Aditya Birla Capital Ltd. (ABCL)

Q3 FY25 Earnings Conference Call Transcript

Feb 3, 2025

Moderator:

Ladies and gentlemen, good day and welcome to the Q3 FY25 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 any 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, over to you ma'am.

Vishakha Mulye:

Good evening, everyone and welcome to the earnings call of Aditya Birla Capital for Q3 of FY2025.

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

The Indian macro-economic environment remains very challenging with moderating urban demand, tight liquidity conditions, high capital market volatility, slow government capex offtake, weak private capex program and sharp depreciation in rupee. The GDP growth rate of the Indian economy declined sharply in Q2 FY25. While CPI inflation cooled down marginally in December, food inflationary pressures continue. RBI continues to maintain a "neutral" stance in monetary policy. In order to revive economic growth, boost consumption and demand, the government has announced various measures in the Union budget such as income tax relief for salaried individuals, increased credit guarantee limit for MSMEs along with various other measures aimed at rural and urban development, agriculture and infrastructure growth.

At Aditya Birla Capital, we continue to focus on driving quality and profitable growth by leveraging data, digital and technology. We follow a customer centric approach to build deep understanding of the needs of our customers and provide them simple and holistic financial solutions in a seamless way. Prudent risk management practices form the bedrock of our approach which has enabled us to protect capital and deliver risk-calibrated and sustainable returns across businesses. We also continue to strengthen our omnichannel based distribution network. Coming to the performance highlights for the quarter.

1. **Growth and profitability**

The consolidated profit after tax is 708 crore Rupees in the current quarter compared to 736 crore Rupees in Q3 last year. The total consolidated revenue grew by 10% year-on-year to 10,949 crore Rupees

We are focused on growing our portfolio with a strong emphasis on return of capital. Given the early warning signals and challenges in the operating and macro environment, as we had indicated earlier we have been calibrating our NBFC portfolio by reducing our exposure to smaller ticket size unsecured personal loans and increasing the proportion of secured business loans over the past few quarters. Further looking at the market opportunities, we have also accelerated the growth of our HFC portfolio. These steps have held us in good stead over the past few quarters where we have demonstrated strong asset quality trends with an improvement in stage 2 and 3 loans.

Our NBFC portfolio grew by 21% year-on-year and 4% sequentially to about Rs. 1.19 trillion Rupees. The secured business loans to SMEs grew by 37% year-on-year and 4% sequentially. The corporate and mid-market portfolio grew by 31% year-on-year and 7% sequentially.

The overall gross stage 2 and 3 loans in the NBFC business declined by about 60 bps year-on-year and remained flat sequentially at 4.25% as of December-end. Our gross stage 3 PCR was 45.6% as of December-end, at a similar level compared to the previous quarter. Our credit cost was 1.36% in Q3 which is well within our normalized threshold of 1.5%. We will continue to calibrate our portfolio with a focus on return of capital.

The profit after tax of the NBFC business grew by 5% year-on-year to 600 crore Rupees. The RoA and ROE were 2.10% and 13.87% respectively in Q3.

In our HFC business, we have built significant capacity over the past few quarters by making investments in digital properties, technology, people and distribution. I am delighted to share that we have crossed the monthly disbursement run rate of 1,500 crore Rupees. This has resulted in our HFC portfolio growing by 62% year-on-year to 26,714 crore Rupees as of December-end. The Indian housing sector continues to offer growth opportunities and is also aided by various government measures such as expansion of PMAY and investments in affordable urban housing. We believe the investments which we have made will enable us to capture these opportunities and further accelerate our growth in the HFC portfolio.

The credit quality in the HFC portfolio remains robust with gross stage 2 and 3 loans declining by 177 bps year-on-year and 45 bps sequentially to 1.77% as of December-end.

Moving on to asset management business:

Our mutual fund average AUM grew by 23% year-on-year to about 3.83 trillion Rupees in Q3 of FY25. The profit after tax grew by 7% year-on-year to 224 Crore Rupees.

Moving on to the insurance businesses:

The growth in the life insurance business continues to remain strong. The individual first year premium grew by 31% year-on-year in 9M of FY25 and we are among the top 3 players in private industry in terms of growth. We have commenced sourcing in Axis Bank counters and our mind share in Bank of Maharashtra and IDFC First Bank counters continues to grow. We continue to be in the top quartile in the industry in terms of 13th and 61st month persistency. As we had mentioned in our previous quarter's earnings call, we have taken steps to realign our commission structure, made changes in product pricing and increased rider attachments to mitigate the impact of the new surrender guidelines. These changes along with the high persistency levels have helped us to attain a VNB margin of 10.8% in 9M FY25. Our endeavour is to close FY25 with a VNB margin of about 17%-18%.

