Aditya Birla Capital Ltd. (ABCL)

Q2 FY24 Earnings Conference Call Transcript

November 3, 2023

Moderator:

Ladies and gentlemen, good day and welcome to the Q2 FY 24 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 Q2 of FY2024.

Joining me today are senior members of my team Bala, Rakesh, Pankaj, Kamlesh, Mayank, Pinky, Vijay, Ramesh and Sanchita. 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 by respective CEOs.

The Indian economy continued to be resilient amidst the uncertainties in the global environment. The underlying growth momentum is visible with expansion in manufacturing and services PMI, real estate buoyancy, and higher demand for travel. GST collections increased by 13% year-on-year to 1.73 lakh Crore Rupees. Passenger car sales increased by 16% year-on-year in October. Though there has been a pause in monetary policy tightening globally and in India, trend in inflation needs to be monitored closely. We expect positive macroeconomic trends to continue and Indian economy to perform well in FY2024.

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 accelerate our growth trajectory, build scale and increase market share across businesses. Our total lending portfolio across the NBFC and HFC business grew by 41% year-on-year to 1.09 lakh Crore Rupees. The total AUM across mutual fund and insurance businesses increased by 12% year-on-year to over 4 lakh Crore Rupees. The total consolidated revenue grew by 22% year-on-year to 8,831 crore Rupees in Q2 FY24. We are happy to share that our consolidated profit before tax grew by more than 46% year-on-year and crossed the 1,000 Crore Rupees milestone in Q2 FY24. Consolidated profit after tax grew by 44% year-on-year to 705 crore rupees.

Our endeavour is to provide "One Experience" to our customers across all channels. We follow an omni channel architecture for distribution and give our customers the complete flexibility to choose their channel of interaction.

'Digital First' is at the core of our strategy for product innovation, direct acquisition and seamless transacting experience. In our AMC business, about 78% 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.

As you are aware, our comprehensive B2B platform for MSME ecosystem, Udyog Plus went live earlier during the year. I am happy to share that we have seen a very robust response for Udyog Plus with more than 164,000 registrations as of September-end. It offers paperless digital journey for small ticket business loans along with PIFA solutions and various value-added services to MSMEs. We have integrated Udyog Plus with several government and private ecommerce websites via OCEN to provide various credit facilities to sellers on these platforms. We have started integrating Udyog Plus with ABG ecosystem to provide channel financing to dealers. Udyog Plus has reached a monthly run rate of 50 Crore Rupees disbursement with ABG ecosystem contributing two-thirds of the business. We will continue to scale up the business in ABG ecosystem as we expand our market footprint in B2B segment.

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 71 and we had 1,403 branches across all businesses as of September-end. In line with our One ABC approach, we continue to expand our co-located branches which increased by 70 during the quarter to 691 branches across 201 locations as of September-end.

We are also leveraging the extended ABG and ABCL ecosystem to accelerate our growth trajectory across various businesses. ABG and ABC ecosystem contributed about 7% of total disbursements in our housing finance business Q2 FY24.

We follow "One Customer" approach through which we build deep understanding of customer profiles and provide them best-in-class solutions across PIFA for their financial and business stage needs. We had mentioned in our previous earnings calls that we are developing an omni channel D2C platform with various touchpoints through which will acquire new customers and provide holistic financial solutions to our existing customers. We are progressing well in this journey and the mobile app of this platform is expected to go live in the next 90 days.

Going forward, we will continue with our One ABC, One P&L approach to grow and build scale in each of our key businesses.

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 44% year-on-year and 9% sequentially to 705 crore rupees. The total revenue grew by 22% year-on-year and 8% sequentially to 8,831 crore Rupees in Q2 FY24.

In our NBFC business, we continued with a strong momentum of disbursements and granularization of book. Disbursements for the quarter grew by 32% year-on-year to 16,477 Crore Rupees in Q2 of FY24. This helped the loan portfolio to grow 44% year-on-year and 9% sequentially to 93,522 Crore Rupees as of Sep-end. The NBFC business had a healthy RoA of 2.51% and RoE of 18.0% in Q2 FY24. During Q2 FY24 we infused equity capital amounting to 750 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 52% year-on-year and 16% sequentially to 1,882 crore Rupees during Q2 of FY24. The loan portfolio grew by 23% year-on-year and 6% sequentially to 15,439 Crore Rupees as of September-end. RoA was 2.03% and RoE was 14.5% in Q2 FY24.

Coming to our AMC business, the average AUM increased by 10% year-on-year and 5% sequentially to 3,10,899 crore Rupees, of which equity AUM was approximately 42% in the current quarter. Our passive AUM grew by 68% year-on-year to 28,438 crore Rupees at September-end.

In life insurance business, our individual first year premium grew by 13% year-on-year. Net VNB margin expanded by 195 basis points year-on-year and 240 basis points sequentially to 14.2% in H1 FY24. Embedded value increased by 13% over March 2023 and crossed 10,000 Crore Rupees.

In our health insurance business, our unique and differentiated "Health First" model helped us to deliver a growth of 23% year-on-year in Q1 FY 24. Combined ratio was 119% in Q2 FY24.

With that, I will now hand the call over to Rakesh 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 sustained momentum across all segments in Quarter 2 of FY24 contributing to a 9% quarter-on-quarter and 44% year-on-year growth in our AUM, taking it to Rs 93,522 Crore. Our Retail and SME segment AUM grew 49% year-on-year and now stands at Rs 62,577 Crore contributing to 67% of the AUM Mix. Our active customer base grew to 5.9 million compared to 5.3 million last year, a 13% growth year on year.

