Aditya Birla Capital Ltd. (ABCL)

Q3 FY24 Earnings Conference Call Transcript

February 1, 2024

Moderator:

Ladies and gentlemen, good day and welcome to the Q3 FY24 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vishakha Mulye, 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 Q3 FY2024.

Joining me today are senior members of my team Bala, Rakesh, Tushar, Pankaj, Kamlesh, Pinky, Vijay, Ramesh, Sanchita and Amit. I will cover our strategy and approach across businesses and Vijay will cover key financial highlights followed by discussion on performance of our key businesses.

Against the unsettled global economic backdrop, the momentum in the Indian economy continues with a strong resilience. The real GDP growth rate of 7.6% in Q2 FY24 exceeded all forecasts. GST collections continue to remain robust at more than 1.7 lakh crore Rupees in January. We expect positive macroeconomic trends to continue and Indian economy to perform well in FY2024 and FY2025.

At Aditya Birla Capital, we follow "One ABC One P&L" approach, to focus on quality and profitable growth by leveraging data, digital and technology. The three pillars of our approach are "One Customer", "One Experience" and "One Team". This approach has helped us to grow and build scale across businesses. Our total lending portfolio across the NBFC and HFC business grew by 34% year-on-year and 6% sequentially and crossed 1.15 lakh Crore Rupees. The total consolidated revenue grew by 29% year-on-year to 9,997 crore Rupees in Q3 FY24. I am happy to share that consolidated profit after tax grew by 39% year-on-year and 4% sequentially to 736 crore rupees.

'Digital First' is at the core of our strategy for product innovation, direct acquisition and seamless transacting experience. In our AMC business, about 80% of customers were onboarded digitally. In life insurance, 80% of renewals were done digitally. In our Health Insurance business, 85% of the business is delivered by auto-underwriting.

Our comprehensive B2B platform for MSME ecosystem, Udyog Plus has seen a very robust response with more than 4 lakh registrations as of December-end. We continue to integrate Udyog Plus with ABG ecosystem to provide channel financing to dealers. Udyog Plus has clocked disbursements of about 180 Crore Rupees till date with ABG ecosystem contributing more than 60% of the business. The total portfolio of Udyog Plus reached about 100 crore Rupees as of December-end. We will continue to scale up the business in ABG ecosystem as we expand our market footprint in B2B segment.

In June last year we had launched Payments lounge, which is an omni channel collections platform for merchants with customization and smart routing capabilities for higher success rates and effective reconciliations. It can be integrated with ecommerce platforms and digital platforms of merchants enabling them to make collections seamlessly. Payments lounge has reached a monthly run rate of 500 Crore Rupees GMV.

We follow “One Customer” approach through which we build deep understanding of customer profiles and provide them simplified and holistic financial solutions. We had mentioned in our previous earnings call, that the mobile app of D2C the platform was expected to go live in the next 90 days. We are happy to share that we have launched the app in a closed user group and it will go live in the next one month. Through this app, we will acquire new customers and provide holistic and simplified solutions to our customers to suit their financial needs.

As we continue to strengthen our digital offerings, we are also focused on expanding our physical footprint. Our branch expansion is targeted at driving penetration into tier 3 and tier 4 towns and capturing white spaces across customer segments. Our overall branch count increased by 59 in Q3 FY24 and we had 1,462 branches across all businesses as of December-end. In line with our One ABC approach, we continue to expand our co-located branches which increased by 69 during the quarter to 762 branches across 218 locations as of December-end.

While we are focused on growing our business, we follow prudent risk management practices with a strong emphasis on return of capital. We had mentioned in our previous quarter’s earnings call that we are tightening the underwriting in the smaller ticket size personal and consumer loans in our NBFC business by calibrating our credit filters and scorecards. I am happy to report that in line with this, the sequential growth in the personal and consumer loan portfolio has reduced from 22% in Q4 FY23 to 15% in Q1 FY24, 9% in Q2 FY24 and 1% in Q3 FY24. Within the personal and consumer loan portfolio, we brought down the consumer loan portfolio which comprises BNPL and check out financing sourced through partners from about 4,100 crore Rupees at September-end to about 2,700 crore Rupees at December-end. While the personal and consumer loan portfolio has stayed flat sequentially, unsecured and secured business loans and corporate loans continue to grow well. The total NBFC portfolio grew by 35% year-on-year and 5% sequentially as of December-end. About 68% of our portfolio is secured as of December-end. Going forward, we will leverage the newly launched comprehensive platform Udyog plus, the extended ABG and ABC ecosystem and our pan-India based branch network. We will also look to grow the corporate and mid-market portfolios based on opportunities. We remain confident of doubling our NBFC portfolio in the next three years.

Now coming to asset quality, I would like to highlight that asset quality trends in the NBFC portfolio continue to improve. The gross stage 2 and stage 3 loans have declined by 39 basis points sequentially to 4.85% as of December-end. Our total credit cost in the NBFC portfolio was 1.5% in Q3 FY24. We expect the credit cost to remain at a similar level going forward.

Now I request Vijay to briefly cover the financial performance of our key subsidiaries for the quarter.

Vijay Deshwal:

Thank you Vishakha.

Coming to the financial performance, consolidated profit after tax grew by 39% year-on-year and 4% sequentially to 736 crore rupees. The total revenue grew by 29% year-on-year to 9,997 crore Rupees in Q3 FY24.

