Aditya Birla Capital Ltd. (ABCL)
Q1 FY27 Earnings Conference Call Transcript

July 31, 2026

Moderator:

Ladies and gentlemen, good day and welcome to the Q1 FY27 Earnings Conference call of Aditya Birla Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone.

I now hand the conference over to Ms. Vishakha Mulye, MD and CEO, Aditya Birla Capital Limited. Thank you and over to you, ma'am.

Vishakha Mulye:

Good evening, everyone and welcome to the earnings call of Aditya Birla Capital for Q1 of FY2027.

Joining me today are senior members of my team Bala, Rakesh, Pankaj, Kamlesh, Mayank, Pinky, Vijay and Deep.

India's growth momentum continued to remain strong despite a challenging global backdrop, underpinned by healthy domestic demand, continued investment activity and broad-based credit growth. However, higher input and energy costs make the growth very uncertain in the future.

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

Now coming to financial and business performance.

During the quarter, we delivered consolidated profit after tax increase of 40% year-on-year to 1,175 crore Rupees in Q1 of FY27. The total consolidated revenue grew by 29% year-on-year to 14,731 Crore Rupees in Q1 of FY27.

This performance was supported by strong growth momentum, improved profitability along with healthy quality in our lending and insurance businesses and continued expansion in our asset management franchise.

In our previous earnings calls, we have highlighted our approach on pursuing growth opportunities while maintaining a strong focus on return of capital. This approach along with our disciplined execution has enabled us to grow our businesses across our platforms.

Coming to growth across businesses:

- Our NBFC portfolio grew by 28% year-over-year, mainly driven by healthy growth across all segments. Q1 FY27 was a landmark quarter for our housing finance business. Our housing finance portfolio grew by 50% year-on-year and crossed the 50,000-crore milestone.

- In insurance businesses, we remain among the fastest growing companies and continue to gain market share. The individual first year premium of the life insurance business grew by 20% year-on-year, and gross written premium of the health insurance business grew by 50% year-on-year.
- In our AMC business, the quarterly average mutual fund AUM grew by 6% year-on-year.

Coming to profitability and quality of our portfolio:

- I am delighted to share that, in the NBFC business the profit after tax increased by 35% year-on-year and RoA expanded by 14 bps year-on-year to 2.39%.
- In the HFC business, the profit after tax almost doubled year-on-year with a continued expansion in RoA.
- Our asset quality across both lending businesses remains strong despite volatile market conditions and uncertainties in operating environment.
- In our AMC business, fund performance remains strong with approximately 75% of the equity AUM in top 2 quartiles.
- In life insurance business, I'm happy to report that our VNB margin doubled year-on-year to 15.1% in Q1 FY27 driven by increased share of non-par, protection and annuity in the product mix.
- We continue to see a similar trend in our health insurance business. We implemented IFRS in health insurance from this year reported a profit during Q1 FY27 compared to losses in Q4 and Q1 of last year. The combined ratio for the quarter was 106%.

We continue to leverage data and technology as core growth enablers. AI is now becoming a core operating layer for us, and we are scaling up its use across businesses and areas such as underwriting, sales, voice calling, audit and compliance, customer service and operations. We are deploying Voice AI across customer lifecycle in onboarding, servicing and cross sell journeys. This will significantly enhance customer experience, reduce turnaround times and improve productivity. The initial results have been very encouraging. Our business CEOs will take you through select use cases in more detail.

Moving to other strategic developments during the quarter, I am pleased to share that we raised equity growth capital of 4,000 crore Rupees via preferential allotment, comprising 3,080 crore Rupees from our Promoter and Promoter Group and 920 crore Rupees from International Finance Corporation (IFC), a member of the World Bank Group. Of the total proceeds, about 87.5% of the proceeds from the preferential issuance will be utilised for meeting the growth objectives of the NBFC business and 12.5% for other general corporate purposes including investments in subsidiaries/JV/associates. We sincerely thank our Promoters and IFC for their trust and confidence in our long-term growth strategy and potential.

At Aditya Birla Capital, we remain excited about the long- and medium-term opportunities in the Indian economy despite near term uncertainties and volatilities. Over the last few years, we have built a diversified and scaled financial services franchise with leadership positions across our businesses. We believe that with our strategy, disciplined execution, a strengthened capital base, AI and digital capabilities, we are well positioned for the next phase of our growth. We will continue to deepen customer engagement and create long-term value for all stakeholders.

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

Rakesh Singh:

Thank you Vishakha, and good evening everyone. I am pleased to report yet another strong quarter for our NBFC business. In Q1 FY27, our AUM reached Rs. 1,67,456 Crore, registering a year-on-year growth of 28% and a sequential growth of 5%. Bottom line delivery remained robust with Profit After Tax for the quarter growing 35% year-on-year and 12% sequentially, supporting strong business momentum.

In FY26, we built a strong foundation for a sustainable scale up which was based on re-engineered end to end customer journeys, efficient file processing, improved decisioning frameworks etc. These initiatives reduced the turnaround times, enhanced branch productivity and improved our sourcing quality. Building on this momentum, our disbursements for the quarter stood at Rs. 21,201 Crore - up 34% year-on-year. These disbursements were driven by Retail and SME – our chosen segments for growth, where we continue to experience a strong customer demand. Together, these segments accounted for 72% of the total disbursements, up from 68% last quarter and grew 39% year-on-year, reinforcing our strategic focus on granular and diversified growth.