New business sourcing was strong in Q2 FY24. We disbursed Rs 16,477 Crore which is 32% higher than Q2 last year. All product segments contributed this growth with our Business Loans segment being the biggest contributor in terms of disbursement mix at 41%, followed by Personal and Consumer loans segment at 32%. Our strong sourcing quality in this segment is demonstrated by 87% of the portfolio having a credit score of 700+.

Our Net Interest Margins expanded by 16 bps year on year to 6.87% in Q2 FY24. While, our Opex to AUM ratio reduced by 26 bps year on year to 2%, our CIR reduced by 428 bps year on year to 28.76% for the quarter. Our Profits After Tax for Quarter 2 was Rs 548 Crore, growing by 53% year on year. As a result, the Return on Equity for the quarter expanded by 425 bps year on year to 18.01%.

The asset quality has shown a consistent improvement over last year with (Stage 2 + Stage 3) book coming down from 8.50% in Q2 FY23 to 5.24% in Q2 FY24. Gross Stage 3 book has dropped to 2.64% from 3.53% in Q2 last year. Our Stage 3 PCR increased to 48.3%, which is higher by 5.2% over Q2 last year.

As I had mentioned in the last quarter earnings call, we launched "Udyog Plus" - our unique and differentiated unified platform for MSME customers. In a brief duration of 6 months, we have over 164,000 MSMEs registered on the platform as of Sep'23. To deepen our geographical reach through physical presence, we added 43 branches this quarter and 154

branches in the last 12 months taking our branch count to a total of 375 as of Sep'23. We will continue to scale Udyog Plus and invest in enhancing our distribution capacity to fuel our growth momentum.

I'm happy to share that we successfully concluded the Maiden Public Issue of Non-Convertible Debentures for Rs 2,000 crores in October, 2023. The issue received an overwhelming response and was oversubscribed by 1.22 times with over 10,000 applications across all categories of investors. With that, I will now handover to Mr Pankaj Gadgil, MD and CEO of Housing Finance business.

To conclude and reiterate our performance, we had a robust quarter in terms of growth leading us to a Return on Assets of 2.51% in Q2 FY24. In the next few quarters, we will continue to build a granular portfolio and enhance our Retail and SME Segment Mix. As we venture into newer customer and product segments, 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 cover the performance of ABHFL in Q2FY24. We maintained strong momentum in disbursals and book growth. Robust financial performance and focus on portfolio quality led to consistent improvement across all return metrics. Q2 key highlights are as follows:

- Disbursements of ₹ 1,882 Cr., which is an increase of 52% YoY
- I am happy to announce that we have crossed 15,000 Cr. mark in AUM and as of Sep'23 it stands at ₹ 15,439 Cr., an increase of 23% YoY.
- The customer base grew by 18% YOY and is now at ~58,400
- Net interest margin (NIM) is 4.88%, and our profit before tax (PBT) for the quarter is Rs. 97 Cr, which is our highest ever in a quarter, with an increase of 28% YoY
- On asset quality, Stage 2 + Stage 3 has reduced by 38 bps QoQ and 390 bps YoY
- The PAT for Q2FY24 is ₹ 75 Cr., an increase of 26% YoY
- The ROA for Q2FY24 is 2.03% and ROE is at 14.50%.

You can refer to the detailed financials on slide 25 of the presentation.

On portfolio quality, with focus on quality of origination, 96% of our disbursements in Q2FY24 are towards 700+ CIBIL or new to credit. The contribution of 730+ CIBIL to origination is at 74% which is significantly higher than the industry average of 42%.

Our Gross Stage 3 has shown significant improvement, decreasing from 3.75% in Sep 2022 to 2.63% in Sep 2023. We are maintaining stage 3 PCR of 34%. The details of the same are provided on slide 23

Moving to treasury Management. We have maintained an average cost of borrowing of 7.60% for the quarter, prioritizing a diversified borrowing mix. The contribution of NHB to our total borrowings has increased from 16% in Sep 2022 to 21% in Sep 2023. We have maintained positive ALM across buckets, and CRAR stands at 20.38%. Further details are mentioned on slide 24 of the presentation.

You can see that we demonstrated consistent improvements across all aspects of book growth, asset quality, and core profitability.

Now, I'd like to provide you a brief six-month update on the organizational roadmap that we presented during our discussion in April 2023

- Firstly, coming to the growth and distribution network, we have been growing at consistent pace in both prime and affordable segments. We now have a nationwide presence, with 131 branches across twenty states covering 80 to 85% of the TAM of housing finance industry. We witnessed two-fold growth in channel partner onboarding in last six months. The ABG ecosystem now accounts for 7% of new disbursals.

- Secondly, on digital reinvention of entire customer journey, I'm pleased to announce that as of August 2023, we have successfully deployed our new unified digital lending platform 'Finverse' in all branches as per plan. This expansion follows our discussion during the last call when it was initially deployed in 33 branches back in June 2023.

  Within just one month of its pan-India launch, 'Finverse' adoption is more than 40% in Sep 2023. Finverse offers unified interface for all stakeholders like customers, partners, employees and vendors with 95+ API integrations and built in data led algorithms for easy credit assessment. It also has additional capabilities like real time dashboard and customer portal. This simple and intuitive user-friendly interface ensures the benefits like easy login, real time query resolution, digital collection and validation, access to loan status for customer and faster payouts amongst other features.