In our NBFC business, we continued with a strong momentum of disbursements and granularization of book. Disbursements for the quarter grew by 26% year-on-year to 16,548 Crore Rupees in Q3 of FY24. This helped the loan portfolio to grow 35% year-on-year and 5% sequentially to 98,603 Crore Rupees as of December-end. The NBFC business had a RoA of 2.41% and RoE of 16.95% in Q3 FY24. During Q3 FY24 we infused equity capital amounting to 850 crore Rupees in our NBFC subsidiary to support the growth momentum and maximize our share of opportunities.

Our Housing Finance Business continues to see healthy momentum with disbursements increasing by 45% year-on-year and 7% sequentially to 2,016 crore Rupees during Q3 of FY24. The loan portfolio grew by 27% year-on-year and 7% sequentially to 16,538 Crore Rupees as of December-end. RoA was 2.01% and RoE was 14.6% in Q3 FY24.

Coming to our AMC business, the average AUM increased by 11% year-on-year 3,11,509 crore Rupees, of which equity AUM was approximately 44% in the current quarter. Our passive AUM grew by 36% year-on-year to about 29,300 crore Rupees at December-end.

In life insurance business, our individual first year premium grew by 8% year-on-year. Net VNB margin was 15.6% in 9M FY24.

In our health insurance business, our unique and differentiated "Health First" model helped us to deliver a growth of 29% year-on-year in 9M FY24. Combined ratio was 121% in 9M FY24.

With that, I will now hand the call over to Rakesh, MD and CEO of our NBFC business to take us through the NBFC business performance in detail.

Rakesh Singh:

Thanks Vijay, and Good evening, everyone.

In our NBFC business, we saw a 5% quarter-on-quarter and 35% year-on-year growth in our AUM, taking it to Rs 98,601 Crore in quarter 3. Our Retail and SME segment AUM grew by 39% year-on-year and now stands at Rs 66,637 Crore contributing to 68% of the overall AUM Mix.

As Vishakha mentioned, we took several proactive interventions this quarter by tightening our underwriting norms ahead of any real signs of industry concerns emerging in the small ticket consumer loans segment. As a result, this portfolio has degrown by 34% from Rs 4,100 Crore last quarter to Rs 2,700 Crore as of 31st Dec and we will continue to dial down this portfolio in Q4 as well. Our personal loans segment, on the other hand, grew at a healthy 11% quarter on quarter.

We have got a lot of queries about our exposure to loans sourced through Paytm. Paytm is one of our channel partners. We have an omni channel architecture for distribution and our underwriting for acquiring customers is identical across all our channels. The consumer loan portfolio sourced via Paytm is less than 1% of the total loan portfolio as of today. As a part of our calibrated approach towards consumer loan portfolio which I discussed earlier, we have brought down this portfolio from about 2.5% as of June 30, 2023 to less than 1% as of today.

As I have always said, we observe the performance of customers with us and based on their performance we use our underwriting scorecards to create pre-approved offers which are communicated to the customers. The underwriting is based on our rule engines and the disbursement happens directly in the customer's account. The collection is done via NACH which is in our favor. I would also like to emphasize here that all our digital sourcing journeys are designed for end-to-end control from underwriting to collections with minimal dependency on channel partners, giving us complete ownership of customers.

We continue to focus on growing business loans to MSME customers and this segment has grown at a healthy 9% quarter on quarter and 36% year on year and comprises 50% of overall AUM. Large share of this growth has come from secured products and primarily through our direct sourcing channels. Today, the total secured portfolio at ABFL is at 68.5% of our overall loan book.

New business sourcing was strong in quarter 3 and we disbursed Rs 16,550 Crore which is 26% higher than Q3 last year. Our Business Loans segment was the biggest contributor in terms of disbursement mix at 45%, growing at 11% quarter on quarter and 49% year on year. Nearly 50% of the disbursements in overall business loans segment is done directly and we expect this to continue to inch upward with scale-up of our B2B platform for MSMEs - “Udyog Plus”. We launched Udyog Plus in the start of this year and I am happy to share very encouraging numbers in early days of scale up. The platform has registered over 4 lakh MSMEs as of Dec’23 with nearly Rs 100 Crore of AUM sourced.

Our Net Interest Margin was maintained at 6.9% in Q3 FY24. We passed on 20-25 bps in our new disbursement yields across all product segments to accommodate increase in our cost of funds. Our Opex to AUM ratio increased by 24 bps quarter on quarter to 2.24%. As I had mentioned in our earnings call, there was a one-time benefit due to actualisation of provision related to employee expenses in Q2. The 9M FY24 Opex to AUM is at a healthy 2.13%, despite our continued investment in branches to scale up direct sourcing in Emerging Markets. We added 25 branches this quarter and 77 branches in this financial year taking our branch count to a total of 400 as of Dec’23.

Our Profits After Tax for Quarter 3 was Rs 572 Crore, growing by 41% year on year. The Return on Equity for the quarter expanded by 186 bps year on year to 16.96%. The 9M FY24 RoA was at 2.48% and RoE at 17.6%.

We had a capital infusion of Rs 850 Cr in this quarter and our Capital Adequacy Ratio increased from 16.27% in Q2 FY24 to 16.67% in Q3 FY24, and this is despite the increase in risk weights by RBI in Personal & Consumer Loans Segment announced in November last year.

Our asset quality has also shown consistent improvement with our Stage 2 + Stage 3 book reducing by 213 bps year on year and 39 bps quarter on quarter to 4.85%. The Gross Stage 3 book stood at 2.59% in Q3 compared to 3.62% for the same period last year. We have also enhanced our Stage 3 PCR to 50.0%, which is higher by 7.0% over Q3 last year and by 1.7 % over last quarter.