In our personal and consumer business, our growth trajectory remains robust with disbursements growing by 41% year on year to Rs. 5,577 Crore in Q1. This growth was supported by scale up of new programs introduced last year, improved turnaround times driven by journey simplification, and process automation. With continuous improvement in our rule engines and AI led process efficiencies, we have enhanced customer experience while maintaining a risk-segmented approach to growth.

The AUM in this segment grew 9% sequentially and 41% year-on-year to Rs. 23,267 Crore. The mix in the total AUM improved by 136 bps to 14% year-on-year in Q1. This portfolio continues to benefit from ongoing cohort level calibrations undertaken over past 2 years. Supported by use of multilingual Gen AI calling bots and behavioural analytics we have been able to achieve higher front-end efficiency leading to significant improvement in flow rates. As a result, the Gross stage 2 and 3 for the personal and consumer loans portfolio reduced by 230 bps year-on-year and 20 bps sequentially. GS3 for this segment stands at 1.3% as of June 2026.

In Q1, we disbursed Rs. 9,730 Crore to MSMEs, delivering 37% year-on-year growth, supported by deeper geographic penetration, a broader product portfolio, and faster customer onboarding. Our turnaround times have improved through the use of AI copilots for credit assessment and AI-enabled decision support capabilities, driving greater operating efficiency. Consequently, our MSME book grew by 31% year-on-year to Rs. 95,099 Cr, representing 57% of the overall AUM, with a prudent mix of 80% secured and 20% unsecured.

We continue to be a category leader in secured MSME segment, in terms of growth and asset quality. Our Secured MSME AUM grew at 27% year-on-year, which is faster than industry growth. The asset quality for this segment continues to be healthy and best in class on the back of strong cashflows & collaterals. GS3 for this portfolio stands at 1.1%, down 50 bps year-on-year.

In unsecured business loans segment, we saw the disbursements grow at a healthy 27% year-on-year to Rs. 1,388 Cr in Q1. Including 1st tranche Line of Credit (LOC) disbursements, the Q1 disbursement in this segment stands at Rs. 2,445 Cr. The momentum in this segment is sustainable on the back of disciplined risk and sourcing calibrations we have been executing over last few quarters. Growth from scale up of new product launches has been encouraging and now comprise nearly 25% of Q1 disbursements. Our proprietary MSME platform, Udyog Plus, further complements this by providing an end to end digitally enabled suite of trade credit solutions and establishing a strong position among NBFCs on TReDS. Growth in this segment is well supported by strong improvement in asset quality with GS2 + GS3 down 30 bps sequentially. Gross stage 3 for unsecured business loans portfolio stands at 1.1%. 40% of the GS3 book is covered under government guarantee schemes excluding which the GS3 is 0.7%.

Our corporate segment grew 4% Q-o-Q and 16% Y-o-Y. This segment now comprises 29% of our overall portfolio in line with our strategy to focus on Retail and MSME businesses. Asset quality in our wholesale business also continued to improve where GS2 + GS3 reduced by 40 bps year-on-year.

Coming to portfolio quality, at an entity level, our GS2 + GS3 stands at 2.4% improving by 127 bps over the last year. I further wish to highlight that about 72% of our book is secured. Our overall Stage 3 book is well provided for with a PCR of 48.2% which has improved by 40 bps over last quarter.

Backed by the strong asset quality, our Credit cost for the quarter reduced by 27 bps year-on-year to 1.03%. This is clearly an outcome of continued cohort correction carried out in Retail and Unsecured portfolio since last 1.5 years.

Moving to profitability, the ROA for the quarter increased by 14 bps year-on-year and 8 bps sequentially to 2.39%. We delivered Profit After Tax of Rs 927 Crore, registering a growth of 12% quarter-on-quarter and 35% year-on-year. Our net interest income for quarter has increased 28% year-on-year and 9% sequentially to Rs. 2,377 Crore. The net interest margin including fee, was 6.07% and Opex to AUM ratio for the quarter was 1.95% down by 5 bps sequentially.

Coming to customer service, we have made meaningful progress on service responsiveness through AI-led interventions, resulting in faster and more effective customer engagement. In Q1, 63% of contact centre interactions and 71% of service emails were through STP, which is straight pass-through. Our conversational analytics module has reached 100% automation providing us with actionable insights to improve customer interactions and identify new business opportunities.

As we move forward, I am pleased to announce our foray into Gold Loans business. Gold Loan business will further strengthen our product portfolio by complementing our existing lending offerings with a flexible and collateral-backed credit solution and reinforce our position as a diversified financial solutions provider.

We are in final stages of operational readiness with identified locations, branch infrastructure, and execution teams in place. We are going live in Q2 and we plan to scale to nearly 200 stand-alone gold loan branches by March 2027.

We remain confident in the long-term opportunities across the Retail and MSME segments, where we have demonstrated our ability to scale sustainably and these segments will continue to pivot 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 stakeholders.

With that, I will now hand over to Pankaj Gadgil, MD and CEO of the Housing Finance business.