- Lastly on the analytics front, we are well on course. We have built the team in the last six months. The adoption of our initial models including the attrition, pre-delinquency management and lead scoring models is consistent with our envisioned plan, which is quite promising.

In summary, we continue to invest in long-term growth while maintaining robust profitability and a quality portfolio, all while maintaining customer centricity at the core.

With that, I now hand over 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 highlights of ABSL AMC during the second quarter of FY24.

Our overall average Assets under Management, including alternate assets, reached Rs. 3.24 lakh crores growing 10% on a year-on-year basis. The Mutual Fund quarterly average AuM has crossed Rs. 3 lakh Crores and Equity quarterly average AuM crossed Rs. 1.30 lakh Crores.

SIP flows have increased from Rs. 931 Crores in September 2022 to Rs. 968 Crores in September 2023 with an overall folio count of around 80 lakhs.

Our strategic efforts across channels have enhanced market presence, with the "Focused Fund Offer" campaign gaining traction and driving an upswing. The sales ecosystem, including VRM, Sampark, Service to Sales and Digital Distribution, has also been yielding positive results.

On the Passives front, our offerings grew by 68% to around Rs. 28,400 crores as on September 2023 and has a growing customer base of around 5.4 lakh folios.

On the AIF front, fund raising is underway for ABSL India Special Opportunities Fund (CAT III AIF). After setting up of GIFT City, we have launched the industry-first "ABSL Global Emerging Equity Fund," which strategically feeds into the "ARGA Emerging Market Equity Fund," enabling our investors to access and benefit from emerging market opportunities. We have closed the first tranche of this fund and garnered a collection of 11.2 million dollars.

Moving on to the financials for the quarter:

- Our Revenue from Operations for Q2 FY24 was at Rs. 3,350 million versus Rs.3,111 million in Q2 FY23, up 8% year-on-year.
- Operating Profit for Q2 FY24 was at Rs. 1,811 million versus Rs. 1,728 million in Q2 FY23, up 5% year-on-year

Kamlesh Rao:

The first half saw a growth rate of 13% for the individual life insurance business in line with private industry growth and higher than the overall industry growth of 8%, the growth in value was supported by a 19% growth in policy count.

Our growth was driven through higher growth in our proprietary channels at 22 % we saw de-growth in our largest partner bank in Q2 which was driven by their strategic shift for a quarter to contribute more to their subsidiary Life insurance partner. Other bank channels saw a robust 39% growth in Q2.

During the quarter, we commenced business at IDFC First Bank counters and Bank of Maharashtra will go live in November. We are hopeful that by Q3 we will further strengthen our banca proposition to drive growth going forward.

Products launched in the last one year contributed 44% of the business in H1 FY24. In the individual business traditional products contributed 79% and ULIP contributed 18%. This has resulted in strong gross margins. Upsell to existing customers contributed 28% of the business in H1 FY24. This helped productivity growth in both proprietary and partnership channels.

The Group Life Insurance segment for the industry saw a de-growth of 23% in H1 FY'24, while ABSLI de-grew at rate of 10%. We continue to remain No.1 in ULIP segment with an AUM of Rs.10,455 crores. We maintain our guidance of growth for the full year projections for this business for FY 24.

Our total premium of Rs. 6,827 crore has registered a growth rate of 7% over last year, this growth came from new business as well as renewal premium growing at 19%. Digital collections now account for 80% of our renewal premium.

Persistency across all buckets did well with the 13th month now at 87% and the 61st at 59%. We continue to maintain an upward bias in our forward guidance for these persistency numbers.

Our Asset under management now stands at close to Rs. 76,994 crores, with a YoY growth of 19%. 25% of this AUM is in equity and the balance 75% 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 1-year or 5-year perspective.

Our digital adoption across various areas is demonstrated in Slide 44. 100% of new business customers are onboarded digitally, 83% of all our services are now available digitally, covering 62% of our customer transactions, and our customer self-service ratio now stands at 89%.

Our net VNB margin continues to grow well with an expansion of 195 basis points to 14.2% in H1 FY24 as seen in slide 41. We expect to deliver 23% plus Net VNB margins in FY 24

Our approach is to continue the growth trajectory of this business ahead of the industry, backed by both productivity and capacity. We expect continued improvement in the quality of 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 this now, I hand over to Mayank, who will give you details of Health Insurance.

Mayank Bathwal:

Thanks Kamlesh and I would like to now present the performance of our Health Insurance Business.

In H1FY24, we have registered a gross premium growth of 23% year on year, in line with the market. We have seen good traction in retail sales towards the end of the quarter and we saw an overall growth of 38.1% in Sep 23 against the SAHI growth of 22.9%. Post the changes we had done in our channel strategy in the first half of the year we now expect the growth traction to continue.

Our Market share in SAHI has improved from 10.4% in FY 23 to 10.7% in H1 FY24.

We saw good traction in our larger retail channels, with the proprietary channel growing at 34% backed by the capacity additions in over the last 12 months and a focused geography strategy. The share of proprietary channels is now close to 30% compared to 25% (H1 FY23). Our advisor count crossed 1 lacs for the first time, demonstrating the large scale of the Agency channel.

Our focus on driving superior product mix has led to contribution of Fixed benefit products growing from 12% in H1 FY23 to 16% in H1 FY24, which will positively impact profitability in the forthcoming quarters.

We continue to add new capacities in Bancassurance channel with the onboarding of YES Bank. Activation of new partners added in the last few months will support our retail business growth.