Going forward, we will continue to build a granular portfolio and enhance our Retail and SME Segment Mix with scaling up of Udyog Plus B2B platform and investing in our distribution presence in emerging geographies to fuel growth. As we build scale, enhance capacity and invest in technology, we remain committed to delivering sustainable returns for the forthcoming quarters.

With that, I will now handover to Mr Pankaj Gadgil, MD and CEO of Housing Finance business.

Pankaj Gadgil:

Thank you, Rakesh, and good evening, everyone. I will discuss ABHFL's performance in the third quarter of FY24. We sustained robust momentum in disbursals and book growth. The consistent improvement in return metrics can be attributed to our strong financial performance and dedicated focus on portfolio quality.

Q3 key highlights are as follows:

- Disbursements of ₹ 2,016 Cr., which is an increase of 45% YoY
- AUM as of Dec'23 is ₹ 16,538 Cr., an increase of 27% YoY and a customer base of 60,400
- Our profit before tax (PBT) for the quarter is Rs. 100 Cr, which is our highest ever in a quarter, with an increase of 28% YoY
- NHB refinance mix has improved from 17% in Dec 2022 to 23% in Dec 2023
- Cost of borrowing has sustained at 7.65%
- On asset quality, Stage 3 has reduced by 45 bps QoQ and 148 bps YoY
- The ROA for Q3FY24 is 2.01% and ROE is at 14.58%.

You can refer to the detailed financials on slide 24 of the presentation.

Now, I would like to provide you an update on the progress of the four pillars of our strategy

- To begin with the first pillar, growth, and distribution network. We now operate 130 branches across 19 states covering 80% to 85% of the TAM of housing finance industry. We launched a channel engagement program extending our reach to 1,600+ channel partners across 24 cities. The contribution of ABG ecosystem to new disbursals has now reached to 9%. These initiatives have led to an increase of 45% disbursements year on year.
- Heading to the second pillar, digital reinvention of entire customer journey. I am pleased to share that as of Dec 2023, our newly implemented unified digital lending platform 'Finverse' is now operational in all branches. Finverse currently hosts 35+ micro services and 120+ APIs and incorporates data driven algorithms for easy credit assessment.

  In just five months since its nationwide launch, the adoption of 'Finverse' has surpassed 90% as of December 2023

- Moving to Pillar number three, which is data analytics. We made significant progress in the analytics domain evolving from the formation of the team in June '23 to having 8 live scorecards and 8 operational data marts by December '23
- Lastly on Pillar number four, portfolio quality**.** Our Gross Stage 3 has shown significant improvement, decreasing from 3.66% in Dec 2022 to 2.18% in Dec 2023. We are maintaining stage 3 PCR of 34%. The details of the same are provided on slide 22.

To further our collection efficiency, we have recently launched a comprehensive end-to-end debt management platform in November 2023. In the first phase customer engagement module has gone live. In the subsequent phases, we plan to automate allocation and settlement modules, with the aim of 100% adoption by June 2024.

In summary, we continue to demonstrate consistency across all aspects of book growth, digital transformation, asset quality and core profitability for sixth quarter in a row**.**

Throughout this journey, our commitment to robust profitability and unwavering dedication to customer-centricity remains integral to our core operations.

With that, I now hand over to Bala, MD and CEO of our Asset Management Company.

A. Balasubramanian:

Thank you Pankaj and good evening to everyone attending. I would like to share some highlights of ABSLAMC Q3 FY24 as it was presented in ABSLAMC's call.

ABSL AMC's overall Average Assets under Management, including alternate assets, reached Rs. 3.25 lakh crores growing 11% on a year-on-year basis. The Mutual Fund quarterly average AuM stood at Rs. 3.12 lakh Crores and Equity quarterly average AuM at Rs. 1.36 lakh Crores. SIP flows have increased from Rs. 942 Crores in December 2022 to Rs. 1,005 Crores in December 2023.

On the Retail side, our efforts have worked well with the contribution of the retail franchise increasing to 52% and the contribution from B30 cities has grown to 17% as of Dec 2023. Our sales ecosystem which includes Virtual Relationship Manager, Sampark for onboarding our distributor, Service to Sales and Digital Distribution, has also been yielding favourable results.

On the Alternative Business side - Our Passives offerings grew by 36% to around Rs. 29,300 crores as of December 2023 and has a growing customer base of around 6 lakh folios. Our current product suite consists of 43 products in the passive investments.

On the AIF front, fund raising is underway for ABSL India Special Opportunities Fund (CAT III AIF) and also opened the product for subscription in ABSL Structured Opportunities Fund (CAT II AIF) both on the pipeline and the closing will happen in next six months time.

Moving on to the financials for the quarter:

- Our Q3 FY24 Revenue was at Rs. 421 crores up by 16% year-on-year and Profit After Tax for Q3 FY24 was at Rs. 209 crores up by 26% year-on-year.
- For nine months ended December 31, 2023 revenue was at Rs. 1,201 crores up by 17% year-on-year and Profit After Tax was at Rs 572 crores up by 24% year-on-year.

With this, I will hand over to Kamlesh Rao, MD and CEO of our life insurance business.

Kamlesh Rao:

Thank you, Bala, and I will try and spend time on the Life Insurance business, both for the industry as well as at Aditya Birla Sun Life Insurance. Over the last three years, we have built our franchise on consistent growth of greater than 20% in both our individual as well as Group Life Insurance business.