Pankaj Gadgil:

Thank you, Rakesh, and good evening everyone.

I am pleased to share that Q1 FY27 has been another strong quarter for ABHFL. During the quarter, we achieved three important milestones:

- Crossed a significant scale milestone, with AUM surpassing ₹50,000 crore and reaching ₹51,833 crore, reflecting 50% year-on-year growth
- The quarterly Profit Before Tax reached ₹300 crore, while continuing to maintain one of the strongest asset quality franchises in the industry, with Stage 3 at 0.41% and Stage 2 and 3 together at 0.78%
- Successfully completed the ₹2,750 crore primary capital infusion from Advent International, strengthening our capital base and enhancing our capacity to support the next phase of growth

Let me briefly take you through the key highlights for Q1 FY27:

- AUM stood at ₹51,833 crore, registering 50% year-on-year growth and 9% sequential growth
- Disbursements stood at ₹7,515 crore, growing 39% year-on-year
- Net Interest Income increased by 52% year-on-year to ₹572 crore.
- Profit Before Tax grew by 95% year-on-year to ₹300 crore.
- ROA stood at 2.12% while ROE was 11.29% for the quarter.
- The ABG ecosystem contributed 16.2% of retail disbursements during the quarter.

Let me now provide an update on our strategic priorities.

Distribution

Distribution continues to be one of the most important growth levers for ABHFL.

As part of our branch expansion program, we have launched 50 new branches in this financial year so far, across metros, Tier 1, and Tier 2/3 markets. What is particularly encouraging is that these branches are delivering productivity levels comparable to mature branch cohorts much earlier than anticipated.

The objective of this program goes far beyond increasing physical presence. It is about deepening penetration into high-potential micro-markets, expanding sourcing capacity, strengthening customer access and creating the distribution foundation required for the next phase of growth.

Our channel ecosystem has also continued to strengthen meaningfully. During the quarter, our partner franchise expanded further, with the channel partner base crossing 40,000 partners, supported by digital onboarding and engagement initiatives.

AI, Data & Analytics

Technology, Data and AI continue to be core pillars of our strategy and are increasingly becoming embedded across every stage of the customer lifecycle.

During the quarter, we continued to make strong progress across our AI roadmap, with 13 AI use cases now live out of the 22 identified use cases. These initiatives are focused on driving productivity, improving customer experience, accelerating decision-making and strengthening governance.

Let me highlight a few examples.

1. Fintellect has gone live and enables AI-generated, insight-enriched credit assessment memos (CAMs) to support faster underwriting decisions.

2. We also operationalized our AI-enabled discrepancy check capability, enabling greater process standardization and reducing timelines across workflows.

3. In parallel, we launched Partner One, our next-generation partner platform which will enable a more seamless digital experience for channel partners through intelligent offer journeys, bureau-led scorecards and enhanced engagement capabilities.

Collectively, these initiatives are helping us create a scalable operating model that combines human expertise with AI-led decision support, strengthening both growth and operating efficiency.

Asset Quality

Stage 2 and 3 assets stood at 0.78%, while Stage 3 further reduced to 0.41%, with portfolio quality continuing to remain best-in-class. It is the outcome of a disciplined risk framework supported by extensive investments in analytics, digital collections infrastructure and early warning mechanisms.

Our collections ecosystem continues to evolve through the use of multiple analytical models, pre-delinquency interventions, digital collection capabilities and AI-enabled engagement tools.

To conclude, Q1 FY27 has been a quarter of both strong performance and strategic progress. With a strengthened capital base, an expanding distribution footprint, differentiated digital capabilities and an unwavering focus on portfolio quality, we believe ABHFL is well positioned for its next phase of growth. Over the next 8–10 quarters, we remain focused on building a ₹1 lakh crore plus AUM franchise, while delivering 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.

A. Balasubramanian:

Thank you and good evening to everyone attending.

<u>Performance Highlights</u>

- We are pleased to announce that our overall Average AUM at ABSLAMC, including alternate assets, surpassed the Rs. 6 lakh crores milestone this quarter and now stands at Rs. 6.28 lakh crores, reflecting a robust 42% year-on-year growth. This includes the mandate money from ESIC and EPFO.
- We are pleased to share that we have been entrusted with the EPFO mandate of approximately Rs. 6.08 lakh crores. With this landmark addition, our closing total AUM as on 30th June 2026 has crossed the Rs. 10 lakh crores milestone. This achievement reflects the trust and confidence our clients and partners have placed in us over the years.
- Our Mutual Fund Quarterly Average AUM stood at Rs. 4.28 lakh crores, representing a 6% year-on-year increase.