Our Corporate business grew at 37% year on year, driven by our strong focus on profitability. This is enabled by sharp selection of customer segmentation, cross sell/upsell business, corporate wellness and the industry leading OPD business. We continue to focus on Mid Corporate and SME segments to create a sustainable and profitable Corporate and affinity business.

By prioritizing both growth and profitability, we are building a resilient franchise.

Our Net loss has reduced to Rs 140 Crs from Rs 149 Crs in same period last year. Claims and expense ratios have trended well overall at a company level. Our CoR for H1 FY24 is higher compared to same period previous year, mainly due to the impact of seasonality of growth over the last 12 months. We expect the CoR to normalize in the coming quarters.

As a tech and digital-enabled data-driven health-first business, we remain committed to investing on a sustained basis in our tech and digital capabilities. Our digitally powered scale hyper personalized engagement allows us to gain deeper insights into our customers, accessing a wealth of health and lifestyle data. Our App downloads have increased by 67%YoY and our monthly average users have also grown by 35% YoY. Self-service transactions stand at 79% now compared to 67% in Q1.

Leveraging high-end analytics tools, we drive better business outcomes, enabling us to make informed decisions that positively impact our customers' lives. This involves personalized product offerings, targeted health and wellness interventions, and a personalized service approach, all aimed at enhancing overall customer experience. In addition, the investment in data augmentation and analytics is helping improve our cross sell, retention and fraud, waste and abuse management.

We continue to bolster our digital health and wellness ecosystem which now has 60+ partners and we are now working with multiple insure techs and health tech players to enhance customer value and operational efficiency. We launched a first of its kind digital face scan based health assessment feature to augment customer health data, working with a health tech partner. It now contributes more than 15% of the total Health Assessments, signaling good acceptance by customers.

Looking ahead, given the compelling opportunity, and enabling regulatory environment, we remain optimistic on the growth potential of the health insurance industry. Our vision is to expand our franchise aggressively while maintaining best-in-class unit economics and a clear focus on profitability.

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

Vishakha Mulye:

Thank you, Mayank and this concludes our comments on Q2 FY24 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. We have a first question from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla:

Thank you. Good evening everyone so the first question I have is on the personal and the consumer segment with the average ticket size of Rs. 33000. Now we get a lot of queries on the bureau data which shows stress in the less than Rs. 50,000 category but when I look at our earnings the GS3 has been stable Q-o-Q. So there does not seem to be any kind of stress in our portfolio, so can you talk about the early delinquency trends in this quarter and any action we have taken on the customer cohorts for the new sourcing in this segment?

Rakesh Singh:

So if you look at it Anuj, our unsecured and personal consumer loans with ticket size less than Rs 50,000 and tenure less than 30 days is only 1% of our total loan book and unsecured personal and consumer loans with ticket size less than Rs. 50,000 and tenure less than 30 days which comprises BNPL through partners is only 2% of our overall loan book. So clearly I think the portfolio is very small for both these segments and in terms of what as you rightly mentioned our portfolio looks very stable but we have been monitoring this portfolio closely in terms of taking decisions, the tightening we are doing in our underwriting and we are tightening the scorecards. So all the indicators are looking fine at this point in time and we have no cause of concern but we have started tracking the leverage of these customers. So to give an example, of customers who are onboarded nine months back, 12% have now leverage which is one-and-a-half times of what they had nine months back. So clearly we are tracking the leverage of these customers also and keeping a very close watch on this portfolio. So very calibrated growth or business is what we are looking at in this segment.

Anuj Singla:

Got it Rakesh. Thank you very much and the second question is on the sourcing from the digital ecosystem partners. Now one of the peers today commented that the delinquencies in this portfolio sourced through the digital ecosystem of the fintech partners are higher versus traditional partners. Can you talk about your experience here in your portfolio and secondly there is a slide here as well where you mentioned that you are using the customers acquired through the digital ecosystem for cross-sell. So can you talk about the cross-sell rate what have we achieved till now?

Rakesh Singh:

So, I think the cross-sell is almost 40%+ of the new personal loans which comes through these consumer loans, so that is our cross-sell conversion. Your first question in terms of what we are seeing through the digital partners so again we are not seeing any deterioration in terms of credit quality. Yes we have calibrated. If you look at our personal and consumer loans, in Q4 was growing at 21% Q-o-Q which came down to 15% Q-o-Q and then in last quarter it has come down to 9% Q-o-Q. So we are calibrating and we are really tightening wherever we need to take proactive measures we are doing it. At this point in time we do not see any deterioration and the portfolio looks quite stable but we are being very proactive in terms of through the door analysis, looking at the bounces, looking at the resolutions and in terms of the leverage as I mentioned earlier we are looking at it very closely and taking calibrated calls in terms of doing business.

Vishakha Mulye:

Anuj one more point is that I am not sure what the others are doing but as far as we are concerned as we said in our remarks that we follow an 'Omni channel approach' So irrespective of the fact which channel the customer approaches, as far as our credit standards and underwriting standards are concerned they are identical. So that is a very important point which is there. So even though they come through the digital channel for us, we treat them like any other channel and our underwriting standards are same across our channels so that also kind of helps us to manage. So it is not that because it is coming from one particular channel that our asset quality is not as good as it is from our own channel or through a DSA channel or through a direct channel and of course as Rakesh said that we are very proactively managing this portfolio wherever required we are also tightening it out.

Anuj Singla:

So Vishakha would it be fair to assume that the delinquency trends irrespective of the challenge will be quite similar so, not exactly it will be similar across channels?

Vishakha Mulye:

Yes, for the similar customer segment it is identical.

