning earlier, we have always been very proactive in reaching out to customers and repricing them appropriately. Our BT

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out has always been in the region of about 5% to 5.5%, and our BT in has always been higher than that, sometimes even about 2 times BT in. We do not see BT outs being a challenge currently, and I do not foresee that changing.

Nischint Chawathe – Kotak Securities: Understood. One question on the health insurance side: we have seen the CSR ratio increasing by 500 basis points year-on-year. How should we read that?

Management: CSR is 104%.

Nischint Chawathe – Kotak Securities: I think I took the wrong number for the same quarter last year.

Management: Last year's CSR under IFRS was 103%; it is 104% this year.

Nischint Chawathe – Kotak Securities: Okay, sorry. I may have looked at it incorrectly. That is fine. Thank you very much.

Management: Thank you.

Operator: Thank you very much. The next question is from the line of Renish from ICICI Securities. Please go ahead.

Renish – ICICI Securities: Hi, sir. Congratulations on a good set of numbers. My question is on the lending business, specifically the NBFC. When we look at ROA at 2.4%–2.5% in Q2, and at the improvement over the last 3 or 4 quarters, it has been largely driven by opex improvement and credit cost moderation. Now that credit cost is already below 1%, what levers are available on ROE that could drive ROA expansion from here?

Rakesh: We have multiple levers through which we operate: growth, margins, operating expenses, and credit cost. We drive our ROAs and profitability across all these levers. We will continue to focus on each of them, drive efficiency, and improve ROAs. Improving the product mix as we proceed, with the retail and personal and consumer segments increasing, should also drive margin expansion and profitability.

Renish – ICICI Securities: Understood. On the same question that Nischint was asking, when we look at the AUM mix shifting toward unsecured business loans and personal loans, these products have higher yields than the LAP and corporate books. Given the fairly high growth rates in both these products, asset yields are not moving up. I can understand that on a book basis it might take some time to show up. But if one looks at the disbursement yield, is it fair to assume that disbursement yields are actually better than book yields, or at least that disbursement yields are improving quarter by quarter?

Rakesh: Disbursement yields are much better than the portfolio yield at the company level. You are right that it will take some time to reflect at the company level because the loan book is almost 180,000 crores, and the personal and consumer portfolio is much smaller. So, it will take some time. Within that segment, however, because our choice of customers and our focus are on customers with better risk profiles, the repayment or old portfolio that was there at a slightly higher rate is going away, and the new disbursement in that segment is at a slightly lower rate because we are

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taking a risk-calibrated approach and building a portfolio that is more resilient and stable over a period of time.

Renish – ICICI Securities: Understood. ROA accretive.

Rakesh: Yes, we are focused on ROAs, and it will be ROA accretive. We are looking at expanding our ROAs. As we had guided, we are almost there at 2.5%, and we want to sustain this over the coming quarters as well.

Renish – ICICI Securities: Understood. Just one last question on credit cost. Given the way the macro environment is, how confident are we about maintaining credit costs at this level in the near term?

Rakesh: If you look at our Stage 2, which reflects quality, the Stage 2 definition is 30-plus days. Any account that goes above 30-plus days is just 1% of our overall portfolio of 176. That is a clear reflection of the quality. We are very confident, and that is why I said it is a question of the choice of customer segment and the pricing that you attract. We want to have a balanced approach and customers with better risk profiles so that the portfolio is much more resilient over a period of time.

Renish – ICICI Securities: Understood.

Rakesh: Not only Stage 3—Stage 3 is a much later outcome. But Stage 2, if you see, is 1%, which is best-in-class in the industry.

Renish – ICICI Securities: Understood. You are absolutely right, sir. Congratulations and best of luck. Thank you.

Rakesh: Thank you. Thank you.

Operator: Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise – JM Financial: Hi. Thank you, and congratulations on the quarter. After the recent rate hike, what is the cost of funds on a book basis versus an incremental basis? What gap are we seeing right now? How should one think about it if another rate hike follows?

Rakesh: If you look at the incremental cost of borrowing between Q1 and Q2, it went up by 11 basis points. In Q3, if this continues, we are expecting another 5-10 basis points. However, on the borrowing side, 57% is floating in nature and 43% is fixed. On the asset side, 30% is fixed and 70% is floating. So, we have an advantage there: if the cost of funding or cost of borrowing goes up, we should be able to transmit this through resets.

Sameer Bhise – JM Financial: While you explained the quality of customer segments, did you consider some macroprudential or management overlay, given the way the macro environment is moving? Would it be prudent to consider one in the coming quarters? Some thoughts on that would be useful. That is all from my side.

Rakesh: When the war started, the Iran-US war, we looked at which segments were coming under stress. This is an ongoing exercise. We look at that continuously. We created some management

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overlay, but that is part of the overall credit cost that you see here. We keep reviewing the macro environment and customer segments, and if anything needs to be done, we do it.

Sameer Bhise – JM Financial: Sure, sure. That is all from my side. Thank you, and all the best.

Management: Thank you very much.

Operator: The next question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra – PhillipCapital: Good evening. Thank you for the opportunity. I have 2 or 3 questions. First, a large part of our unsecured loans, both business and personal, is originated through DSAs and digital channels. How do we ensure that our pricing power remains intact with the rate hike? Second, what is DA income as a percentage of PBT in our housing finance business? Third, what is the proportion of revolving credit lines as a percentage of our AUM in the NBFC? Thank you.

Rakesh: The first question was that [trails off]

Management: In the personal and consumer segment, a large part is digital. Did you say 70%? Seventy percent is digital. In today's environment, the consumer is looking for a seamless customer journey. This has nothing to do with the rate hike because all these loans are short-term loans and are fixed in nature. Therefore, there is no transmission of an increase in the cost of funds here. That happens only in floating-rate loans, which have a slightly longer tenor. Primarily, SME customers and others are on floating-rate loans. SME, mid-corporate, and corporate customers are on floating-rate loans.

Management: For the overall business, the off-book component is about 8.9%, and we were at about 20 basis points in the PBT [cut off]

Shubhranshu Mishra – PhillipCapital: Sir, can you repeat that? In PBT, is PBT—

Management: No, I am just coming to that. I am saying that off-book for us is about 8.9% overall. As a proportion of PBT, we earlier used to be at 20 basis points, and post-Ind AS we will be at 20 basis points.

Shubhranshu Mishra – PhillipCapital: Okay. The third question was regarding the proportion of revolving credit as a proportion of AUM.

Management: That is very small. We have been building new products, and those revolving products are also primarily in supply chain and loan against shares, which are, in a way, end-use-driven and have a fixed tenor. Supply chain is either 90 or 120 days. That also applies to loans against shares, where mark-to-market is done daily. We do not have anything material in that category.

Shubhranshu Mishra – PhillipCapital: Thank you very much.

Operator: Thank you. Ladies and gentlemen, due to time constraints, we will take that as the last question. I now hand the conference over to Ms. Vishakha Mulye for closing comments.

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Vishakha Mulye: Thank you very much to all of you for joining us today, and a very Happy Diwali to you and your families. If there are any more questions, please feel free to reach out to us. All of us are available. Thank you so much.

Management: Thank you.

Operator: Thank you very much. On behalf of Aditya Birla Capital Ltd., that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.

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