We have also ensured that this growth is value accretive from our net VNB perspective, which expanded from 6.9% levels three years back to a healthy 23% net VNB last year. In the nine months of this financial year, the Individual Life Insurance industry has seen rising ULIP, as seen in the reported numbers of companies, partly led by upside in the equity market and also due to change in taxation on traditional products last year.

At ABSLI, we have been able to keep ULIP business at levels of 21%, which is same as last year, helping us maintain our net VNB margins in line with last year same time. We will continue to focus on this strategy going forward by balancing our growth objective. During the quarter, we commenced business with our new bank tie-ups at IDFC First Bank and Bank of Maharashtra.

We are pleased to share that we have signed up corporate agency partnership with Axis Bank in December and will commence business in the coming quarter. This will further strengthen our banca proposition to drive growth going forward. Our mindshare, the largest bank partner, that we have now has improved in Q3 compared to Q2, and we will continue to work on expanding the same as we move forward.

We have grown by 8% in the Individual Life Insurance business in the nine months of this year, against growth by private players of 11% and overall industry at 7%. This has come on the back of 17% growth in the number of policies for the same period.

Our net VNB margin for nine months was at 15.6%, which is in line with what we achieved same time last year. Last year, we ended on 23% of net VNB margins for the entire year.

Our innovation on the product side continues. In the three months of this year, we have launched two plans, Salaried Term Plan - Industry first product specific for Salaried segment in the area of protection, Platinum Gain plan and Fortune Wealth Plan - Industry first product in ULIP with feature of trail commissions on AUM basis to distributors.

The individual business had a healthy product mix with traditional business accounting for 77% of our overall business. The fact that 28% of our business came from upselling to existing customers, helped productivity growth in both our proprietary as well as partnership channels. In the Group Life Insurance segment, the private industry saw a growth of 12%, while the overall industry saw a de-growth of 14% and ABSLI registered a de-growth of 2%. The de-growth is on account of seasonal nature of the group business and growth momentum will increase in Q4. The business has grown by 17% in Q3 over Q2. We continue to remain No. 1 in the ULIP AUM in the Group Life Insurance business. Our total premium of Rs. 11,101 crores has registered a growth of 10% over last year's same period with a two-year CAGR of 17%, demonstrating our increasing business growth.

This growth came from our new business growth as well as renewal premium growing at 20%, and our digital connections now account for 80% of our renewal premium. Persistency across all buckets did well with a 13th month now at 87% and the 61st month at 62%. We continue to maintain an upward bias in our forward guidance for these persistency numbers.

Our assets under management now stand close to Rs. 82,043 crores with a Y-o-Y growth of 21%. 26% of this AUM is in equity and the balance 74% in debt. Our investment performance has been better than respective benchmarks across all three categories of equity, debt or even balanced funds, either from a one-year or five-year perspective.

Our digital adoption across various areas is demonstrated in the slide 43. 100% of the new business customers are on-boarded digitally. 83% of all our services are now available digitally covering 65% of our customer transactions, and our customer self-service ratio now stands at 93%.

Our approach going forward is to continue the growth trajectory of this business backed by both productivity and capacity. We expect continued improvement in the quality of our book. Growth will come from a diversified mix of both proprietary and partnership channels. We will continue to be best-in-class in our digital infrastructure across prospecting and onboarding in sales, underwriting and customer service as well as claims.

With that, I hand over to Amit Jain, to speak about the Health Insurance.

Amit Jain:

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

In the first nine months of FY24, we achieved a gross written premium of Rs. 2399 crores, experiencing a strong 29% year-over-year growth. The third quarter stood out with an impressive 43% YoY growth, solidifying our position as the fastest-growing SAHI player during the quarter.

Our market share in SAHI rose from 10.4% to 10.7% in the first nine months of FY24 driven by a strong growth of 34% in retail business in Q3.

The strong growth in retail business was driven by our larger retail channels, specifically the proprietary channel, which saw a 40% YoY increase. Our proprietary channel's share also increased to nearly 30%, compared to 26% in 9M FY23. All our large bancassurance partnerships have experienced good growth and we also activated the Yes Bank relationship in the last quarter.

Our focus on diversifying our product portfolio saw a very successful launch of Activ One, the most comprehensive indemnity product in the industry with seven variants targeting various customer segments. Positioned on a theme of 100% Health: 100% Insurance it further strengthens our Health first approach with a very strong insurance component responding to all customer feedback on reasons they don't buy health insurance. Its very strong early success gives us confidence for a very strong Q4.

Emphasizing a superior product mix, our Fixed benefit products' contribution rose from 13% in 9M FY23 to 18% in 9M FY24, promising a positive impact on profitability in the upcoming quarters.

Our Group business witnessed 43% YoY growth, driven by a sharp focus on profitability through careful customer segmentation, cross-sell/upsell strategies, corporate wellness initiatives, and our industry-leading Outpatient Department (OPD) business. We are strategically concentrating on Mid Corporate and SME segments to build a sustainable and profitable corporate and affinity business.

Moving to profitability, we balance our growth and profitability well. Our net loss is Rs 270 Crs from Rs 217 Crs in the same period last year. The higher absolute loss is primarily on account of business seasonality. Our experience has been that our losses peak out in Q3, which was also the case in FY23. We are expecting a profit in Q4 and our overall full year FY24 loss will be lower than the last year.

Claims and expense ratios at the company level are trending well, and we anticipate the CoR to also exhibit a similar trend in the coming quarters. As a tech-driven digitally enabled, data-centric health force business, we are committed to continuous investment in our tech and digital capabilities.

Our App downloads have increased by 36% YoY and MAU have also grown by 30% YoY. Our self-service transactions stand at an all-time high of 82% compared to 79% in Q2.