Anuj Singla:

Got it and the last question is on the capital. So while we injected capital in the NBFC in this quarter like Vijay mentioned, the Tier-1 is still 13.8 & capital adequacy is 16.3 and this business has been growing impressively and I think the trajectory also remains strong so how should we look at the capital requirements of this business maybe over the next two years?

Rakesh Singh:

So, Anuj we raised Rs. 3000 Crores of capital if you recollect during the month of June which at a franchise level we are confident that it will suffice us for two years which is closure of FY25 and within that a large part of the allocation will continue to go towards our lending businesses so we see the trajectory clear and for next two years we are sufficiently funded.

Anuj Singla:

Got it. Thank very much

Moderator:

Thank you. We have our next question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal:

Good evening, everyone and congratulations on a good quarter. Just wanted to understand though we have already spoken about personal loans, consumer loans and business loans what we are doing aside that we are calibrating I just wanted to understand given that we have a fairly good tie-up with some of the Fintechs digital players, we have good number of partnerships in the digital ecosystem through which you source personal loans, so have you had a chance to check what proportion of your personal, consumer or unsecured business loans is being originated through this Fintech ecosystem and likewise what is the average ticket size of these loans and currently as on September what was your gross stage 3 in this portfolio?

Rakesh Singh:

A total of Rs. 19200 Crores which is our personal and consumer. The consumer which is around Rs. 4200 odd Crores which is 22% of our retail and consumer business that is where the digital partnership really plays out and I also mentioned about the proportion and the percentage of less than 50,000 ticket sizes in our overall portfolio which is less than 50,000 and more than 30 days is only 1% of our overall portfolio so that is how it is Abhijit.

Abhijit Tibrewal:

Got it and currently in these loans like you said consumer is predominantly the portfolio originated through digital partnerships, what is the gross stage 3 numbers that you are seeing right now?

Rakesh Singh:

If you look at the asset quality slide which is there, slide number 15 if you look at both at our Stage 2 and Stage 3 is quite stable including Stage 2 and Stage 3 last quarter was 4.1% and this quarter also it is 4.1% and if you look at 2.1% was the Stage 2 and 2% Stage 3 so it has been very, very stable now.

Abhijit Tibrewal:

Got it so essentially this entire consumer portfolio that you are talking about is it fair to assume large part of it is originated through digital partnerships?

Rakesh Singh:

Consumer business and apart from that some ecosystem and internal ecosystem and all also but yes these are small ticket loans.

Abhijit Tibrewal:

Got it and just one last question just trying to understand because our asset quality is still holding up very well and the fact that you have already shared that you have already calibrated your underwriting are you not seeing any Fintech partners where you are evaluating whether we should continue that partnership or whether you should not in other words what I am trying to understand when there is so much that is being discussed at the industry level there are no early warning indicators that you are seeing in your consumer portfolio at this point in time?

Rakesh Singh:

We review these portfolios on a regular basis and on a weekly basis, we have a monthly cadence with our partners. We review the portfolio, whichever cohort partnerships or segments which are not looking good we close it and tighten it then and there. So it is not about that so we would have taken a call maybe 12 months back or 15 months back with few of the partners quite a few partners so this is an ongoing process we keep reviewing this, so you are right there are certain partners where the portfolio quality might not be good but we do not wait for long. We take a decision then and there and we just tighten it or stop that partnership and there are lot of examples where we have stopped doing any business with them.

Abhijit Tibrewal:

Got it. That is all from my side. Thank you so much and all the very best to you and your team

Moderator:

Thank you. Our next question is from the line of Parag Thakkar from Anvil Wealth. Please go ahead.

Parag Thakkar:

Basically my question is what kind of margin picture you see and RoA picture you see on the NBFC side as well as housing finance side because generally we are seeing this new moderation across the sector in the lending space and the other point is that as everybody is alluding to the asset quality which is related to Fintech or digital partnerships so what kind of red flags are there in your system for example bounce check rate or whatever if you can highlight will give us comfort that on the consumer side especially in the digital partnerships and Fintech our asset quality will remain robust?

Rakesh Singh:

So Parag I will just address the NBFC and then I will ask Pankaj to add for the housing but in terms of the margins I think first point was the margin so if you look at our cost of funds went up by 14 basis points sequentially, though our yields improved for the quarter but because cost of funds went up that is the reason why the margin is in the same range and we are quite confident that with the change in the product mix we will be back to the normal margins which we have delivered previous quarter and whatever we have committed going forward so with the change in the product mix we should be able to. Also, we believe that we are at the fag end of the increase in cost of fund and once that stabilizes the change in the product mix will start really delivering the improvement in the margins so that was your first question.

Parag Thakkar:

Sir our guided range is about 6.5% to 7% NIM and 2.5% to 3% RoA?

Rakesh Singh:

Yes so 2.5% RoA is what the last quarter also we delivered 2.54% and this quarter also is in the same range 2.51% very similar range so I think we will continue and deliver these RoAs and continue to as our commitment is we will continue to improve the RoA over the next couple of years.

Parag Thakkar:

Great and what was your loan book based on the economy and based on the economic momentum what kind of loan book growth you envisage in the NBFC will come to housing later on your NBFC PAT what kind of loan for example this quarter I think you have grown about 44% right?

Rakesh Singh:

Yes Parag.

Parag Thakker:

So, what kind of sustainable growth we can assume with improvement in RoA trajectory as you rightly said in the coming two years I would say?