In the health insurance business, we continue to be the fastest growing standalone health insurer. Our gross written premium grew by 39% year-on-year in 9M of FY25 driven by our differentiated health first model and data-enabled approach towards customer acquisition. Our market share among SAHIs has increased by about 140 bps year-on-year to 12.0% in 9M of FY25.

2. Omnichannel architecture for distribution

Our omnichannel architecture allows customers to choose the channel of their choice and interact with us seamlessly across digital platforms, branches and VRMs, fostering engagement and loyalty.

Our D2C platform, ABCD, went live in April 2024. It offers a comprehensive portfolio of more than 24 products and services such as payments, loans, insurance, and investments and helps customers to fulfill their financial needs. Our motto behind the design of UI and UX of the app has been "Everything Finance as simple as ABCD". ABCD has witnessed a robust response with more than 4.1 million customer acquisitions till date. We are seeing strong traction in payments with more than 2.0 million VPAs created till date. We had mentioned in our previous quarter's earnings call that we will be launching a revised servicing app for our existing customers in the next three to six months. We are happy to share that this app has gone live in December. It has been built on a modular platform offering a unified and common servicing infrastructure across all our businesses and has a single sign on with ABCD. It allows us to leverage our existing customer base for cross sell and upsell.

Our comprehensive B2B platform for MSME ecosystem, Udyog Plus, continues to scale up quite well with more than 2.2 million registrations. Udyog Plus has reached an AUM of 3,300 crore Rupees and it now contributes about 25% of the disbursements and the total portfolio of the unsecured business loans. We have further enhanced our integration with the ABG ecosystem to provide credit and supply chain financing solutions to dealers and vendors. ABG ecosystem now contributes about 50% of the disbursements on Udyog Plus.

We have more than 2 lakh channel partners and we deeply value the vital role that they play in distributing our products. Our B2D digital integrated platform for our channel partners, Stellar, has gone live in January. It offers them a consolidated "One View" dashboard of their business. It helps them to manage their leads and track them till conversion and enables them to grow their business volumes. It will help us to increase our product penetration among existing customers.

We had 1,482 branches across all businesses as of December-end. We are focused on capturing white spaces and driving penetration into tier 3 and tier 4 towns and new customer segments. About 60% of our branches are co-located across more than One ABC 240 locations.

3. **Strategic initiatives**

Our Board of Directors approved an amalgamation of Aditya Birla Finance with Aditya Birla Capital in March 2024, subject to regulatory and other approvals. We are happy to share that the proposed amalgamation has been approved by the shareholders in January. We have made an application before NCLT Ahmedabad and expect the amalgamation to get completed by March 31, 2025.

Going forward, we will continue with our approach of driving quality and profitable growth.

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

Rakesh Singh:

Thanks Vijay, and good evening, everyone.

In our NBFC business, we saw a 21% year-on-year and 4% sequential growth in our AUM, taking it to Rs 1,19,437 Crore in Quarter 3. We continue to focus on the MSME segment and the business loans to MSMEs grew at 32% year-on-year which is better than the industry. This segment continues to comprise 55% of our overall portfolio and is a focus area of growth for us.

Our disbursements in Quarter 3 were Rs. 15,233 Cr of which 36% was contributed by secured business loans to MSMEs. More than 53% of our sourcing in business loans is done via direct channels and we foresee this to inch upward with continued scale-up of our B2B platform for MSMEs - “Udyog Plus”. Number of MSMEs using Udyog Plus have been sequentially increasing and we now have more than 22 lakh MSMEs registered on the platform up from 16 lakh registration as of last quarter. More than 20% of disbursements in unsecured business loans segment in quarter 3 has been sourced through Udyog Plus platform.

In personal and consumer loans segment, the industry continues to witness a slowdown in growth to 13.8% year on year in H1 FY25 compared to near 30% growth levels for the same period last year. This drop is largely driven by caution on high-risk segments, and given the tightening measures we have pursued earlier in the year, our growth in this segment will continue to be calibrated.

Given the changes in the macro environment, we took advantage of the market opportunity to tactically calibrate our portfolio mix by reducing our exposure to smaller size unsecured personal and consumer loans and increasing the proportion of secured business loans over the past few quarters. In fact, 80% of disbursements to MSMEs in Q3 has come from the secured business loans segment which has grown by 37% year-on-year and the segment mix has improved to 83% compared to 80% last year. As a result, the overall secured portfolio at an entity level has improved from 69% last year to 74% in Q3 this year . During the last one year our portfolio mix has undergone a change where share of loans to MSMEs increased to 55% in Q3 from 50% an year earlier. Share of personal and consumer loans to overall AUM now stands at 13% as compared to 20% last year.