Leveraging high end analytics tools, we make informed decisions that positively impact our customers' lives through personalized product offerings, targeted health and wellness interventions, and a personalized service approach resulting in a better customer experience. Investments in data augmentation and analytics are enhancing cross-sell, retention, and fraud management.

Our digital health and wellness ecosystem, featuring over 60 partners, is continuously expanding through collaborations with insure techs and health tech players. A first of its kind digital face scan-based health assessment feature was launched this fiscal year and has been well-received, with over 43,000 assessments completed contributing to more than 20% of our total Health Assessments.

Our Health First model is showing signs of maturity. This is driven by analytics, customer insights and personalised communications. The improved outcomes for some of the intervened cohorts are now visible. Customers participating in Activ Dayz exhibit lower loss ratios, ranging from 10% to 30% or more. Likewise, customers earning Health Returns experience loss ratios up to 50% lower than the baseline case. This is shown in slide 51. Overall, this has kept our retail loss ratio well in control and our endeavour is now how do we demonstrate this at scale.

Looking forward, given the compelling opportunity, our differentiated business model and a supportive regulatory environment, we maintain an optimistic outlook on the growth potential of the Health Insurance industry. Our vision is to aggressively expand our franchise while upholding best-in-class unit economics and a steadfast focus on profitability.

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

Vishakha Mulye:

Thank you, Amit. This concludes our comments on the Q3 FY2024 performance and now we will be happy to take any questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal:

Yes. Thank you, and good evening, everyone. Congratulations to the ABCL team for good set of result. So quite clearly, you pre-empted some of our questions in terms of Personal and Consumer Loans and what is the contribution that is coming from Paytm. I just wanted to delve a little bit on Personal and Consumer loans. I think in your opening remarks, you shared that Paytm is less than 1% of your sourcing in Consumer loans.

So is it just incremental sourcing that's come down to less than 1% or even at your portfolio or the book level, Paytm is contributing less than 1% of your Consumer Loans?

Rakesh Singh:

So if you look at the slide on the segment-wise, the AUM breakup, we have given, that the Consumer Loan, the BNPL is now 4% of our overall Consumer Loan business, but that's around Rs. 700 odd crores as of end of 31st December, which has further come down.

Abhijit Tibrewal:

Okay. But my question was more around the dependence that we have on Paytm. So I can see and sir, so what you're trying to suggest is this entire BNPL book was coming from Paytm and which has kind of continued to decline, like you said, less than 4% versus December level.

Rakesh Singh:

Yes. So if you look at before, this was close to around Rs. 2,200 crores by end of Q2, which has come down to Rs. 700 crores and as of today it has further come down.

Abhijit Tibrewal:

Okay. That is one. And then, in the last earnings call, you had shared a couple of interesting details around what is the average ticket size in your Personal and Consumer Loans. And I think, you had also shared that you are tracking the leverage of your customers, and I think 12-13% of your customers had showed a significant increase in leverage over the last nine to 12 months. So if you could just share if you've done that analysis this time around.

Rakesh Singh:

Yes. So that is an on-going process. So we track the leverage, and this 11-12% of the customers leverage was 1.5x. So what we also realized earlier, these consumer loans, let's say, people used to take Rs. 50,000 loan or Rs. 1 lakh loan. That was broken down into multiple loans. And that's a trend which we saw in the last six to nine months.

So you will find because it's the end use, which is an embedded finance, That's the reason you would see a Rs. 15,000 loan and a Rs. 40,000 loan. But overall, we have not seen too much of leverage. It remains the same at around 12.7% of the customers have a leverage, which I had mentioned last time of more than 1.5x than what they had taken when we had given them the loan.

Abhijit Tibrewal:

Got it. So, just a follow-up on that. Is it fair to assume that given that we have calibrated our underwriting in personal and consumer loans, the kind of deceleration in Q-o-Q growth that as Vishakha was explaining in her opening remarks, we'll continue to see that kind of a deceleration in the near term?

Rakesh Singh:

Yes. Vishakha mentioned in her opening remarks and I also mentioned that we will dial this down further, because of the kind of concern with the regulator had on small ticket consumer loans and consumer credits. So before we could see any trend in our portfolio, we have dialed it down, and you could see that the consumer loan has come down by 34% quarter-on-quarter and we are looking at further bringing this down.

Abhijit Tibrewal:

Got it. And then maybe one last question. Thank you. Just one last question that I had on the housing side. So if you could just briefly explain how is the demand kind of holding up today in mortgages? I ask this because, there are a lot of mixed views particularly in terms of urban affordable segment, which a lot of people ascribe is not doing too well.

But if I kind of look at our disbursements, our growth continues to do very well, so congratulations to you for that. So if you could just dwell on the demand that you're seeing in mortgages in various customer segments or ticket sizes, whichever way you want to look at it. And this is a related question here. What's our sourcing mix in the HFC or the housing business?

Pankaj Gadgil:

Thank you. Pankaj here. I think on the demand side, while we look at the numbers internally, monthly, we also check what is overall demand that is coming up also on the bureau. The number of hits on the bureau also we keep tracking. We track this every month. We have seen that those numbers are actually stagnating. They're not moving up that dramatically, but they are also not coming down. So that's the good news that is there.

The other question you asked is all about how are the segmental shifts that are happening? First, the good news is that from a market share perspective, I think there is a good opportunity that we have as ABHFL. Housing finance companies all put together, our estimates are that the industry size is about Rs. 8.5 lakh crore and we are currently at Rs. 16.5 thousand crores kind of a book. So I think we accelerating is coming definitely at the cost of some other competition, hopefully, because the demand is not moving that much up. So certainly, we are taking up share.