Rakesh Singh:

So Parag again if you look at we invested in our distribution, we increased our branch footprint, if you look at our branch two years back was 119 branches that has gone to 375, we are looking at 500 odd branches, we have increased our headcount in terms of manpower, so we have built in the capacity and which is what is playing out but yes going forward the growth will be slightly moderated if you compare to what we have delivered last quarter. Our guidance which we have always given is that we will double our book in the next three years and that is what we are really working to deliver.

Parag Thakker:

With this improvement in RoA from 2.5% to say what level in next two years, I am just asking about the approx numbers not necessarily I will hold on to that, RoA improvement as you are saying from 2.5% so what kind of RoA we are targeting in next two years, we are doubling our two and three years RoA?

Rakesh Singh:

So, Parag our committed guidance on this front is that we will double our book in the next three years and we will improve our RoA to 3% in the next three years with the change in the product mix and improvement of margins.

Parag Thakker:

Correct perfect and second question was on the red flag how do you see for example if there is a loan given through a digital channel how do you see that there is a red flag, and this zone can turn bad so what is the first check, it is the bounce rate right?

Rakesh Singh:

So, Parag I mentioned earlier I think we are tracking the leverage. See when we give the loan we know what is the kind of debt the customer has because you have access to the credit bureau score and everything but post that how many more loans a customer takes and increases the leverage and debt I think that is what we are really watching very closely and I mentioned that 12% of our customers over the last nine months we have seen that their leverage has gone up by one-and-a-half time so we are tracking these customers this 12% of the customers we are tracking it very closely and we will continue to track the customers where leverage is going up. Also, we track the vintage delinquency very closely and as I said the first indicator is the bounce rate and our bounce rate is still improving and it is quite stable so I think that is the first indicator, things are looking stable and we will continue to monitor very closely the leverage, the vintage delinquency and all these parameters we will continue to look at very closely.

Moderator:

Thank you. Our next question is from the line of Shloka from Carnelian Capital. Please go ahead.

Kunal Shah:

This is Kunal here. I had two questions. One was on this corporate and mid-market book we have had a very good growth of about 37% on year-on-year basis and 8% on quarter-on-quarter basis so within this construction finance from about Rs. 4000 odd Crores it has gone up to like Rs. 5500 odd Crores right so two questions to this part one was specifically on construction finance what kind of lending is this and to help understand the growth that is coming here and second on the overall corporate and mid-market how do we see the growth in this particular segment is the competitive intensity out there which will kind of impact the NIMs going ahead, some highlight on this particular segment of the overall book growth would be really helpful?

Rakesh Singh:

If I can address that, then maybe you can ask the second question so if you look at the developer finance Rs. 4200 Crores which went to Rs. 5300 Crores to Rs. 5400 odd Crores we had growth of Rs. 1000 odd Crores in that portfolio. This is a very, very stable portfolio for us. See the drawdown in this business is dependent in terms of how the project is moving and when the requirement is so that is the reason I think the drawdown in this quarter has been slightly higher and majority of our exposure in this portfolio is to category A developers across the country primarily focused on Mumbai, Pune, and Bengaluru. So these are the three markets where our prime exposures are and it is a very stable and well performing portfolio for us. On the mid-market and corporate see again corporate book is looking very good at this point in time. The corporate portfolio and the leverage with the corporate businesses are looking very good. We are looking at a very calibrated growth in this business, our growth drivers will remain retail and SME and, in this business, we will not miss an opportunity but clearly the growth drivers will be retail and SME.

Kunal Shah:

Got it and in the construction finance is there a concentration and again it is kind of spread out about Rs. 1000 Crores increase and if I compare it from last year so from Rs. 3,000 to almost doubling of the book to about Rs. 5500 so is there concentration here or it is fairly diversified between the lenders and between the projects or how is it?

Rakesh Singh:

These are very well diversified. See last year's comparison, it was coming out of COVID, and a lot of projects were slow at that point in time. If you look at just before COVID also our portfolio used to be Rs. 4000 crore+ so from that point of view there is no significant over the two to three years because the construction activity was slow that is reason the portfolio has come down. But now the real estate has picked up and construction activity has picked up so that is the reason you see a uptick in this and it is quite well diversified as I mentioned category A developers primarily focused on Mumbai, Pune and Bengaluru, yes some amount of Hyderabad but primarily these are the markets which we really cater to.

Kunal Shah:

Got it interesting. The other question that I had was again in the NBFC that the active customers number for the last four quarters has been more or less hovering around the same number but we have had robust growth when it comes to the unsecured piece, the personal and consumer loan piece, so how should one read this while active customers number more or less remain the same in the last four quarters if I read the numbers correctly but then we have had robust growth on the asset side so how should one read these two data points together?

Rakesh Singh:

We mentioned this we are looking at a very well calibrated business with our digital partners so small ticket loans you have been that has come down I mentioned it to you that in Q4 it is 21% and 15% then 9%, so it has been coming down. We are really looking at mining the existing customer base and cross-selling on to the existing customer base, the customers who are performing well, so our clear focus is that we cross-sell to the existing customers and we are churning the small ticket wherever very calibrated in terms of so that is the reason why you see though customers in terms of customer acquisition would be higher but active customers has been slightly and because that is a very, very strategic call which we have taken in terms of calibrated growth in this segment.

Kunal Shah:

No but if I understand correctly cross-selling would be of different products the other businesses that we have that would be something which we will be cross-selling particularly about the NBFC customer base growth and the loan book growth?

