Aditya Birla Capital Ltd. (ABCL)
Q2 FY27 Earnings Conference Call Transcript

October 30, 2026

Moderator:

Ladies and gentlemen, good day and welcome to the Q2 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:

Thank you so much. Good evening, everyone and welcome to the earnings call of Aditya Birla Capital for Q2 of FY2027.

Joining me today are senior members of my team Bala, Rakesh, Pankaj, Kamlesh, Mayank, Pinky, Vijay, Deep and Subhash. I will cover our strategy, financial and business performance followed by a discussion on 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 pressures, the overall growth outlook remains encouraging.

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 robust growth in revenue and profitability.

a. The consolidated profit after tax was 1,288 Crore Rupees, up 38% year-on-year and 10% quarter-on-quarter

b. The total consolidated revenue was 16,545 Crore Rupees, up 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 by 26% year-over-year to driven by healthy growth across all segments. As we had discussed in our previous quarter's earnings call, we have rolled out gold loan product and opened dedicated branches. Rakesh will share details later.

- Our HFC AUM grew by 50% year-on-year.
- In insurance businesses, we remain among the fastest growing companies and continue to gain market share. In H1 FY27, individual first year premium of the life insurance business grew by 25% year-on-year, and gross written premium of the health insurance business grew by 43% year-on-year.
- In our AMC business, the quarterly average mutual fund AUM grew by 4% year-on-year.

Coming to profitability and quality:

- I am delighted to share that in the NBFC business the profit after tax increased by 41% year-on-year to 1,008 Crore Rupees and RoA expanded by 25 bps year-on-year and 6 bps sequentially to 2.45%.
- In the HFC business, the profit after tax increased by 73% year-on-year to 261 Crore Rupees with RoA at 2.12%.
- Despite volatile market conditions and uncertainties in operating environment, our asset quality across both lending businesses remains best-in class. In the NBFC business our credit cost improved by 24 bps year-on-year and 11 bps sequentially to 0.92%. The gross stage 2 and 3 in both lending businesses continue to improve year-on-year and sequentially.
- In our AMC business, fund performance remains strong with approximately 80% of the equity AUM in top quartile.
- In life insurance business, our VNB margin increased by about 450 bps year-on-year to 16.1% in H1 FY27.
- The combined ratio in the health insurance business was 107%.

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 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 the enterprise. 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 in 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 stakeholders.

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

Rakesh Singh:

Thanks, Vishakha and good evening everyone. I am pleased to report yet another strong quarter for our NBFC business. In Q2 FY27, our AUM reached Rs. 1,76,557 Crore, registering a year-on-year growth of 26.5% and quarter-on-quarter growth of 5.4% with robust asset quality and strong profit delivery. PAT for the quarter crossed a significant milestone of Rs. 1,000+ Crore with ROA of 2.45%.

Our new business sourcing was robust at Rs. 24,708 Crore and was nearly at par with the highest ever sourcing in Q4 last year. In Q2, we added Rs. 9,101 Crore of AUM in the quarter, 85% of which was contributed by Retail and MSME Segments. This was driven by a strong traction in Retail and MSME

Businesses - our chosen segments for growth. Put together, these segments accounted for 71% of share in total disbursements in H1, up from 67% for the same period last year.

In our Personal and Consumer business, our growth trajectory remains robust with disbursements growing by 18% year on year for Q2 to Rs. 5,877 Crore. The AUM in this segment grew 7% sequentially and 37% year-on-year to Rs. 24,955 Crore. Consequently, the AUM mix improved by 108 bps year-on-year to 14%. This growth was supported by scale up of new programs introduced, consistent improvement in turnaround times driven by journey simplification, and process automation. Asset quality for this segment has improved with Gross stage 2 and 3 declining by 140 bps year on year and 10 bps sequentially. GS3 for this segment stands at 1.3% as of September 2026.