As far as how the segments are moving for us, the overall affordable segment and that also I'm talking from a bureau perspective, I think that number is consistently for the industry is trending between Rs. 9 to 10 lakhs and is not moving up significantly. For us, the segmental mix is what we are also talking and if you see our slides, which mentions our segmental mix broadly today, 51% of our overall mix is coming in from the value segment and 49% is coming in from the growth segment. And if you further drill down within that percentage, all inclusive, 41% is coming in the affordable HL + LAP, 10% is CF. So that is where our segmental numbers are coming in.

So we've spoken about it also that we are looking at the opportunities across all these segments because we feel that opportunities exist right from the prime to the informal segment and capitalize them with the right product market and rate mix. That's where we are focusing in our standpoint.

Abhijit Tibrewal:

Just one last thing. You have carved out the subsidiary, Aditya Birla Capital Digital to kind of come up with your own super apps to associate. Are there any projects in progress there? Are there any timelines that you're working for the launch of your app which will I think in comparison all the product offerings across the Aditya Birla Capital group?

Pankaj Gadgil:

Just to reiterate, I think this entire platform that we're talking is an omni-channel platform, which has all the four form factors, which has sourcing from the branches, virtual engagement, app and the website. The app of the omni-channel platform, ABCD, like Vishakha mentioned in the opening comments is right now in CUG, as we speak. And what we are also saying we are going to launch this in the next month. So that is where we are on the launch of the app.

Abhijit Tibrewal:

Great. This is useful. Thank you very much and all the very best to you and your team.

Moderator:

Thank you very much. Next question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla:

Yes. Good evening, everyone. Thank you very much for the opportunity. So the first question is on the sourcing mix of the personal and consumer loan business. Given that what has happened at the paytm side and after the risk weight increase on the other fintech partnership. Can you guide us how the sourcing mix has changed in this business on a Q-o-Q basis?

Rakesh Singh:

In terms of sourcing mix, if you look at and we track it in terms of our direct sourcing through the DSAs and through the digital, if you look at our direct has gone up. 45% of the sourcing happens through direct, 22% happens through the DSAs and 32% through the digital. This is at the company level. But if I just give you personal and consumer, this is 84% of our personal and consumer through their digital journey. That's what we do and 5-odd-percent is direct sourcing, which we have.

Anuj Singla:

And how much would be the fintech partners out of this digital journey? Do they form part of that?

Rakesh Singh:

So if you look at and I mentioned this earlier, most of our partnership is as if you look at the consumer side, the BNPL and consumer loans, which is there which is almost 14% of our loan book in the personal and consumer, and that's from these partners and once we onboard these customers, basis their performance on our portfolio over a couple of cycles, we see the performance through our underwriting forecast, then we offer them a upsell or a cross-sell products. So that's how this entire journey is. So if you want to see in terms of the fintech contribution to this, you will have to see in the consumer side, primarily the contributions which is coming new to ABFL as a customer.

Vishakha Mulye:

So, Anuj, as Rakesh said, the most of the digital partnerships and the acquisition is in our consumer side, which is a portfolio that we are actively trying to reduce and which has come down from Rs. 4,200 crore to around Rs. 2,600 crore now. And as Rakesh said that we will continue to reduce that.

So if your question is that whatever is happening, will that have an impact on our growth in the future? The answer is no, because we are actively reducing, one. Second, we believe there are alternative channels that we have already built. We spoke about we have increased our branch network, our Udyog Plus has been launched, which is gaining traction.

Pankaj spoke about D2C app, which we're launching next month. That has already been released it in the closed-user group. So all these channels and our direct channel is also kicking in. So we don't see any impact on our growth in the future. And I did cover it in my opening remarks that we still have a visibility as we have given you a guidance in the past, that our NBFC book we believe we will be able to double in the next three years.

Rakesh Singh:

And if I can just add. If you see, we put a lot of focus on our secured business. And our secured SME business has grown quite strongly at 9% quarter-on-quarter and 36% year-on-year. So a lot of focus. Yes, we are dialing down one segment, but we are growing the other segment and all the enablers which Vishakha mentioned, which will help us in terms of delivering that growth.

Anuj Singla:

Got it, Rakesh. No, this is very commendable actually. There is no impact on disbursement despite the restrictions coming. But I think another thing there is, so the fintech partners have talked about moving from small-ticket size personals to big-ticket size. Are we also partnering with them in this initiative? And is there a meaningful portion of that in our sourcing for PL, which is now 86% of the business? Just to get some thoughts here in the personal and consumer loan segment again.

Moderator:

Please stay connected while we bring the management back to the call. Ladies and gentlemen, thank you for your patience. We have the line for the management reconnected.

Anuj Singla:

Rakesh, should I repeat the question?

Rakesh Singh:

I heard your question. I was answering. I don't know where you lost me. But let me just start. I was saying that we look at multiple channels in terms of sourcing, and that's our strategy. We are omnichannel as a platform. We look at all ecosystem, partners and all. At this point in time, we are not looking at any fintech for large ticket sourcing because large ticket sourcing needs touch and feel and visiting the shop floor, accessing the cash flow, looking at the security and then giving the loan. So at this point in time, we are not looking at a large-ticket tie-up yet.