Rakesh Singh:

Again, I think cross-sell is maybe not the right term. Upsell is the correct term. So a consumer loan customer who comes and once we see and track the performance of these customers then we upsell a personal loan so a consumer loan customer moving to a personal loan, but the number of customers is not increasing.

Kunal Shah:

Basically average ticket size for one customer is going up there could be different segments of loan for that particular customer and therefore the active customer base is not going up but the loan book growth would be right to understand average outstanding for one customer going up in the last few quarters is one of the reasons which is driving growth is that the fair understanding then?

Rakesh Singh:

Yes, that is a fair understanding.

Kunal Shah:

Fair enough. I will join back in the queue. Thank you.

Moderator:

Thank you. Our next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu:

Good evening. I just had two questions. Firstly, what were the write-offs in the NBFC book this quarter and the prior quarter?

Rakesh Singh:

Prior quarter was Rs. 419 Crores and this quarter is Rs. 369 Crores.

Bhaskar Basu:

Which of the segments is the write-offs coming from?

Rakesh Singh:

Primarily it will come in the small ticket unsecured loan.

Bhaskar Basu:

My second question was basically within the Rs. 19000 Crores of personal and consumer loan book what percentage is basically Fintech originated I think you answered to it in the earlier question but especially in the cases where the loan is originated at the Fintech and you subsequently also kind of upsell them to PL that would also part of Fintech originated loan so what proportion of the total book would be Fintech originated?

Rakesh Singh:

So, Bhaskar we mentioned this most of the Fintech origination comes in the consumer segment where we acquire customers which is the small ticket loans in the consumer segment.

Bhaskar Basu:

Because my understanding is a lot of this upsell loan effectively again goes back to the Fintech in a way right so that is where I am coming from?

Rakesh Singh:

So, Bhaskar that is I think we have an analytics team, and which builds the score card and all. The majority of the customers the upsell is done by us, in certain cases if it is done by the partner there is fee to it with a commercial arrangement which is there with them. That is how the arrangement is.

Bhaskar Basu:

So, do you kind of approach the customer directly or through Fintech?

Rakesh Singh:

Again see the score card and I think Vishakha also mentioned this we have a clear Omni channel in terms of our score card which is very, very similar even we acquired for the same customer segment and for the same ticket size will be acquired through direct or through the digital partners so all of the score cards and BREs are built on our system and by us.

Bhaskar Basu:

Where do you kind of reflect the FLDG or the performance guarantee, etc., for some of these Fintech arrangements where in the P&L does it come in?

Rakesh Singh:

We have two partners where we have signed FLDG. We are factoring in others. It's very early days but yes.

Bhaskar Basu:

No FLDG on your arrangements is that a fair understanding?

Rakesh Singh:

So, the way it happens is like recovery so if the FLDG is recovered it will be shown as a recovery.

Vishakha Mulye:

So Bhaskar as you know there were various eras of digital lending so there was a FLDG era after that the digital new guideline of RBI came where we moved to that lending where FLDG were not allowed but as we had explained before it gets adjusted in the lending rate and the fees that we pay to our digital partner. Recently RBI has again come up with a guideline according to which 5% we can have FLDG. We are engaging with our partners. In terms of two of our partners we have kind of concluded and moved to an FLDG kind of an arrangement. In terms of accounting the way it happens is FLDG is recovered in cash from the partners and therefore that is considered as a recovery. It is actual cash that you collect on FLDG, and it is considered as recovery and therefore is booked in the provision item as a write back. We do it on a cash basis when it is never accrued. You receive it and only then it gets booked as a write back so that is how it happens, but it is not since the guideline is quite new and just six to nine months back the whole system has moved from an FLDG era to a normal lending era. Again, going back, it involves a discussion, it involves a negotiation and actually implementation on the ground which is what is happening right now.

Bhaskar Basu:

Understood thanks.

Moderator:

Thank you. Our next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe:

Thanks for taking my question. The first one for Pankaj and if I look at the housing business yields, the yields have been sort of flattish or in fact have gone down a little bit sequentially how should one read this and some of the players have been kind of talking about increasing competition in the space so maybe if you could share some thoughts on that and even for that matter any slowdown in demand that you will be seeing in the prime segment?

Pankaj Gadgil:

So the question is around the Effective interest rates so like you rightly said I think the rates that you are having in Q1 was 11.56% EIR which is now about 11.37% EIR that is where the year is so here like you know is obviously will come down because of compression of the margin, because we had the ability of passing on the rate that was increased on the repo side into our customers last year so to a point that you had increase of repo rates obviously they were passed on but on our side of it the banks which lend to us obviously there is a lag in terms of they are passing on the increase in rates to us. Now I see that cycle is almost kind of come to an end so in my assessment one compression has happened because of the cost of funds which has gone up but like you would have seen that amongst all the housing finance companies our cost of borrowing will be amongst the top of all time, clearly because of our ability to borrow being AAA as well as our NHB contribution you would have also seen which has gone up to about 21% versus 16% so that is one side of the story. The other side that is there is that how this will play out is that while the yields are getting a bit compressed on that side for us really the RoA tree has two other functions which is of course the credit cost and also the cost to income ratios and I think you would have observed that the credit cost have significantly come down which is coming at the back of very smart positions and I would say a very smart recovery we have seen in Stage 2 and Stage 3 also shown so sequentially also the Stage 2 and Stage 3 had come down and of course Y-o-Y it has come down very handsomely so that is really helping us on the credit cost. It is coming at the back of good quality of sourcing. We speak about the 96% sourcing that we have which is 700+ and also NTC. It is also the reflection of the pre-delinquency management that we do and of course the in-house collections, so on that count I think in my assessment of course they have slightly come down over Q1, but I think it should be broadly stabilized here. Yes, the market is very competitive. It is of course eating up but I think efficiencies are entire stack on the digital which has gone like is also going to bring in more operational efficiencies which would help us in recalibrating the cost and that should ensure that the RoA is within the range that we are today at and will remain rangebound in that zone of between to 2% to 2.10% that is where we are.