We continue to operate at very efficient cost income ratio of 31.2%. Our Opex to AUM ratio improved to 1.90% in quarter 3 from 2.24% last year, and this has largely been driven by operating leverage as we continue to sweat the new branches opened in last 12-18 months to scale distribution. The credit cost has increased by 11 bps quarter-on-quarter to 1.36% which is well within our stated guidance of 1.5%. PAT for the quarter grew by 5% year-on-year and stood at Rs. 600 Cr. The ROA for the quarter was 2.10%.

We continue to closely monitor our portfolio and the asset quality continues to remain strong. The Gross Stage 3 loans are at 2.27% which have declined by 32 bps year-on-year. Our Stage 3 book is well provided for with a PCR of 45.6%.

Moving forward, we remain focussed on developing a granular portfolio and increasing the mix of business loans to SMEs. This will be supported by the scale up of our Udyog Plus platform with new product offerings and increased investment in distribution across emerging regions, aimed at driving growth. In the personal and consumer loans segment, we continue pursuing the strategy of acquiring customers through platform-based approaches via our branches, ABG ecosystem, and ABCD App. All digital customer acquisition processes on the App and Udyog Plus are designed for end-to-end control, covering everything from underwriting to collections, ensuring complete customer ownership. As we scale up, strengthen our capabilities, and invest in technology, our primary commitment remains to deliver sustainable returns in the upcoming 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'll now present ABHFL's performance for Q3 FY25. We have achieved all-time high disbursements for the sixth consecutive quarter, reaching ₹4,750 Cr. Business from ABG ecosystem has contributed 13% of retail disbursements, up from 9-10% in the recent quarters. GNPA has now reduced to below 1%, marking a consistent decline in absolute GNPA and reaching its lowest level in the past 15 quarters.

The key highlights for Q3 FY25 are as follows –

- We recorded highest ever quarterly disbursement of ₹ 4,750 Cr, which is an increase of 136% YoY & 18% QoQ
- Our AUM as of Dec'24 stands at ₹26,714 Cr., an increase of 62% YoY & 15% QoQ
- Our customer base is now at ~82,300 and has grown by 36% YoY, with the average ticket size of retail segment at ₹ 28 lakhs
- We also recorded the highest ever PBT of ₹ 110 Cr, which is an increase of 10% YoY
- Stage 2 & 3 has reduced to 1.77%, which is a reduction of 177 bps YoY & 45 bps QoQ
- ROA for the quarter is 1.42% and ROE is at 10.66%

For more detailed financial information, please refer to slide 28 of the presentation.

I would now like to provide a brief update on a few pillars of our growth:

First on portfolio quality, as mentioned earlier Gross NPA has reduced both in absolute and percentage terms, which is at 0.99% in Q3FY25, a reduction of 119 bps YoY & 30 bps QoQ.

For more details on portfolio quality, please refer to slide 26 of the presentation.

Focusing on Digital Reinvention, data, and analytics, we have leveraged technology and data remains central to our strategy, as reflected in the growing platform adoption and initiatives like account aggregator, now at 35%+.

We have successfully implemented several models across the customer journey, from demand generation to collections. Application score card and collections score card have already started delivering gains reflected in the portfolio quality.

Lastly, in terms of our liability management strategy. With a competitive COB of 7.77%, the company's borrowing profile continues to be well diversified & cost effective. I am happy to share that we have successfully raised NCDs amounting to ₹ 830 Cr from IFC in Dec'24. These funds will be utilised towards providing housing loans to low-income and middle-income groups, with a particular focus on encouraging home ownership among women. A portion will also be allocated to supporting MSMEs, especially women-led enterprises, to drive growth and economic progress.

We continued to demonstrate strong performance across all areas, including book growth, digital transformation, asset quality, and liability management.

Thank you for your attention, 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 ABSLAMC for Q3 FY25.

- At ABSLAMC, our Overall Average Assets under Management, including alternate assets stood at Rs. 4 lakh crores, reflecting a 23% year-on-year growth.
- Our Mutual Fund quarterly average AuM reached Rs. 3.84 lakh crores growing 23% year-on-year. The quarterly Equity average AuM stood at Rs. 1.79 lakh crores growing by 32% year-on-year.
- Our SIP book grew by 38% year-on-year from Rs. 1,005 crores in December 2023 to Rs. 1,382 crores in December 2024. We also added around 6.70 lakh new SIPs, a 3x increase compared to the previous year.
- Our total investor folios stood at 1.05 Crore with around 24 lakh new folios added during the 9M FY25.
- The uptick in equity investment performance, driven by improved perceptions and stronger narratives, has helped us gain traction in equity net sales during the quarter.