If any fintech gives them any model where the leads comes in which can be fulfilled, which can be underwritten by us, we will evaluate those models. But large ticket on digital platform because the idea was that small-ticket digital journey is where fintechs play a role. But as the lead, if they can provide leads for secured products, we can evaluate that. At this point in time, we haven't gone into any partnership on a large-ticket loan, Anuj.

Anuj Singla:

Okay. Got it. That's very clear. The second question is on the cost of borrowing. So we have seen and you did talk about that, the cost of borrowings are rising for you because of the higher risk weight from the bank side on NBFCs. So can you talk about what kind of hike we are talking about on bank lending? And given the liquidity is very tight on the money market side as well, what kind of cost of impact should we be building in the coming quarters?

Rakesh Singh:

Anuj, if you look at last quarter, our cost of funds went up by 7 basis points, and our yields went up by 8 basis points. And I also mentioned that we have increased our lending rate by 20-25 basis points across all customer segments and product segments.

In terms of looking at the liquidity situation and where do we see the cost of funds. Our cost of funds might grow marginally up in Q4. We are related to the risk weights, I think few banks have reached out to us in terms of negotiating for the rates. We have not finalized anything. We are in discussion with them. We will evaluate, but we don't see any material increase in cost of funds. Yes, there will be marginal I think but we should be able to manage that with the increase in the yields, which I just mentioned, we have increased our lending rates across our customer segment.

Anuj Singla:

Got it. And lastly, because of the higher risk weight from the banking side on unsecured lending, are we witnessing higher bank competition on the secured lending, and this will be maybe more relevant for mortgages? Is there some evidence of that visible on the street or it's business as usual there?

Rakesh Singh:

Anuj, we work in a very competitive environment. We compete with the large NBFCs, we compete with private banks and so it is a competitive environment. I completely agree. And especially the Jan, Feb, March quarter, again, is an important quarter for the banking industry. So there will be competition. We have to operate in this competitive environment, and we have our differentiation, and we have a way we manage this business. We have done it over the last several years, and we will continue to do that.

Yes, there will be shift towards secured, which we are also focusing on. But we cut through the entire customer segment from a retail LAP to small ticket secured loans to micro LAP. So we have built these capabilities, the SME loans, which is all secured. So clearly, we have built these capabilities and also the underwriting capabilities over a period of time, that has helped us in terms of managing this competition.

Anuj Singla:

Got it. And can Kamlesh talk about on the mortgage side? Is there something incremental? It's the same thing there as well.

Pankaj Gadgil:

So Pankaj here, I think if I have to reference the question back to the cost of borrowings, I think, for us as well, the cost of borrowings have gone up by about 5 bps. We also observed in our commentary as well, and I think the NHB contribution in our loan mix of liability, I think, is improving. We are right now at about 23%, and NHB as a component is just like CASA. Technically, that is what it is. So that really helps us in optimizing the borrowings.

To your question on competition intensity, of course, everybody wants to also build their books and especially the last quarter. So there will be competition intensity. But I think the part of the proposition that I spoke about a couple of things. We also launched a host of product propositions based on customer insights especially in the last quarter. We have built certain propositions which have really taken off well in the marketplace. Finverse, a unified digital lending partner that I have mentioned. It's really helping our teams to get better face time with customers. So that is also resulting in reduced turnaround times, we're becoming more and more predictable.

And that is also resulting in one more aspect, which is gaining contribution of disbursements from our own ecosystem. I think that is where we've also, I think, done very well in this quarter. 9% of our disbursement actually is coming in from our own ecosystem, which is the distributors of ABCL and other companies, it's our own employees within the ABG ecosystem.

And since I spoke about the ABCD, the omnichannel platform in the beginning when we started getting initial branches that also is starting to gain traction there. So that also is helping us to get to 9%. So I think competition intensity will be there, but I think we will have to power our propositions, work on making it more and more frictionless at the same time, make sure that the quality is paramount.

Anuj Singla:

Got it. Got it, Pankaj. Thank you very much and all the best.

Moderator:

Thank you. Next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh:

Thanks for the opportunity. A couple of questions. The first one would be regarding unsecured business. First one would be regarding unsecured business, where you have highlighted that I mean, a large part of your unsecured business is covered by guarantee, credit guarantee schemes. Now if you can help us understand the efficacy of the guarantee schemes because I mean the guarantee schemes provide cover.

But just in terms of the time taken to receive the money from the time you're sort of NPA starts, generally it has been a kind of a mix experience. And I mean the commentary has been mixed around sort of our ability to receive money from this guarantee scheme in time. You can just help us understand the efficacy of this guarantee scheme in your context of business unsecured loans? Then I'll just come back with the next question?

Rakesh Singh:

So I just at the start, I want to say it has worked out very well for us. We pay a certain guaranteed premium to SIDBI, which guarantees 75% of our capital, our other principal outstanding. And if there is a default, 75% of the principal, we get it back from SIDBI.

In terms of process, how much time it takes, it takes anywhere around 12 months or so, 12 to 15 months or so in terms of refunds coming in from SIDBI, at times it works even faster. At times, it will go slightly over 12 months, but has worked out very well for us, and it mitigates our risk in this customer segment, especially when the exposure is unsecured.

Avinash Singh:

The second one is regarding the capital allocation. So if I recall out of 30 billion that AB Capital raised last year, I believe, close to 13 -14 billion has been infused into Aditya Birla finance now. So that means that, okay, additional 16 billion or capital should be with the holding company. Over the next 12 months, what is the plan out of I mean how do you see that this capital infused across your two lending subsidiaries primarily? Or even health insurance will require some capital infusion? So what is, again, your plans with this capital currently or anything else or any other capital we will need over the next 12 months? Thanks.