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 last 70 days, we have opened 70 branches, and our AUM stands at Rs. 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 2027 across high-potential markets with an aim to scale up the distribution to 1000+ branches over 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 Quarter 2, crossing Rs. 1 Lac Crore in AUM and we continue to be a category leader in terms of growth and asset quality. Our MSME AUM grew 30% year-on-year to Rs. 1,01,119 Crore representing 57% of the 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 Rs. 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 segment grew 17% sequentially and 22% year-on-year in Quarter 2. AUM grew at 26% 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 1.2% as of September 2026.

In Unsecured Business Loans segment, we saw the disbursements grow at a healthy 9% Quarter-on-Quarter to Rs. 1,515 Cr in Q2. AUM in this segment grew 11% sequentially and was supported by scale up of new product launches which now contribute nearly 28% of new business sourcing. Our proprietary MSME platform, Udyog Plus, further compliments scale up by facilitating an end-to-end digitally enabled suite of trade credit solutions, establishing a strong position among NBFCs on TReDS. Asset Quality in this segment also improved significantly with GS2 + GS3 down 40 bps sequentially and 170 bps year-on-year. Gross Stage 3 for unsecured business loans portfolio stands at 1%. 46% of the GS3 book is covered under government guarantee schemes excluding which the GS3 is 0.6%.

Moving now to our Corporate segment, the 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 continued to improve, with GS2 + GS3 declining by 40 bps year-on-year. GS3 in this segment stands at 1.6% for the quarter.

Coming to portfolio quality, at an entity level, our GS2 + GS3 stands at 2.31% improving by 72 bps year on year. GS2 for the quarter stands at 1.03% improving by 32 bps year-on-year and GS3 stands at 1.28% improving 40 bps year-on-year. I further wish to highlight that about 71% of our overall book

is secured. Our overall Stage 3 book is well provided for with a PCR of 48.4% which has improved by 20 bps over last quarter.

Our Credit cost is now sub 1% at 92 bps, which would be our best in last 7 years and this has been an outcome of disciplined risk and cohort corrections we have undertaken over last few years. Further, we continue to see a sustained improvement in collection intensity, with technology, analytics and AI-led capabilities driving better front-end efficiency and significant improvement in forward flow rates.

Our net interest income for quarter has increased 24.7% year-on-year and 4.6% sequentially to Rs. 2,488 Crore. The net interest margin including fee, was 6%. Off 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 rates by 25 bps effective 26th October on our variable rate loan book which constitutes nearly 70% of overall loan book. This is done as a proactive measure which will ensure that increase in cost of borrowings is transmitted in an effective and timely manner.

Our efforts to enhance productivity in Retail and SME businesses have started yielding favourable results. The Opex to AUM ratio for the quarter is healthy at 1.84% down by 11 bps sequentially and 19 bps year-on-year. This gives us the ability to make further investments in our business including Gold Loans franchise for future growth.

Moving to profitability, the ROA for the quarter increased by 25 bps year on year and 7 bps sequentially to 2.45%. We delivered Profit After Tax of Rs. 1,008 Crore, registering a 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, more effective customer engagement. In Q2, self-service capabilities across channels reached 82%, 61% of contact centre 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 interactions and identify new business opportunities.

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 handover to Pankaj, MD and CEO of Housing Finance business.

Pankaj Gadgil:

Thank you, Rakesh, and 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 ₹57,373 crore, registering 50% YoY growth and 11% sequential growth.

- Disbursements stood at ₹8,957 crore, growing 55% YoY and 19% sequentially.
- Net Interest Income increased by 53% YoY to ₹641 crore.
- Profit Before Tax grew by 73% YoY to ₹335 crore.
- 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

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 more than 100 new branches in this financial year so far, across metros, Tier 1 and Tier 2/3 markets, further strengthening our presence in emerging markets. We are encouraged by the early traction from these branches as we 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 micro-markets, strengthening customer access and creating a scalable distribution platform for the next phase of growth.

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

AI, Data & 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 and partner experience, reducing turnaround times and strengthening process governance.