Nischint Chawathe:

Sir you mentioned the borrowing cost in the upper quartile but what was is the marginal cost of borrowing for the quarter I am not sure if I could see it anywhere in the presentation?

Pankaj Gadgil:

So, when I said among the best so it is not among the highest, I just want to reconfirm that so that is among the best so broadly the cost of funds will be in the range of about 6.5% for the company. Anyways on the background of our ability to borrow at best rates on the market being a AAA consistently in the last five years and also as you will know we have a decent contribution of affordable refinance so that helps you to improve the overall cost of funds.

Nischint Chawathe:

Thanks for that is helpful. Just quickly moving on to the life insurance business I am just trying to understand most of the players have at this point of time reported a compression in margins while you have reported a fairly healthy 200 basis point sort of expansion what kind of explains that and if it is just a product mix then what kind of an optimal product mix are you looking at?

Kamlesh Rao:

So, our product margins if you look at through the year actually go up so the buildup happens through the year. If you look at last year's same point of time, we would have been at about 12.5% range and ended the year at about 23% and that is the pattern that you will see in the first half of this year. The expansion is essentially on account of maintaining our traditional book mix. We have seen some uptake on the business that we are doing on the protection side but also because we still continue to reap the benefits of higher productivity as compared to what we got last year largely in our proprietary channels and direct channels we are seeing the uptake. As I said we aim to maintain our guidance for the end of the year to be like last year, when we were at

23%, we will be around that range of 23% to 24% margins given by the end of this year.

Nischnit Chawathe:

But is it that margins in proprietary channel are higher than that of partnership and that will grow faster?

Kamlesh Rao:

It depends on what state and what size you are building on the proprietary. I think in general the answer to that question should be a yes but even in partnerships depending on different cohorts, depending on what bank relationships you have, and depending on what size some of them contribute, a lot of them functions in respect of what kind of investment that you have put in, so some of the small banks would have as value lucrative margins as what I am seeing on the proprietary side. It depends on if it achieves scale, it could be a combination of your volume as well as margin game but yes proprietary would have a tendency of bringing significantly larger value lucrative margins in the business.

Nischint Chawathe:

Thanks, and my final question to Mayank what explains the increase in combined ratio?

Mayank Bathwal:

Yes, as I said that is the seasonality of the growth because last year our group business grew more in the first half of the year. It will start normalizing from Q3 because individual components are all trending well. Our retail loss ratio is going down, our corporate loss ratio is in line with what we have quoted and therefore it is a profitable segment. Our expense ratio is just so because of the N/2, so if I look at N/365 each component is going very well.

Nischint Chawathe:

Towards the end of the year probably improve a bit, is what you are saying?

Mayank Bathwal:

It will. It will start seeing the change in Q3 itself.

Nischint Chawathe:

Perfect. Thank you very much and all the best.

Moderator:

Thank you. Our next question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shuhranshu Mishra:

Thank you for the opportunity so I think there have been quite a few questions around the personal loan and the consumer loan part I just want to know what is the outstanding number of loan accounts in that and what was this a year ago and how many of these customers have two or more trade lines when you onboard them?

Rakesh Singh:

We will get back to you on this Shubhranshu.

Shuhranshu Mishra:

Sure, and also if we can have some sort of a zero plus or roll back rates for this because the average ticket size is too low to be adjusted in gross Stage 3 and those kinds of numbers so if we can probably publish that as well?

Vishakha Mulye:

Thanks. We will consider Shubhranshu.

Shuhranshu Mishra:

Sure, and just because you did not answer any of my questions you mentioned that you are going to do something like FLDG what does like FLDG mean, you either do FLDG or you do not do FLDG?

Vishakha Mulye:

No. We will have to do FLDG. As I said there were different guidelines of Reserve Bank of India where there was FLDG before. Then they came with a digital lending guideline where they prohibited FLDG and now they have again allowed FLDG up to 5% of the total things so what I said is that we will engage or we are engaging with our digital partners to see whether we can get into the old arrangement which is in line with the Reserve Bank of India guidelines so if we do FLDG it will be exactly according to the Reserve Bank of India guidelines.

Shuhranshu Mishra:

Right and these Fintech partners includes Paytm where we will do FLDG?

Vishakha Mulye:

Paytm is one of the partners

Shuhranshu Mishra:

Sure. Thanks

Rakesh Singh:

On your question number of customers, it is 59,37,141 customers.

Shuhranshu Mishra:

That is in the personal loans?

Rakesh Singh:

You want personal loans?

Shuhranshu Mishra:

Yes, only personal loans.

Rakesh Singh:

I will give you that as well. I will share that with you. I think separately I can share that.

Shuhranshu Mishra:

Sure. Thanks

Moderator:

Thank you. Ladies and gentlemen that was the last question of our question and answer session. I would now like to hand the conference over to Ms. Vishakha Mulye, CEO, Aditya Birla Capital Limited for closing comments.

Vishakha Mulye:

Thank you everybody for joining us today evening and Happy Diwali to all of you and your families. Look forward to be in touch. Thank you.

Moderator:

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

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