- Within this, our Equity Mutual Fund Quarterly Average AUM stood at approximately Rs. 1.99 lakh crores, growing 10% year-on-year. Our equity mix for the quarter stood at 46.5%.
- Our SIP contribution for June 2026 stood at Rs. 1,085 crores, supported by 40 lakh contributing SIP accounts.
- Total investor folios for June 2026 stood at 1.11 crores, with new SIP registrations for the quarter at approximately 5.5 lakhs.
- Our investment performance continues to demonstrate strong consistency and meaningful improvement across both our equity and hybrid portfolios. Over the past year, we have remained focused on strengthening our investment capabilities, enhancing our investment team and refining our portfolio construction and investment frameworks.
- These efforts have translated into a significant improvement in fund performance. This has strengthened investor confidence and supported healthy inflows across our flagship offerings.
- Turning to our Alternate business, we witnessed good growth during the year. Our PMS and AIF assets increased from Rs. 28,650 crores in Q1 FY26, including EPFO to nearly Rs. 2 lakh crores in Q1 FY27.
- In our Real Estate business, AUM stood at approximately Rs. 700 crores, reflecting a healthy 25% year-on-year growth. Fundraising is currently underway in some of our fund products that we have launched in this current quarter.
- With the recent grant of our retail licence at GIFT City, we are enabling NRIs and global investors to seamlessly access both inbound investments into India and outbound opportunities across global markets. Building on this momentum, fundraising is currently underway for the ABSL Flexi Cap Fund. We are also on track to launch more retail products via Gift city in the upcoming quarter.
- Let me now turn to our Passives business, which remains one of our key strategic focus areas. We continue to see significant opportunities in this segment and remain committed to building a leadership position. We have strengthened our passives team. With this, we see a significant opportunity in this segment and remain committed to building a leadership position with the new team coming on board to build this business.
- During Q1 FY27, our Passive Quarterly Average AUM stood at approximately Rs. 40,000 crores, representing 14% year-on-year growth. Our investor base also continued to expand, with total folios reaching 17.4 lakh.
- Within Passives, our ETF franchise delivered particularly strong momentum. ETF Quarterly Average AUM grew 47% year-on-year, significantly ahead of the industry growth rate of 29%.
- In the APEX SIF segment, we launched our first product, the APEX SIF Hybrid Long-Short Fund, backed by our strengthened investment team, with specialists in long-short and derivatives-based strategies. Building on this momentum, we are now preparing to launch two new SIF offerings such as Equity Long-Short Fund and Equity Ex-Top 100 Long-Short Fund.

Moving on to our financial performance:

- Total Revenue is Rs. 625 crores as compared to Rs. 565 crores in Q1 FY26
- Profit before Tax is Rs. 406 crores as compared to Rs. 372 crores in Q1 FY26
- Profit After Tax is Rs. 309 crores as compared to Rs. 277 crores in Q1 FY26

With this, I hand over to Kamlesh Rao, MD and CEO, Aditya Birla Sun Life Insurance Company.

Kamlesh Rao:

The overall industry registered a growth of 16% in Q1 FY27 with the private Life Insurance Industry growing at 15%, during the same period ABSLI clocked a premium growth rate of 20% in the individual life insurance segment

The growth was across both lines of business with proprietary business growing at 7% and the partnership business growing at 25%

In the proprietary business the growth was backed with better productivity as well as growth in the retail part of our business. We now have a distribution network of 450+ branches across the country and will add 10% more through the balance part of the year

The partnership growth of 25% came across all our existing 11 partner banks. In the bancassurance space, we have a healthy mix of private as well as public sector banks and have banks that have both a large national presence as well as ones which dominate the regional space.

Mindshare in the large banks has grown and in a large part of the regional private sector as well as the public sector banks we continue to have a dominant mindshare of their total business

The partnership business had a balanced product mix with margins going up through the year for all banks, we will continue to expand our presence further at Axis Bank as well as pursue adding more banks to our distribution network going forward.

In the product mix of the individual business, traditional business including protection increased to 71% and ULIP came down to 29% helping expand margins for the year. We are seeing a healthy growth in the annuity segment with 16% of our retail new business coming from this segment.

In the Group Life Insurance segment, the private industry grew by 46% and overall industry grew by 18%, during the same period ABSLI recorded a growth rate of 74%.

We continue to be at rank 2 in ULIP AUM in the industry with an AUM size of 17,000+ Crores, Credit Life business delivered superlative growth of 51% during Q1 FY'27, supported by all partners and with 33% of our business now coming from the captive channels of our NBFC as well as Housing Finance. In the Group Term Life Insurance business, we continue doing business at 20% plus ROE on the back of strong underwriting. Group AUM now contributes 26% of the overall AUM at ~30,000 Cr

Our total premium for Q1 FY27 stands at Rs. 4,743 Crore, up by 13% from last year, with 13th month persistency of 82.8%. Renewal Premium grew by 19%. Our digital collections now account for 83% of our renewal premium. We continue to work on Customer Lifetime value, which is reflected in our upsell ratio of 40%

On quality parameters, our overall customer NPS now stands at 67 (compared with 62 LYSP). Our Opex to Premium ratio stands at 24.8%

Total AUM now stands Rs. 117,487 crores, with a year-on-year growth of 13%. 24% of this AUM is in equity and the balance in debt. On YTD basis, more than 85.7% of our funds continue to outperform as compared to the respective benchmarks.

Our digital adoption across various areas is demonstrated in Investor Deck in slide 48. 100% of new business customers are onboarded digitally, 83% of all our services are now available digitally, 67% services are STP, and our customer self-service ratio now stands at 97%.

AI at ABSLI

At Aditya Birla Sun Life Insurance, we are bringing our AI initiatives together under a focused program we call Saras.AI - designed to improve how we operate across policy issuance, underwriting, and servicing.