Vijay Deshwal:

Avinash, as we had mentioned at the time of capital raise that we did for Rs. 3,000 crores, we had said majority of the allocation will be happening towards the lending businesses. And so far, we have infused about Rs. 1,600 crores into our ABFL. We still have Rs. 1,400 crores from that.

Over the next 1 year, we don't see or envisage any capital requirement from our health insurance because if you recollect last year itself, we had raised primary capital of Rs. 700 crores from ADIA which will take care of the needs of the business for the near future. However, for our lending businesses, we will be requiring capital, which we'll be providing over the next 1 year and the amount that we have should suffice till the closure of FY25. So that's our plan. And then after that, we'll evaluate how do the things go forward and how much of capital we'll be deploying for the next 2 - 3 years.

Avinash Singh:

And as of now, the RBI sort of requirement being Aditya Birla Finance being in the, upper layers, you will have I mean as of today, the requirement is to list by September'25 ?

Vijay Deshwal:

Yes.

Avinash Singh:

Okay. Thanks.

Moderator:

Thank you. Next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh:

Thanks for the opportunity. Firstly, on the NBFC, as a secured business is expected to grow faster, corporate business has also seen a revival in growth, how should we think about profitability, ROA, ROE going forward?

Rakesh Singh:

So our ROA is in the range of 2.5%. If you look at the first 9 months, our ROA is 2.48%. We are committed to improving the ROAs in the coming years. And clearly, the product mix will drive that. So today, if you look at retail and SME contributes close to 67%. We are looking at that mix going up to 75% of the overall loan book in the next 2 - 3 years.

And that should help us improve our margins from hereon. We are almost close to 7%. And with the change in this product mix, we should be able to grow closer to 7.5%. That's what we have been working on, and that should help us improve our ROAs.

Nidhesh:

Okay. Sure. So our corporate business should actually grow at a lower rate than the overall balance sheet growth?

Rakesh Singh:

Yes.

Nidhesh:

Okay. Secondly, in the secured business, what is the sourcing mix that we have secured and unsecured business? What is the sourcing mix that we have?

Rakesh Singh:

Secured, you mean sourcing the channel mix?

Nidhesh:

Yes.

Rakesh Singh:

For secured business, 61% is direct and 39% is through DSA.

Nidhesh:

And in the unsecured business, please?

Rakesh Singh:

Unsecured businesses 53% is the DSAs, 41% is digital and 6% is direct.

Nidhesh:

And by digital, meaning fintech partners or customers are coming directly to us?

Rakesh Singh:

We also mentioned about the ecosystem, which we have within the Birla Group, which we have the Udyog Plus we mentioned, we have integrated Udyog Plus to our Ultratech app. So but those are in the initial stages at this point in time, but the supply chain business which we do within the group and outside, I think that's done digitally, and that's our digital journey.

Nidhesh:

Sure. And secondly, on the Life Insurance business, how are the trends in terms of product level margins on a Y-o-Y basis? Have you seen any changes to the product level margins on a Y-to-Y basis?

Kamlesh Rao:

Hi, this is Kamlesh here. On product level margins across various products, of course, there is no change. Like I mentioned, what changes at the net margin level, obviously, is the composition of the business. And we've been able to maintain our ULIP contribution, like I said at 21%, which is similar to what it was last year. So that hasn't gone up as compared to what has happened in the industry. And therefore, we've been able to maintain slightly better than last year, we are at 15.5% last year, we had 15.6% net margins in the 9 months of this year.

Nidhesh:

Sure. And tie-up that we have done in with the Axis Bank, when we should expect that to start having benefit to our growth?

Kamlesh Rao:

So like I said, the IDFC First Bank started in the latter half of quarter three. Normally, banks start with a smaller portion of their business, which is typically non-branch banking. So you will see the real benefit because in cases like IDFC will get into the full spectrum in April of next year, Bank of Maharashtra will start earlier than that in the whole spectrum. And Axis Bank, like I said, we just signed the corporate agency agreement. We will start with few zones somewhere in the end of February, beginning of March. And so next year, we will expand our presence in the Axis Bank counter too.

Nidhesh:

Sure. And coming to health insurance, are there historically, our combined ratio has been improving. But last 2 years, we have seen the combined ratio have started to deteriorate. So what is driving that? Are we seeing higher loss ratio or it is the opex ratio, which is impacting our combined ratio? And what is the strategy to improve combined ratio? What is the time frame that we should think about?

Amit Jain:

So Nidhesh, Amit here. So as I said, our losses and combined ratio peak out in Q3. So we expect combined ratio will go down in Q4, both on a quarter-on-quarter and also Y-o-Y, we will show our combined ratio compared to what we have shown both last year compared to last year, also quarter-on-quarter. But our combined ratios are going down year-on-year, they have not gone up. Yes, that's the actually, that is the position here.

Nidhesh:

And if you can also talk about, what is the loss ratio for 9 months?

Amit Jain:

Loss ratio for 9 months, I think they are trending well, both for retail and group. Though group, I must say, there is some pricing pressure because group business has become more competitive, with changes in the EOM, but they are trending well compared to the last financial year.

Nidhesh:

Okay. Thank you very much. That's it for my side

Moderator:

Thank you very much. Ladies and gentlemen, due to time constraint, we will take that as the last question. For unanswered questions, the team will get in touch with you. I would like to hand the conference over to Ms. Vishakha Mulye for closing comments.

Vishakha Mulye:

Thank you so much. I really appreciate all of you joining the call and look forward to keeping in touch. Thank you.

Moderator:

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

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