During the quarter, we continued to build on our AI roadmap with progress across several key initiatives:

- FinGenius went live, enabling AI-assisted document verification and further strengthening process efficiency and standardization.
- FinSwift, our offer-led journey for channel partners, has 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.

Asset Quality

Asset quality strengthened further during the quarter. Stage 2 and 3 assets reduced by 45 basis points year on-year to 0.65%, while Stage 3 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.

We have continued to scale the franchise while strengthening asset quality, expanding our distribution footprint and accelerating the adoption of digital and AI-led capabilities. With sustained momentum, improving market share and a strong execution engine, ABHFL remains 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 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.

A. Balasubramanian:

Thank you and good evening to everyone attending. I would like to share some ABSLAMC highlights from Q2 FY27.

- Overall Average AUM, including alternate assets, crossed the Rs. 11 lakh crores milestone this quarter and now stands at Rs. 11.06 lakh crores, a growth of 140% year-on-year. This includes the mandate money from ESIC and EPFO.
- Our Mutual Fund Quarterly Average AUM stood at Rs. 4.42 lakh crores, up 4% year-on-year.
- Within this, our Equity Mutual Fund Quarterly Average AUM stood at approximately Rs. 2.09 lakh crores, growing 9% year-on-year. Our equity mix for the quarter stood at 47.4%.
- Our SIP contribution for September 2026 stood at Rs. 1,094 crores, supported by 41.7 lakh contributing SIP accounts.
- Total investor folios for September 2026 stood at 1.14 crores, up 6% YoY with new SIP registrations for the quarter at approximately 7.05 lakh from the earlier of about 5.2 lakh.
- We continue to show consistent and meaningful improvement across our equity and hybrid fund performance.
- Over the past year, we have strengthened our investment team capability which is now resulting into improved fund performance across the period ranging from 1 year, 3 years, including 5 years. Close to ~85% of the funds are delivering top quartile performance which is now supporting building momentum in the overall sales activities.
- Turning to our Alternate business, we witnessed strong growth during the year. Our PMS and AIF assets increased from Rs. 30,300 crores in Q2 FY26 to approximately Rs. 6,57,109 crores in Q2 FY27, growing manifold. This was significantly supported by the ESIC and EPFO mandates received during the quarter.
- In our Real Estate business, AUM stood at approximately Rs. 860 crores, a 43% year-on-year growth.
- At GIFT City, we have launched our retail fund offerings, 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 a scalable offshore franchise in the coming years by offering product with low ticket price about $500 to tap the domestic retail investors invest abroad as well as for overseas investors invest in India.
- In fact, we have created a pipeline of products in addition to ABSL Flexi Cap Fund for inward remittance. We have also created about another six funds in the retail category, both for inward and outward remittance funds in the GIFT City.

- Passives is one of the key anchors of our growth strategy and we are committed to building a leadership position in this segment. During Q2 FY27, our Passive Quarterly Average AUM stood at approximately Rs. 39,860 crores. Our investor base continued to expand, with total folios reaching around 17.9 lakh.
- We were the first in India to launch the BSE Total Market Index Fund and BSE Total Market ETF, pioneering a new category in the passive investment landscape that we aim to build into our flagship products to get the growing needs of the investors as well as the recipient community.
- Our ETF franchise delivered particularly strong momentum. ETF Quarterly Average AUM grew 42% year-on-year, significantly ahead of the industry's growth of 27%.
- In the APEX SIF segment, we launched Equity Long-Short Fund and Equity Ex-Top 100 Long-Short Fund, backed by our strengthened investment team. Our SIF platform now comprises three products, with total assets of approximately Rs. 700 crores as of September 2026.
- We're now seeing the momentum in the space. We remain focused in terms of building our investment performance leading to higher productivity in the coming quarters

With this, I'll hand it over to Kamlesh Rao, the MD and CEO of Aditya Birla Sun Life.

Kamlesh Rao:

Thank you, Bala. I'll give you some quick highlights of the life insurance business.

The overall industry registered a growth of 13% in H1 FY27 with the private Life Insurance Industry growing at 12%, during the same period ABSLI 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 at 10% and the partnership business growing at 31%.