Through Saras.AI, we are reducing manual effort, enabling faster underwriting decisions, and making policy issuance and servicing more responsive, especially through AI-led handling of conversations across email, calls, and WhatsApp.

We are also equipping our advisors with better insights and tools to improve productivity and customer engagement. The focus is clear - use AI to enhance human judgment, not just replace it, and drive greater speed, consistency, and quality in everything we do.

Value and Guidance

Our solvency stands at 201%.

Our net margins for Q1 FY27, as Vishakha mentioned, are at 15.1%, 756 bps higher than LYSP of 7.5 %. We observed margin expansion due to a controlled ULIP mix, increase in Protection and Annuity mix apart from healthy rider attachments. This was augmented by better productivity across all channels that got half the growth rate that we got for the first quarter of the year.

Our guidance continues to grow Individual FYP at a CAGR of 20%+ for the next 3 years, whilst achieving this growth we intend expand VNB 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.

Mayank Bathwal:

Thanks, Kamlesh and I would like to now share an overview of the performance of our Health Insurance Business.

It has been a very interesting quarter for the insurance sector and the industry continues to build on the growth momentum experienced in FY26. We had a very strong start to the FY27 in Q1 achieving a gross premium on sales basis of Rs. 2,196 crores and this delivering a strong more than 50% YoY growth.

Thus, our market share amongst SAHI Insurers has increased to16.2% from 14.2% basis, a YoY increase by 200 bps. we continue to build on growth momentum in maintaining our position as the fastest-growing SAHI player during the first quarter.

We grew strongly across both retail and group businesses. The retail franchise experienced a large 47% YoY growth, and it continues to be diversified across retail distribution channels. The Proprietary channel with an agent base of close to 2 Lakh agents registered a 56% YoY growth. All our major bank and digital alliance partnerships also experienced impressive growth.

During the quarter, we launched Activ Yuva, a digital-first, first of its kind health insurance product designed specifically for young India. the product combines comprehensive health coverage with wellness-led engagement, rewarding customers for health-conscious behaviours through our enhanced incentivised wellness programme - HealthReturns™. Built around the 'Eat, Move, Heal' philosophy, Activ Yuva further strengthens our differentiated product portfolio and deepens our ability to engage a large and important underpenetrated customer segment.

Our Corporate business delivered a strong 55% YoY growth in Q1 FY27, driven by our focused and disciplined strategy to create a sustainable franchise in this segment. We have now taken our differentiated health first insurance model to corporates also and started seeing scale up in this.

The Company is at the forefront in transition to IFRS financial statements. The financial statements for the quarter ender Q1 FY 2026-27 have been prepared in accordance with the IFRS principles. The profit for Q1 FY27 stands at Rs.18 crores vs loss of 28 crores for the same period previous year on a comparative basis. Our Combined Ratio for Q1 FY27 as per IFRS is at 106% vs 107% for the same period in the previous year and the combined insurance service coverage ratio at 104% vs 108% for the last year. With our overall claims ratio being better than last year we continue to endeavour to achieve 100% CoR on an IFRS basis in this financial year.

We strongly believe our robust growth and superior unit economics are driven by our digitally enabled and differentiated Health First model, which has now scaled up significantly for the last 10 years that we have been in business.

Our Health First model is resonating with our consumers more than 50% of our eligible retail consumers engaging with us for their health where we use an AI driven consumer engagement engine. 12% of our eligible customers earned good health-based incentives - Health Returns, up from 9% last year, reflecting a very deep engagement with our wellness ecosystem. These customers continue to exhibit 6%+ lower loss ratios and 11%+ better persistency on an absolute basis. This is shown in slides 59 and 60.

Similarly, our investments in managing customers with high health risks, through interventions with more than 320K lives, have led to an improvement in their loss ratios by more than 13%. Overall, this has helped keep our retail loss ratios well under control. We believe this business model which now other competitors are also trying to look at seriously but needs a large investment commitment and persistent efforts over many years to mature gives us a large competitive advantage as we further scale this including in the corporate side of our business.

Our 'Promise of Insurance' is centred on providing industry leading experience. Continued Investments in state-of-the-art AI/ML-driven claims auto-adjudication engine continues to enhance customer satisfaction and enable efficient claims management by reducing leakages and wastages. We now process nearly 74% of our cashless claims using this AI engine and more than 35% of the pre auth requests are processed straight through with no human involvement.

Similarly, we are investing consistently in data and analytics capabilities to create efficiencies across the entire business lifecycle. We continue to embed AI including Gen-AI capabilities across key processes such as sales governance, claims management, underwriting and customer engagement helping us to grow faster and reduce expense and claims.

Our app has now MAU of more than 6.7 lacs consumers but more importantly each consumer spending nearly 72 minutes per month on the app making it a go to place for their health needs.

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

Thank you, and I will now hand it back to Vishakha for her closing remarks.

Vishakha Mulye:

Thank you, Mayank. This concludes our remarks on Q1 FY27 performance and we will be happy to take any questions.

Moderator:

Thank you, ma'am. We will now begin the question-answer session.

Our first question comes from the line of Raghav Garg with Ambit Capital.