- During the quarter, we launched ABSL Conglomerate fund which garnered Rs. 1,375 crores. We also conceptualized and launched Industry first 3 - 6 months index fund which has garnered Rs. 715 crores.

The Retail sales team is focused on driving deeper market engagement and building lasting impact through key initiatives like-

- Yashaswi – for empowering women MFDs
- Fulcrum – for equipping MFDs with tools to build high-performing teams and drive growth
- Legacy Leap – for sharpening the skills of the next generation of MFDs.

Together, these initiatives will help us create a long-lasting impact across the retail sales channel.

On the Alternative business front, to meet the growing needs of HNIs and family offices, we continue to strengthen our team and enhance our PMS and AIF offerings, both in Equity and Fixed income.

- Our PMS/ AIF assets grew by 44% year-on-year from Rs. 2,671 crores to Rs. 3,853 crores.
- Our Offshore assets, grew by 28%, from Rs. 9,894 crores to Rs. 12,686 crores.

In line with our vision to scale the Passive business, we continue to offer a diverse product portfolio to our investors, delivering strong returns. As of December 2024, our passive assets totalled Rs. 31,600 crores, with a customer base of over 10.68 lakh folios. With 52 products currently available, we plan to expand further with new fund launches in the coming quarters.

Moving on to the financials for the quarter -

- Our quarterly Revenue from Operations was at Rs. 445 crores v/s Rs. 342 crores in Q3 FY24; up 30% year on year.
- Our quarterly Operating Profit was at Rs. 262 crores v/s Rs. 184 crores in Q3 FY24; up 42% year on year.
- For 9M FY25, our Revenue from Operations was at Rs. 1,256 crores v/s Rs. 988 crores for 9M FY24; up by 27% year on year
- For 9M FY25, our Operating Profit was at Rs. 710 crores v/s Rs. 528 crores for 9M FY24; up by 35% year on year.

Thank you With this I will now handover to Kamlesh Rao, MD and CEO of ABSLI company.

Kamlesh Rao:

The overall Life Insurance Industry saw a robust growth in the 9M FY25 period, Individual first year premium grew for the Overall industry by 14% and for the private players by 19%. For ABSLI during the same period the growth was at 31% with healthy growth across proprietary and partnership channels. Our new business policies have grown by 28% till YTD Dec’24.

For ABSLI the proprietary channels saw a robust growth of 34% in YTD Dec’24 on the base of both better productivity and capacity. Our new tie-ups in Bank of Maharashtra and IDFC Bank continue to have positive traction every quarter and Axis Bank is expected to touch close to 100 cr by the year end. These combined with our existing 8 bank partners saw growth of 30% in YTD Dec’25 for ABSLI.

In the Group Life Insurance segment, the private industry grew by 9%, overall Industry grew by 7% in 9M FY25 and ABSLI registered a growth rate of 32%. Better growth was contributed by superior performance both in the Fund as well as the Credit Life Business. Our Group AUM is around 25,880 Crores as on Dec’24 and contributes to ~27% of ABSLI overall AUM.

Our total premium for the year at ₹ 13,605 crore has registered a growth rate of 23% over last year same period, with a 2-year CAGR of 16%. This growth came from new business as well as renewal premium growing at 13%. Our digital collections now account for 82% of our renewal premium. We continue to work on Customer Lifetime value, which is reflected in our upsell ratio which reached 28% and helped productivity growth in both proprietary and partnership channels.

In the product mix of the individual business, traditional business including protection contributed 65% and ULIP was 35%. In the credit life space, we have slowed down our micro finance business counters whilst growth is being observed in all other retail counters. Our Captive businesses attachments have grown significantly in the last 9 months of this year

Our quality parameters continue to trend better across all areas. Persistency across all buckets did well in the 13th month at 87% and the 61st at 67% which will make us top quartile in the industry. Our consistent efforts on bringing cost efficiency along with optimum investments into the business have resulted in Opex to Premium at 20.8% vs 19.8% LYSP.

Our Asset under management now stands ₹ 97,286 crores, with a YoY growth of 19%. Twenty-five percent of this AUM is in equity and the balance 75% in debt. We continue to outperform in our investment performance in 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 xx. 100% of new business customers are onboarded digitally, 83% of all our services are now available digitally, covering 67% of our customer transactions, and our customer self-service ratio now stands at 93%.

We went live with our New Service CRM powered by Sales Force from mid-November. As we move ahead, 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.

I am happy to share that we have been awarded the best life insurer by Fortune India in their Jan’25 edition for our last year’s performance in terms of business growth as well as our quality parameters like persistency, claim settlement ratios which have been backed by headways into digital and product innovation.