In the proprietary business the growth was backed with better productivity as well as growth in the retail part of our business. We will continue to invest more in terms of people as well as branches in this line of business in current financial year.

The partnership growth of 31% 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. The partnership business had a balanced product mix with margins going up through the year for all banks, We have further strengthened our bancassurance franchise with the onboarding of IndusInd Bank as our latest partner and are targeting business commencement by Q4 FY27. The 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 expand margins for the year. We are seeing a 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 by 35% and overall industry grew by 25%. During the same period ABSLI recorded a growth rate of 90%.

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 a growth of 44% during H1 FY'27, supported by all partners, In the group term life insurance business, we continue doing business at 20%+ ROE on the back of strong underwriting and claim experience. Group AUM now contributes 26% of the overall AUM at ~31,400 Cr.

Our total premium for H1 FY27 stands at Rs. 12,656 Crore, up by 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 (compared with 61 LYSP). Our Opex to Premium ratio stands at 21.0%.

Total AUM now stands Rs. 120,736 crores, with a YoY growth of 16%. 23% of this AUM is in equity and the balance in debt. On YTD basis, more than 64.3% 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 no. 48

AI at ABSLI

At Aditya Birla Sun Life Insurance, our AI journey through Saras.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, strong governance and human oversight. Our focus now is to embed AI deeper into our operating model, delivering measurable improvements in speed, productivity, consistency and customer experience.

Value and Guidance

Our solvency stands at 190%.

Our net margins for H1 FY'27 are at 16.1%, 447 bps higher than LYSP of 11.6 %. We observed margin expansion due to increase in Annuity mix apart from healthy rider attachments. Better productivity across all channels also helped the margins apart from favourable interest rate in the first 6 months 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 for Health Insurance.

Mayank Bathwal:

Thanks, Kamlesh and let me now share an 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 consistently in this financial year, maintaining our track record of consistently outpacing market growth. We achieved a gross premium of Rs. 4,543 crores, representing a strong 48% Y-o-Y growth in H1. Thus, our market share in SAHI has increased from 13.6% to 14.2%, close to 65 bps improvement.

We grew strongly across both retail and group businesses. The retail franchise experienced a large 43% YoY growth, and it continues to be diversified across retail distribution channels. The Proprietary channel with an agent base over 2.40 Lakh+ agents registered a 51% YoY growth. All our major bank and digital alliance partnerships also experienced impressive growth.

Our Corporate business delivered a strong 55% YoY growth in H1 FY27, driven by our focused and disciplined strategy to create a sustainable franchise in this segment. As we have shared, our initial efforts to take the corporate wellness model to this segment is paying very rich dividend and very good feedback from the client pool.

The Company is at the forefront in transition to IFRS financial statements. The financial statements for the period ended have been prepared in accordance with that principles. For H1 FY27, we reported a profit of Rs. 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 of our model visible in stronger acquisition, very high hyper personalised health engagement and this leading to higher retention and lower claims ratio, as is there in the deck.

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. Close to 13% of our eligible customers earned good health-based incentives - Health Returns, up from 9.4% last year, reflecting a very deep engagement with our wellness ecosystem. These customers continue to exhibit 6%+ lower loss ratios and 12%+ better persistency on an absolute basis. This is shown in slides 59 and 60.

We are progressively moving beyond traditional risk protection towards proactive health-risk management. Through targeted interventions, we have engaged with more than 370,000 high-risk lives, contributing to a loss-ratio improvement of over 16% for this cohort. Overall, this has helped keep our retail loss ratios well under control. As we scale these interventions across our retail and corporate portfolios, we expect our Health First model to play an increasingly important role including corporate side as well in improving customer health outcomes and portfolio quality.

Our ‘Promise of Insurance’ is centred on delivering a superior customer experience. Continued investments in AI-powered automation are enhancing customer experience, improving operational efficiency, and strengthening claims management. Our AI-enabled claims platform now processes nearly 75% of cashless claims, helping improve claims outcomes and operational effectiveness.