Raghav Garg:

I have a few questions. First one is more of a clarification. So based on my calculation, there seems to be some drop in loan spread. And the way that I'm looking at loan spreads is yield minus cost of borrowing, but it's not the NIM calculation. This is even after adjusting for some bit of higher balance sheet liquidity. Can you confirm if this is actually the trend or not because calculations on quarter averages can vary versus the actual trends? That's my first question.

Rakesh Singh:

If you look at our yields have been stable quarter-on-quarter, fee income was slightly lower by 6 basis points and cost of funds was better by 5 basis points. So that's how the margin NIM is at 6.07% compared to 6.08% last year.

Raghav Garg:

I think what you said is that the margins are stable. Is it stable or are they down?

Rakesh Singh:

I said yields are stable. If you look at quarter-on-quarter, the yields were stable, there were lower fee income by 6 basis points. And cost of funds benefit of 5 basis points. So, if you look at the margins were stable at 6.07%.

Raghav Garg:

Understood. The second question is in the HFC business despite the branch expansion, the opex ratio looks stable at around 2% opex to AUM. Is it that the expansion was back-ended during the quarter and full expenses will likely come through in the P&L in the second quarter?

Pankaj Gadgil:

Yes. I think the branch opening has been right through the quarter. In fact, the first set of branches we inaugurated on the 10th of April. It's been right throughout the quarter. You're rightly seeing that opex to loan book is at 2.21%. So, it's almost a 10 basis point reduction from where we were in Q4.

In my assessment, as you ramp up the number of people because we have also given guidance increasing the branches in the year by anywhere between 80 to 100 branches further. As the manpower of goes up, the opex will be range bound. And for the year, it will be closer to anywhere between 2.15% to 2.19%. So, it'll be very range bound.

While we are doing this, Raghav, I spoke about all the initiatives on the app and also on our digital platforms. That is fuelling the productivity. And the productivity also is happening, the increase is happening with the new colleagues that are joining us for the branches and also for the older colleagues. So that is really helping us.

And of course, the digital platforms also give seamlessness, which also has an impact on partners giving you higher business because it is more credible, more seamless, and that is also giving you higher business.

Raghav Garg:

My last question, the fee income for the NBFC business, that's up 60% Y-o-Y. And even when I look at fee income as a percentage of disbursements, that ratio has also gone up. So I just wanted some color as to what's happening here?

Rakesh Singh:

Raghav, it's primarily the processing fees and the insurance attachment that is driving it, and we will continue to be in the same range and keep improving, in fact, in terms of penetration further.

Raghav Garg:

In business, the quarter-on-quarter yields are stable, and the cost of funds is down 5 bps, correct?

Rakesh Singh:

Yes.

Moderator:

The next question comes from the line of Chintan Shah with ICICI Securities.

Chintan Shah:

Thank you for the opportunity and congratulations on the quarter. So yes, just again, harping on the yields front, basically on the margin front for the NBFC business. So, I think we were of the view once the personal consumer mix increases, the yields could see some inch up and the margins could also benefit. But like now the personal consumer share has increased from 12.5% to 14% over the last one year and the growth also has been 41%, wherein the yields in the same period, they have declined kind of 13 bps. So yes, how should we read into that?

Is it just fee income and excluding the fee income yields have been stable? So yes, some color on that would be helpful. Also, if you could just help us understand what would be the portfolio yield on Personal and Consumer portfolio and the portfolio yield excluding Personal and Consumer portfolio. So that will help to understand the benefit on yields for the incremental share.

Rakesh Singh:

So Chintan, if you look at the last quarter also, our Personal and Consumer was 13%, and this quarter, it's close to 14% and Unsecured business was at 11% last quarter and this quarter at 11%. So almost 24%- 25% of our overall loan book is Unsecured business. It will take some time, a few more quarters once the composition changes from 24% to let's say 27%-28% closer to 30%. So, it will take a few more quarters in terms of the yield expansion.

If you look at the last 3-4 quarters, I think the way we look at our Unsecured business and Personal and Consumer together, that was 23% in quarter 2, which gone to 25%. So I think take a few quarters.

But overall, the way we look at it is we look at risk-adjusted return. And if you look at the risk-adjusted return at the entity level, that the credit cost has come down by almost 27 basis points year-on-year. and that's flowing into our ROAs as well. And to answer your question in terms of what our yield on is Personal and Consumer, it's around 16.2% is our EIR on that portfolio.

Chintan Shah:

Okay, Sir. Got it. So probably we should look at, as you mentioned, credit risk-adjusted yield. But on the risk front, we won't be like just to increase the yield, we won't be taking any additional risk or loosening the underwriting filters, right?

Rakesh Singh:

Yes. We are very focused in terms of, as Vishaka had mentioned in our opening remarks also, I think return of capital is very, very important for us. So, we will not take anything which is undue risk, and we have been calibrating over the last almost 18 to 24 months. And anything which is high-risk segment, even in our Personal and Consumer in our Unsecured business, we have been removing it through the door. So that's how we look at risk-adjusted return.

Chintan Shah:

Sure. And on the HFC piece, just one thing for Pankaj, sir. Given that we have done the capital raise and because of that, there is a hit on the ROE. So how much quarters do we expect the ROE to again scale back to the 15% mark?