We raised capital via rights issue in Dec’24 to the tune of Rs 311 Crores. Both existing shareholders have subscribed to this issue.

Value and Guidance:

Our solvency continues to remain at a healthy rate of 194%.

As we said last quarter, our focus has been on beefing up distribution by increasing capacity in our proprietary channels covering both agency as well as our direct business, and investments in capacity in our newly acquired bank partners which helped us garner incremental mind share.

Our Net Margins, which for the first 6 months was at 7.4 % has now moved for the 9M FY25 periods to 10.8% vs 15.6% LYSP. We saw significant expansion of margins in Q3, with Q4 being the largest quarter of the year we see even more expansion of margins in this quarter and continue to maintain our earlier guidance of 17-18 % Net Margins for the year.

Regulations:

We have relaunched major top selling products in compliance with the new surrender regulations in Oct as directed by the regulator. We have also realigned commission structures with the distributors as mentioned last quarter. We do not foresee any adverse impact on New Business margins on account of the same.

With this I now handover to Mayank, CEO of our health insurance business.

Mayank Bathwal:

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

With a strong Q3 we continue to build on the H1 FY25 growth momentum. In the first nine months of FY25, without the multiyear accounting norms we achieved a gross premium of 3505 crores, experiencing a strong 46% YoY growth. Our Q3 growth accelerated to 59% vs 43% growth experienced in Q2, thus further strengthening our position as the fastest-growing SAHI player during the quarter. The performance is further amplified given the new long term accounting regulations introduced by the regulator in Q3.

Basis long term accounting norms 9M GWP with a YoY growth of 39% is at 3,337 crores. Similarly, our Q3 GWP is at 1,167 with a YoY growth of 39%.

Our market share in SAHI has increased from 10.7% to 12.0%, a YoY increase by 138 bps. The growth continues to be driven by our retail franchise diversified across all major distribution channels.

The proprietary channel with an advisor count of over 1.34 lac agents experienced a 26% YoY growth. All our major bank and digital alliance partnerships have also experienced impressive growth leading to our retail franchise growing at 46% in 9M.

Our flagship product Activ One has successfully completed one year since its launch in November 2024. The product with seven variants continues to be one of the most comprehensive indemnity products in the industry and is enabling the organisation to penetrate newer customer segments. The product continues to inspire competition industry products.

The Corporate business experienced a strategically controlled 47% YoY growth, driven by a sharp focus on profitability through careful customer segmentation, and our industry-leading

Outpatient Department (OPD) business. We are strategically concentrating on Mid Corporate and SME segments to continue to build a sustainable qnd profitable corporate business.

The recent IRDAI guidelines on revenue recognition for long-term policies represent an important regulatory shift. The unit economics of the business remains unchanged however the new accounting regulations do impact the accounting financials in the short to medium term till we migrate to IFRS.

Despite these regulatory adjustments, we are pleased to report that our net loss for the 9M period improved to Rs. 195 crore, compared to Rs. 270 crore in the same period last year. the reported CoR at 114% is a significant improvement over last yet nos and this highlights our ongoing efforts to optimize performance in a challenging regulatory environment. But for the change in accounting norms our 9 M COR would have ended at 110%.

Our Health First model continues to scale and mature. The outcomes for some of the intervened cohorts are now visible. Our scaled digital health assessment provides us with valuable insights into customer health. The percentage of customers influenced by participating in healthy behaviour has reached to close to 24% on an enlarged customer base. These customers continue to exhibit lower loss ratios, up to 40% at various cohort level. Likewise, customers earning positive Health Behaviour based incentives experience loss ratios up to 43% lower than the baseline case. This is shown in slide 55. Overall, this has kept our retail loss ratio well in control.

We have invested in building deep capabilities in managing customers with high health risk through a combination of first of its kind product offerings and human/digital capacities to manage the disease burden for those set of consumers. The customer engagement capabilities and insights are disclosed on Slide 54. Through a combination of our inhouse health Coaches and our partners, we have intervened in more than 120K High risk lives to improve their health vitals leading to lower Claim ratios.

Our 'Promise of Insurance' is centered on providing industry leading experience. Investments in state-of-the-art AI/ML-driven claims auto-adjudication engine witnessed encouraging results. This will further enhance customer satisfaction and enable claims costs management more effectively.

We are leveraging data analytics to optimize every step of the insurance lifecycle. From a Revenue Boost through advanced sales activity tool to Customer Selection based on risk analysis, our data-driven approach is transforming how we operate. Additionally, our robust customer health data collection enables better customer profiling and tailored solutions, driving value across all areas of our business.