Alongside this, we continue to invest in 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, enabling better decision-making, improved productivity, and supporting profitable growth.

Our consumer app Activ Health continues to give us very good engagement with our consumers. Our MAU crossed 7.3 lacs consumers but more importantly each consumer spending nearly 74 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 Q2 FY27 performance and we will be happy to take any questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session.

First question is from Raghav Garg from Ambit Capital.

Raghav Garg:

My first question is on the NBFC retail disbursement. Historically, we've seen that quarter-on-quarter retail disbursements in the NBFC business grew at 20% to 30%. This time, the growth is, I think, about 12%. How should one read that moderation in growth versus previous second quarter trend?

Is there any pricing screening that you've done because of which the retail disbursement growth sequentially has moderated to this number?

The second question is for the NBFC business. I wanted to understand why has the employee opex declined quarter-on-quarter despite the business growing and there being new branch additions.

And the last question is that in the HFC business, when I calculate the cost of funds, I'm working with a period and averages of the borrowing number, there is a 20 basis point uptick in the funding cost quarter-on-quarter. I wanted to understand why has that happened? And is there any PLR hike that you've taken after the repo rate hike in the HFC business? Those are my four questions.

Pankaj Gadgil:

I'll take the HFC question first. So, Raghav, the cost of funds has changed by 11 basis points. In Q1, we were at 6% and now we are 6.11%. So, 11 basis points increase is there. And the large increase is also there because of the leverage. So, the leverage is also increasing because we had the capital infusion, which came in April. The cost of borrowing was 7.46% for quarter 1, and it was 7.47% for quarter 2. So that is how the cost of fund is. So, it's not 20 basis points is 11 basis points.

Second part of the question was the PLR increase. Yes, we have increased the PLR by 20 basis points, which will be effective from 1st of November for our portfolio. I now hand it over to Rakesh.

Rakesh Singh:

So, on the disbursement, especially on the retail side, you mentioned, has it slowed down? No. We are looking at this segment in a very calibrated manner, which fits our risk reward and our risk appetite. So that's how we are looking at the growth. Raghav, what happens is there are cycles and there are some quarters where the growth is much stronger than other quarters. So that's one of the reasons.

Otherwise, if you look at the growth in terms of both personal and consumer in terms of the AUM is 37% year-on-year and unsecured business is 53% year-on-year. So very strong growth. In unsecured business, the supply chain business, which in 1 quarter, the utilization goes up and 1 quarter, the repayment comes in. So that must be the reason for the disbursement. But we are looking at growing this business in a well calibrated manner.

The second question on the opex. In quarter 1, we had one-off. And after that, it got normalized in quarter 2. Going forward, it should remain in this range of 1.85% to 1.9% even when we invest in our gold loan branches.

Moderator:

Next question is from the line of Shreya Shivani from Nomura.

Shreya Shivani:

I have three questions. My first question is on the NBFC book. So can you help us understand if there are any customers from any geographies or any business lines, like maybe they are related to agri business in the MSME portion, where we are being cautious given the macro headwinds we are facing in terms of the drought, etc. Six states have declared drought. So, any color on that would be useful. And how are we thinking about the next two quarters, how we would like to disburse in these geographies? That's my first question.

My second question is on the life insurance business. Good to hear that under the new distribution reform, you're still targeting 20% growth. I mean your guidance is still intact. But what would be your thought process around your relationship with the banks, how will it evolve under the new distribution reform? Also, any thought process you can give about how you will achieve your EOM caps because you have to come down from 26% or so to 12.5%.

Third question is on the health insurance. This is again on the EOM caps. So any thought process around it? Any suggestions that we've given to the regulator, given we are relatively a younger health insurer compared to some people who have been around for maybe, say, 20 years or so.

Rakesh Singh:

I will start with the NBFC question on agri-related business and impact because of the drought. We don't have any exposure or any business which is in the agri segment across our NBFC. But yes, there might be some impact on the inflation and all, which we will have to watch out and see how do we manage the interest rates and all. Otherwise, no direct agri-related business which we have in our book.