Pankaj Gadgil:

Yes. So Chintan, you rightly identified the ROE currently is 11.29%, and the ROA is 2.12%. As I mentioned earlier and also in my commentary, we are looking at moving the AUM close to 1 lakh crores in the next 6 to 8 quarters. And that is the time that the ROE also will come closer to the 15% mark. So, the growth that you have to track us for is it may not be the operating leverage that we have displayed last year was 2.93%, it came down to 2.4%, opex to loan book. This year, we already at 2.21%. So, the ROAs will be range bound. But I think what will increase in the year, during the year is almost 150 basis points increase in the ROE in the next 2 or 3 quarters that you will see. So, the ROE will be close to 13% as we as we exit the year, maybe be Q4 of this year. And then it will inch up towards the 15% mark between 6 to 8 quarters from now.

Chintan Shah:

Sure. HFC being a capital guzzler, so for that target of INR1 trillion, the current capital would be enough, right? Or do we anticipate any further raise before reaching that target?

Pankaj Gadgil:

I think for reaching INR1 lakh crores, it should be enough in the way the calculations have been done.

Moderator:

The next question comes from the line of Avinash Singh with Emkay Financial Services.

Avinash Singh:

A couple of questions. The first one is in lending on the Personal and Consumer side. Currently, this is largely personal loans. In terms of venturing into new product area that could help probably increase your share of retail as well as help your margin. Is there something that you are kind of thinking to venture into, say, over the coming 6 to 12 months? Or I mean, you are happy with the kind of a product offering you have. So that's one.

And second, that insurance attachment cross-sell led fee income is now showing a reasonable kind of yield. With whatever is being talked around regulation and whatever we are reading in media around credit life attachment, do you see some kind of a risk coming to your fee yield from that if the regulator were to curtail kind of the payouts in case of a credit life product?

Rakesh Singh:

Avinash, first, your question in terms of scaling up the Personal Loan segment, you're right. This is primarily a Personal Loan product. But within that, we have different product categories, which we have developed for our customer segment. And, I mentioned initially that we are foraying into Gold Loans. So that will also help us in terms of getting into Retail business, which will be secured and decent yields.

So that's how we are looking at in terms of expanding into the Retail segment. And your second question in terms of insurance, if there is something comes up. I think a lot of it, which we do within the group ecosystem, but if something comes, we will try and see how we can mitigate. And that will be on industry level, I think.

Avinash Singh:

So on gold, what are your plans in terms of number of branches you plan to open in next 1, 2 years? And will that have any sort of impact on your opex?

Rakesh Singh:

So we have already budgeted that in our plans in terms of opening the Gold Loan branches. This year, we are looking at anywhere between 200 to 300. We will see the first 200 branches and then look at scaling up to 300 in the last quarter. Over the next 3 years, we are looking at opening close to 1,000 odd branches which has been captured into our plan, our budget and we are working on those plans.

Moderator:

The next question comes from the line of Abhijit Tibrewal with Motilal Oswal.

Abhijit Tibrewal:

First thing, coming back to margins, A lot of us just trying to understand when will margins pick up, you've been saying it will take a few more quarters. I'm just trying to understand is you mentioned that this personal and consumer book that is being built, it is at yields of around 16.5%.

So, I mean, what was the yields earlier when we used to do because that point is well taken that we are looking at risk-adjusted yields for the personal and consumer business that you are doing now. I'm guessing is obviously lower credit cost business, which is where maybe the risk-adjusted yields are higher. But if you could just help us understand that what is the rate at which we used to do this business earlier versus what we are doing right now?

Rakesh Singh:

4 quarters back, it was 16.5%, which is now at 16.2%. But as we scale, I think the problem is it's only a percentage point difference in mix which you are seeing. I think the business has to scale up in terms of at least 4%, 5% from here on. We used to be at 19%, and we have come down to 14%, Abhijit which is, I think if it goes back to 18%-19%, you will see the margin expansion. We have been very strong in that segment and growth is also pretty good. So, in the next few quarters, you will see this coming back.

Abhijit Tibrewal:

The second question is on Gold Loans. Just trying to understand, I mean, the foray that we are doing into Gold Loans and all these branches that are factored into your AOP. These are all going to be organic scale up or like some of your peers have done with some thought around a small acquisition in gold finance then scale up from there?

Vijay Deshwal:

Abhijit, as Rakesh explained, that we already have an organic plan to grow, but if on the way there is an opportunity to acquire a small business on which we can scale up, and there is an opportunity to really learn and make a meaningful part of our business, we'll evaluate that. As a base plan, we have our own organic plan to grow.

Abhijit Tibrewal:

Got it. And the last question. What we have seen this quarter, at least in the NBFCs that have reported until now, this quarter, both in terms of credit growth and the risk markers, I think, have behaved far better than what we had expected.

I mean even if you look at our GS2, GS3, largely stable, even though this is like the first quarter of the fiscal year where we in the past used to see some seasonal weakness. Are there any segments given that you have a multiple product suite, any risk markers that you are seeing anywhere, anything worth highlighting?

Rakesh Singh:

So Abhijit, the way we look at business and within each one of our business, we look at cohorts and through the door, which comes in on a monthly basis. And wherever we see risk, which is not within our risk appetite, we keep eliminating that cohort in a segment on an ongoing basis. We don't let it really flow into the portfolio and take a call which is much later. We have been very, very proactive. As I mentioned, over the last 18 to 24 months, we have been taking those calls on a monthly basis.