We continue to invest in our industry leading Activ Health App. The App now provides opportunity for non-policy holders to experience our comprehensive app ecosystem. Our YoY App downloads have increased by 183% with YoY MAU increase by 157%.

Looking ahead, we remain optimistic about the long-term growth prospects of the health insurance sector. and more so given our differentiated and resilient business model. 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 everybody for joining us today evening and will be happy to take any questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We'll take a first question from the line of Chintan Shah from ICICI Securities.

Chintan Shah:

A couple of questions. Firstly, ma'am, on the HFC growth, a question to Pankaj, sir, we have seen a robust growth of 62% probably Y-o-Y basis. So what are the potential drivers and so where we should see the growth over the medium term? What could be the sustainable growth? And what are the key drivers for such a robust growth? Firstly, on that, so I'll ask together or separately?

Vijay Deshwal:

You may please go ahead, Chintan, you can give all your questions, and we'll answer them one by one.

Chintan Shah:

Yes. Secondly, on the PCR in the NBFC segment on Stage 3, it is around 45.6%. So probably it is stable Q-o-Q, but seems to be declining. So now I think we are moving to the secured segment, so how should we see this PCR going ahead? So what could be the stable number there? And also the Stage 2 has seen some inch up. So any thoughts there?

And then it is on the ROA front for the NBFC piece. So it is 2.1% ROA. So if you look at the margins, over the last 1 year margins have compressed around 90 bps Y-o-Y since probably we are moving to a secured mix versus the unsecured portfolio and running down the unsecured piece. But then the credit cost has not -- has declined only like around 10 bps Y-o-Y?

So the ROA has seen a massive hit. So what are the levers probably to expand? And so apart from starting the growth in the personal consumer segment are there any other levers? How should we see the ROA over the medium term? Yes, that's it from my side.

Pankaj Gadgil:

Chintan, Pankaj here. I'm taking the question on housing finance and then I will leave Rakesh to handle the next question. I think if you see the disbursement, this is a culmination of several consistent quarters on growth that we've seen in disbursement. So this quarter, we saw 18% Q-o-Q disbursement.

But if you see the last 6 to 7 quarters, you will see a similar trajectory. Now of course, the trajectory has even more accelerated. So it's a pretty consistent approach in growing the disbursements. It is coming on the back of 3 or 4 important things. I think over the last calls that we've had for the quarters, I've been speaking about it, but I just reemphasize those.

I think over the last 18 months to 24 months, we have made investments in widening our distribution. So the number of people that are there in sales, operations and the entire structure has been strengthened quite meaningfully. That, of course, by creating capacity is leading to high disbursements.

Second is we have invested quite significantly in digital platforms, both in terms of our sales processes. And we have the best-in-class customer relationship management that we're using to ensure that our sales processes are best in class. The third is we were also speaking about Finverse which is an end-to-end platform that we have launched from prospecting to disbursements.

And I'm very happy to share that not only is Finverse being used by our teams for sourcing applications, even our channel partners are also directly logging in our business on Finverse. That is clearly helping in decongesting the entire file flow and is giving face time for our teams to focus on meeting customers and also channel partners. So productivity is also one thing that we have seen significant growth, that's both on capacity and also productivity.

The last thing that I want to share is that, we've been also speaking about the contribution of our disbursements coming in from the ABC and ABG ecosystem. And in this quarter, you would have noticed that 13% of the disbursements actually are coming in from the ABC and ABG ecosystem.

So there are a huge set of opportunities which are coming into through ABCD, our ABC Select partners and ABG group ecosystem. I think with a combination of the digital platforms, and also the capacity that we've been able to bring.

I think all this put together is resulting in growth across the affordable, prime, and also developer finance business for us. When it comes to the guidance, I think we've been speaking that we will be seeing similar trajectories of growth in the next few quarters, and that is where we are.

I'll leave it to Rakesh for the next question.

Rakesh Singh:

So Chintan, your first question was on PCR that year-on-year, the PCR has come down by 3%-4%. That's primarily on the backdrop of a change in the product mix. If you see secured book has gone up from 67% to 74%, and that is the result that PCR is at 46%. So this PCR is quite stable. We have of 74% or about 3/4 of our loan book is secured by collateral, real estate collateral, securities, and all and that's the reason even in the unsecured business, we have CGTSME guarantee as well. So that's the reason our PCR looks very, very comfortable.

Your second question was on Stage 2. That Stage 2 has gone up marginally q-o-q. If you look at year-on-year, it has come down. But yes, compared to the last quarter, it's gone up marginally. But by end of Jan, we have been able to pull back all these loans which had become stage 2. As you know, the definition of stage 2 is 30 plus. So even a customer goes up to 31, 32 days, it moves into Stage 2, it all has been pulled back.