Kamlesh Rao:

The question on life insurance, some numbers first because you mentioned somewhere that our opex to premium ratio is 26%. So that number is closer to 21%. 21.2% is the opex to premium ratio that we have. From there, whatever is the regulation saying consultation paper, I wouldn't comment too much on where this consultation paper would go because right now, it's consultation. It will have to get into a draft guidelines and then, of course, after that, it will become a reality in terms of whenever it gets applicable. But if you look at our various models, if you look at some of the large banks that we are present in, currently, our coverage ratio is not as high as it needs to be.

For example, one of the largest banks where, say, 10,000 branches are present, we do our business and we are growing by being present in maybe about half of them. A lot of this, when the regulation spans out next year, will provide opportunities for us to actually do more than what we are doing. So that's one, and that will help the expansion for us.

If you look at all our expansion in the last few years, we've been growing at about 25% to 30% has come on the back of large amount of partnerships. And if you look at what we are doing now, as I spent time last quarter to say, we are investing in our proprietary business significantly higher and relative change of regulation as and when it comes, will be lesser there because of the differentiation they have done between IDEs and IDPs. And last is our direct business, which used to be about 2-3% is already about 8-9% of our business. And whatever we have invested, we see that going up, and that has no dependency on the regulation because that's more direct.

In fact, it provides more opportunities in the direct business because the regulation now says that whatever we do in the branches, we can do more. Typically, the first one, at least it says that we can do both life and health if it is in the same group together. So, some of these will provide opportunities.

And also, if you take a breakup of the net VNB that we reported last year, 98% of the net VNB comes from our individual business and not from the credit life business. For a lot of other players, the 23-24% would have roughly about 3% to 4% from credit life and the individual would be at 20%. For us, largely, it is based on the individual life insurance business. So, impact for us would be lesser and the ability to be able to expand margins would still be there over the next three years. And that's why we have kept our guidance intact both on growth as well as on expansion of our net.

Mayank Bathwal:

On the health insurance side, Shreya, I think more than the tenure of the business, I think our feedback has been to ensure that there's no arbitrage in favor of any one category of player, especially keeping in mind that monoline versus multiline player economic nuances and the environment in which we operate has to be kept in mind in the way the final regulations emerge. We are hopeful that will be kept in mind when we see the final shape and form of the regulation.

Shreya Shivani:

Right, okay. That's a valid point. Just a follow-up on the life insurance. You're right, it's 21.2%. So, the math probably I was coming at was a couple of percentage points, maybe 3-4 percentage point reduction will naturally come because of the commission caps, but you will still have to do 3-4 percentage point more. Would that just come from scale for you all or you would have to make some structural changes to your other opex ratio? Any color on that would be useful as well.

Kamlesh Rao:

Yes. Like I said, we'll have to wait and see what the final regulation turns out to be. The strategy is to focus on saying, can we grow, well to make sure that the denominator growth will hopefully take care of where we want the opex-to-premium ratio to go, rather than at this point of time look at anything structural. We'll be keener to make investments to make sure that the growth happens, which will hopefully take the opex-to-premium ratio in the direction in which the regulator is looking forward for it to have.

Shreya Shivani:

Right. And just one more follow-up on the NBFC bit. You did mention about the inflation-related impact, which is very much possible and can hit our personal loan customer segment. So, any moderation we are making in disbursals and any underwriting tightening?

Rakesh Singh:

We look at through the door monthly and whichever segment we see any risk emanating, we take a corrective call. So that's a continuous basis, and we will continue to be focused in terms of onboarding customers in this environment.

Moderator:

Next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe:

First is for Rakesh sir. 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 the view in terms of how the borrowing cost is playing out and hence on margins? And for the last 3-4 quarters, we have been quite nicely increasing the share of personal consumer and unsecured loans. So when does that sort of start feeding into margin expansion?