We have built cohorts and performance of each cohort. And wherever it does not fit into our risk appetite, we eliminate and we stop sourcing from those segments.

Moderator:

The next question comes from the line of Nischint with Kotak.

Nischint:

First one is on capital allocation strategy. If you could give us some breakup in terms of how this 4,000 crore Rupees of capital will be utilized across the businesses? And are there any plans to raise capital over the next 12 months for any of the businesses?

Vijay Deshwal:

Nischint, that's right that we raised 4,000 crores Rupees via preferential issuance, of which 3,080 crores Rupees has been contributed by the promoter, and we raised 920 crores Rupees from IFC Washington. A very large majority of this will go towards the growth objectives of the NBFC business in ABCL. And we have mentioned that in our disclosures, about 87.5% will be that number. The balance 12.5% will be allocated towards the rest of the businesses, which includes the growth plans for our insurance companies and any other general corporate purposes.

And on your second question, whether we have plans to raise capital in the next 12 months, if you see, we have provided for capital in the Housing Finance business, which is a large consumer of capital. We raised capital in ABCL for the needs of growth of NBFC for the next 3 years. So, we don't envisage any capital raise at ABCL or at HFC or any other entity in the near future.

Nischint:

Okay. Even the insurance should be fine is what you are suggesting?

Vijay Deshwal:

We have provided for the growth capital of insurance also for the next 3 years.

Nischint:

Got it. Moving on to the life insurance business. If you could give some color in terms of what are the drivers for such large margin expansion? And just one more question is that while partnership business keeps on going well and I guess, with Axis Bank and all you're probably doing quite well, the proprietary business is down a bit. So maybe if you could comment on that as well.

Kamlesh Rao:

I'll take your second question first. So, like I said, if you look at the private industry, I think the growth that is happening on the partnership, specifically Banca is significantly higher than proprietary in general. Within proprietary, if you look at the breakup, the direct business is doing pretty well for us. We are now planning and investing, like I said, in the agency business, whatever presence we have, we are making sure that we're adding more branches to be able to take care of that growth.

Even in Banca, like the suite of banks that we have, we are able to push a little higher growth because it comes value-accretive for us because there are a large number of small banks that we have, which have become reasonable in size and they help us grow volume as well as the margins at the same point of time.

So, when we look at overall growth, we're looking at growth, which basically will ensure we are able to grow along with expansion of margins. And within that, if that changes the composition between proprietary and banca, that's not something that we are hard coded on. And that's the answer for the second question that you asked.

On margin expansion, the question that you said, doing something as basic as, say, riders, just addition of riders alone has contributed to about 1.5% to 2% uptick in the margins that we have done and which we do across both proprietary as well as our partnership channels. ULIP has been under control.

And like Vishakha mentioned, the increase in the business on non-par largely contributed to the growing annuity segment where we see an opportunity. And there, we've been able to launch a new product where customers can have the participation of both guarantee as well as markets, which is a variable annuity product that we were the first guys to launch in March has seen a reasonable uptake, which is like 60-40 as per the regulations.

So that and the fact that the growth that we have got close to half of that has been coming out of productivity, so which means there's no cost attached to that. So if you look at a combination factors of that, and of course, the scale has gone up what we do in the first quarter as compared to previous years is what has helped us get to a margin of about 15.1% for this quarter.

Nischint:

And Annuity business margin is way ahead of the company-level margin. I think that's a fair expectation, right?

Kamlesh Rao:

Typically, an annuity margin would be comparable to guaranteed business that is non-par business margins. But that segment is growing, which if you know for the industry also is at about 8%-10% right now, but we are growing a little better than the industry as we speak.

Nischint:

Got it. And just one last question on the Health Insurance side. How are we compliant on the EOM guidelines?

Mayank Bathwal:

Yes. So, Nischint like last time, we are well within the limits, so that's not an issue for us.

Moderator:

The next question comes from the line of Ayush Dilodre with Nomura.

Ayush Dilodre:

My first question is for the NBFC segment. So, as we are planning to open new Gold Loan branches, can you guide like which geographies and states are we planning to focus on? That was my first question.

Rakesh Singh:

Yes. So we are a pan-India player, and we will continue in our Gold Loan business also, we will continue to be a gold loan pan-India player. We will open branches across the country, depending on which state the branches get ready and all the launch is getting planned, but we will continue to be a pan-India player.

Ayush Dilodre:

Sure, sir. My second question is on the Health Insurance business. On the health returns initiative, we report that customers show 6% lower loss ratios and 11% better persistency. So, does these better loss ratios and persistency benefits fully offset the premium given back as rewards? Or this is actually portfolio level value accretive or just like acquisition strategy still?

Mayank Bathwal:

No. At an overall level, both the lower loss ratio and profitability make this cohort at a core level much better than the non-health return earnings portfolio.

Moderator:

Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Ms. Vishakha for closing comments.

Vishakha Mulye:

Thank you so much for joining us this evening. And if there are any more questions, please feel free to reach out to any of us. Thank you.

Moderator:

Thank you. On behalf of Aditya Birla Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

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