The third question was on margin in terms of that we have seen 28 basis points lower margin compared to the last quarter and 90-odd basis points compared to last year. This is, Chintan, again on the backdrop of change in the product mix. Our yield and NIM are a function of product mix. As I mentioned earlier, secured business has gone up from 67% to 74%. Also, if you see our personal and consumer business, which we had started in terms of tightening and dialing down post the RBI intervention on small ticket unsecured loans and some bit of partnership that's now started stabilizing, and we would expect that to grow in the next couple of quarters. So that should help us.

Also on the unsecured business, which has similar yields and margin, that piece also, if you see, has gone up, it's grown 12% year-on-year and 2% quarter-on-quarter. That should also start scaling up in the next couple of quarters. So that should help to improve and stabilize our margins.

Your question on credit costs. Credit cost is in the range as we had always guided that it will be below 1.5%. It's at 1.36%, so it's in the range. And yes, over a period of time, we will like to see that credit costs remain stable, margin expanding. That should help us improve our ROA.

Chintan Shah:

Sure. Thank you for a very detailed one. So probably, but any sense on the product mix, if I may ask, what would be the product mix from 67% to 74%, we have moved to secure, so any ballpark number which we are looking beyond which we won't move the secured mix or it could -- there is no such number in mind, yes?

Rakesh Singh:

So if you look at today, our personal and consumer has come down from 19% odd to 13%. We would like to grow it back to 18%, 20%, not immediately, but in the medium term. And also on the business loan-- unsecured business segment, if you look at, that's grown 12% year-on-year. We would like to grow that further. And so that's how we are really looking at managing the margins, Chintan.

Chintan Shah:

And so any ballpark number on the margin? So could it decline further from here on? Or should we expect some stability around current levels of 6%? Yes, that's the last one.

Rakesh Singh:

I think we should see stability around this number before it improves.

Moderator:

Next question is from Anuj Singla from Bank of America.

Anuj Singla:

So I'll start with the housing finance business. So a question for Pankaj, please. Firstly, if I look at the Y-o-Y growth, a lot of that has been driven by the non-housing segment LAP and construction finance, housing is down by around 850 basis points as per my calculations to 57%. Can you give us some sense of where this can settle down and you also have that criteria for the principal business. Where are we in that? And how much scope we have for reducing the housing proportion in the overall mix?

Pankaj Gadgil:

Anuj, Pankaj here. At the end of Q3 FY '24, if you look at what we have also listed in the slide, we had a 65% housing. It is now showing at around 58%. So the observation is -- you're right on that side. Having said that, I think like we also maintained -- we are a full stack player, who is operating in the housing, non-HL and also developer finance portfolio, all the 3.

So I think opportunities existing in all the 3, and we've been able to successfully ensure that we filled a presence across all the 3 segments. Having said that, there are 2 things that we'll have to keep in mind is, first, the quality mix across segments, which is appropriate. I think the numbers speak for themselves on the portfolio quality that we have been able to get.

So we are very, very conscious and while the earlier question was being asked, disbursements have grown. But I think we are very focused that we use analytics right across the chain, right from onboarding. When you look at the onboarding bureau scores, there are also bureau scorecard which gives us a very good indication of the criteria.

Also, we use data analytics on delinquency management and flows. I think your question on regulatory, what are the percentages for housing loans, the minimum threshold is 50%. Overall, housing including retail construction finance, the criteria is 60%.

On both the criteria, I think we are comfortable right now. In housing loans, we are in that range of about 53% to 54% and well above the 60% mark overall. So I think the opportunities are still there. But at the same time, we have to keep looking at both HL and LAP and across all the segments to see the growth trajectory.

Anuj Singla:

So will some mix change materially from here or it can settle down in the same level which we have seen for third quarter?

Pankaj Gadgil:

Because 50% is anyways the threshold. So we would want to remain in that 53 to 55% kind of a range.

Anuj Singla:

Secondly, can you give us some sense of the margin risk from the rate cut, if it comes through on the liability side, what kind of flexibility you have on the variable costing and on the asset side as well?

Pankaj Gadgil:

So overall, if you see on the side of the asset, 95% is variable, 5% is fixed. On the side of liability, 39% is fixed and 61% is variable. Of the fixed, broadly 6% is NHB and 33% is NCD. That is the broad breakup of the liability. But currently, if you see and you are there in the market, you will know that there is a wide spread between the term loans and the NCDs.

So there is clearly a difference ins at which we are borrowing on NCD versus the term loans. That's not with us, but with the market. So I think we are fully placed on that side, and we've been able to factor that when we are managing our assets.