Rakesh Singh:

Clearly, we are focused on building a high-quality book and we look at how do we really optimize the risk-adjusted return on our portfolio and to the previous answer, which I mentioned that we look at onboarding and through the door on a monthly basis and look at high-risk segments and keep eliminating those segments on a regular basis.

So, we are quite focused on building a resilient book over a period and to answer your question on product mix, if you look at the unsecured mix, it has gone up by 1% over the last quarter. Whatever benefit which we saw was mitigated by the increase in cost of funds and all of that. So that's the reason we didn't see any expansion in margin.

So few quarters, I think that's what we have been saying, but we will stay focused on building risk-adjusted profile rather than just growing the margin. And we had committed and guided the market that we will be closer to 2.5% ROA by quarter 4 of this financial year. We already are almost there at 2.45% ROA in quarter 2.

Nischint Chawathe:

Got it. But on a sheer margin front, I mean, the benefit comes in more from the opex and the credit cost is what we're trying to say?

Rakesh Singh:

Yes. And margins will come over a period. See, again, we are not in a hurry to onboard high-risk customers to improve the margin. So, whatever fits our risk profile and is within our risk appetite is what we are looking at building the portfolio. But it will happen. I think a few more quarters is what we are looking at.

Nischint Chawathe:

Sure. Taking this forward, even in the housing finance business, Pankaj mentioned that you have 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 kind of going through smoothly? Or do you expect BT-outs to increase?

Pankaj Gadgil:

So, I think the competition also has already increased. All the blended players in the HFC space have announced it, be it the Bajaj, Tata and all the other relevant organizations. So, I think there should be a level playing field.

And I think the BT-outs for us, like we've been mentioning earlier, I think we have been always very proactive in serving customers appropriately, repricing them also appropriately. So, I think our BT out has always been in the range of about 5% to 5.5%. BT-in has always been higher than that. It's always been about 2x the BT-in. So we don't see BT-outs as a challenge currently also as we speak.

Nischint Chawathe:

Sure. Got it. And just one on the health insurance side, we have seen the CISR ratio increasing 500 basis points year-on-year. So how should we read that?

Mayank Bathwal:

CISR is 104%.

Nischint Chawathe:

Last year same quarter was lower number.

Mayank Bathwal:

Last year, CISR for IFRS was 103%, it is 104% this year. Do you have any follow up on that?

Nischint Chawathe:

No. That’s okay.

Moderator:

Next question is from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva:

Congrats on a good set of numbers. My question is on lending business, specifically on the NBFC business. So, when we look at the ROA at 2.45% in Q2 and when we look at the improvement over the last maybe 3-4 quarters, it's predominantly driven by the opex improvement and also the credit cost moderation. But now when we look at credit cost being already settled at below 1%, what are the levers available on the ROA tree, which would drive ROA expansion from here on?

Rakesh Singh:

So, we have multiple levers through which we really operate growth, margins, operating expense, credit cost and across all these levers is what we drive our ROAs and profitability. So we will continue to focus on each one of these levers and drive the efficiency and improve the ROA.

Vishakha Mulye:

Including the product mix.

Rakesh Singh:

And including the product mix as we go and I think the retail and personal and consumer should increase. So that also should drive the margin expansion and profitability.

Renish:

Got it. So again, on the same question what Nischint was asking, right? So when we look at the AUM mix shift towards unsecured BL and PL, and obviously, these products are high-yielding product than LAP and corporate book. So given high growth rates in both these two products, unfortunately, asset yields are not moving up.

So, I can understand maybe on the book basis, it might take some time before it shows up. But if one has to look at on the disbursement yield side, is it fair to assume that disbursement yields are actually better than the book yield or at least disbursement yields are improving quarter-by-quarter?

Rakesh Singh:

So disbursement yields are much, much better than the portfolio yield at a company level. But you are right in terms of saying that it will take some time to reflect on a company level because that is almost Rs. 1,80,000 crores is the loan book and personal and consumer portfolio is much lesser.

I think it will take some time, but within that segment, because our choice of customers and our focus is on better risk profile customers, there is always, I think the repayment of the old portfolio, which was there at a slightly higher rate, that's going away and the new disbursement in that segment is slightly lower because we are looking at a risk-calibrated approach and building a portfolio, which is more resilient and stable over a period of time.

Vishakha Mulye:

It will be ROA accretive.

Rakesh Singh:

Yes, I think we are focused on ROA, 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:

Got it. And just the last thing on the credit cost front. So now given the way macros are, how confident we are about sustaining the credit cost at this level, at least in near term.

Rakesh Singh:

So, if you look at our Stage 2, which is the reflection of the quality and Stage 2 definition is 30+, any account which goes above 30+, that is just 1% of our overall portfolio of Rs. 1,76,000 crores. So that's

a clear reflection on the quality. And we are very confident, and that's the reason I said that it's a question and choice of customer segment and what pricing you really attract.

So, we want to have a balanced approach, and we want to have a better risk profile customer so that the portfolio is much more resilient over a period of time. So, yes. But the quality 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.

Moderator:

Next question is from the line of Sameer Bhise from Dymon Asia.

Sameer Bhise:

Congrats on the quarter. After the recent rate hike, what is the cost of funds on a book basis versus incremental basis? What gap are we seeing right now? How should one think if another rate hike follows through on an overall basis?

Rakesh Singh:

So, if you look at between the incremental cost of borrowing between quarter 1 and quarter 2, it went up by 11 basis points. In quarter 3, if it continues, we are expecting another 5-10 basis points. But as you know, on the borrowing side, 57% is floating in nature and 43% is fixed. On the asset side, we have 30% fixed and 70% which is floating. So, we have an advantage there that if the cost of funding goes up or cost of borrowing goes up, we should be able to transmit this through repricing.

Sameer Bhise:

Sure. And while you kind of explained on the quality of customer segments, just a thought like did you consider some macro prudential or a management overlay kind of a situation given the way macro is moving? Or would it be prudent to kind of consider it in the coming quarters?

Rakesh Singh:

Yes. So, when I think the war started, Iran-U.S. war started, we had looked at what is the segment which is coming under stress. So, it's an ongoing exercise. We look at that. We created some management overlay, but that's part of the overall credit cost, which you see here. So, we keep reviewing the macro environment and the customer segments. And if anything needs to be done, we do it.

Moderator:

Next question is from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra:

The first one is a large part of our unsecured loans, both business as well as personal is being originated by DSAs and digital mode. So how do we ensure our pricing power remains intact with the rate hikes? That's the first part.

Second part is what is the DA income as a percentage of PBT in our housing finance business?

Third is, what is the proportion of revolving credit lines as a percentage of our AUM in the NBFC.

Rakesh Singh:

Your first question was that in the personal and consumer segment, a large part is DSA 17% and 70% is digital, because in today's age, the consumer is looking at a seamless customer journey. All these loans are short-term loans and are fixed in nature.

So, there is no transmission of increase in cost of funds here. So that happens only in the floating rate loans, which is a slightly longer tenure and primarily the SME customers and all, those are on floating rate loans. SME, mid-corporate and corporate, those customers are floating rate loans.

Pankaj Gadgil:

For the housing finance business, the off book for us overall is about 8.9% AUM and DA as a proportion of the PBT pre-ROA is about 40 basis points and post ROA we're about 33 basis points.

Shubhranshu Mishra:

And the third question, what is the proportion of revolving as a proportion of AUM?

Rakesh Singh:

So that's very small. I think we have been building new products and all of that. And those revolving products also are primarily in supply chain and loan against shares, which is in a way, end use driven and is fixed and a supply chain is either 90-120 days. LAS also is loan against shares where the mark-to-market is done on a daily basis. So we don't have anything which is material in line of credit.

Moderator:

Ladies and gentlemen, due to time constraint, we'll take that as a last question. I now hand the conference over to Ms. Vishakha Mulye for closing comments.

Vishakha Mulye:

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

Thank you so much.

Moderator:

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

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