Anuj Singla:

Okay. Second question is on the life insurance business, to Kamlesh. So you did talk about changes on the distribution commission side as well as product structure because of the surrender value regulations. Can you give us an idea if there is some impact of that surrender value regulation in this quarter margins as well? Or were you able to recoup everything out of that?

And when we look at the product level margins because of the new products, which you have launched, have you changed the IRR? Or is there a significant change in the product level margins, which have happened after the surrender value regulations are put in play?

Kamlesh Rao:

I'll answer the question in 2 parts. So obviously, when the new surrender regulations came in, all products had to be refiled and relaunched on 1st of October. So there would have been some timing mismatch between, first ensuring all the products are on the table and then, of course, whatever we have to do with the surrender regulation incorporation. So some loss of time would have got incorporated in that, which is why I said that quarter 4 will look better because some bit of that we would have lost in quarter 3 from a timing point of view. So it will only get better. I must say that margins have gone down on account of both the impact be on surrender regulation is changing and also on guarantee products, the G-Sec is lower than what it used to be, that impact also comes in. But for the second one, appropriate reduction in customer IRRs have been passed on again during the quarter. And again, there would have been some timing loss in that process in the quarter, which is like fully established right now for the quarter that we speak about, which should be in Q4.

So broadly on surrender, fully taken care of, on account of G-Sec incorporated through the quarter, and you will see the expansion of margin story that I would saying will fully reflect in Q4 of this year, apart from the size of the volume that we have.

Anuj Singla:

So is it possible to quantify the independent impacts like for the surrender value, if it were not to be there, what could be margins for 3Q would have been higher by, let's say, 15, 20 basis points or whatever the number is. And similarly, for the repricing impact on the non-par side, is it possible to quantify, these 2 in independent buckets?

Kamlesh Rao:

Possible. But like I said, we'll have to get through every period of 1 month because, like I said, when 23 products get launched, you have to launch that first before deciding the drop in the rate, but I can reach out to you separately for details.

Moderator:

Next question is from Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal:

First question is on NBFCs. Two sub questions there. First one is, if I look at our presentation, there has been a deceleration in the disbursements in this quarter. So I remember hearing in my opening remarks, we've been talking about calibration in our unsecured business areas and growing our secured business. So -- but if I look at the segments and presentation, I see there is really broad-based deceleration in this quarter. So how should we read that?

And the related question here on NBFCs again is that there have been NBFCs who reported earlier during the quarter, and we've been talking about completely dialling down their partnership businesses. So I mean, I just wanted to understand how are we thinking about our basically consumer loan business that we do through partnerships? That is on NBFCs.

I have one more question. The second one is on the ABCD app. Again, I see on your slides, you've talked about introducing credit line and UPI from the next quarter. So I just wanted to understand if you can give some color of how we are thinking about that product? And lastly, out of our disbursements in the HFC in the third quarter and 9 months, what proportion of disbursements came from BTs? Those are my questions.

Vishakha Mulye:

From where? Sorry?

Pankaj Gadgil:

Can you repeat the third part? Third question, can you repeat?

Abhijit Tibrewal:

The balance transfer, BTs, what proportion of disbursements came from BT?

Rakesh Singh:

So Abhijit, the first question on disbursement coming down in quarter 3. As you know, there are different cycles in terms of the business through the year. So yes, quarter 2 was stronger.

If you compare year-on-year. I think primarily de-growth is coming from personal and consumer segment, which is 47% down year-on-year. Again, quarter 4 will be better. So we should be able to catch up on disbursements. So that's your first answer.

On consumer loans through partnerships, as I mentioned in my opening remarks, we have built capability in terms of sourcing through branches. So now we have almost 450 branches through which we sell consumer and MSME business. Also, we have built our own digital journeys for consumer loans, which is our direct consumer journey. So that's another piece which we are really building up and we have ABG ecosystem is another one through which we are trying to build scale.

And fourth is the ABCD app. So that's another platform through which we are sourcing and on the MSME side, Udyog Plus. So all of these 4-5 things is what will help us in terms of driving our consumer and small ticket MSME loans. So clearly, that's how the strategy is to own the customer, own the journey and clearly end-to-end ownership of the customer and the journey.

Pankaj Gadgil:

I will take the second and third question, Pankaj here. So the first question answers a bit nuance, credit line on UPI I'll just explain that you. When the customer opens an ABCD app and he's creating a handle, the handle is your mobile number@abcdicici. Currently, there are 2 options which come in for the customer. One is that you link your bank account. So you link your existing bank accounts which are there. That's one payment mode. The second is, of course, if you have got a RuPay credit card, then you are able to connect the RuPay card. What credit line UPI means is that currently, credit line on UPI is live with all the issuing banks. So if you are a customer and for your respective account, if a bank has given you a credit line on UPI, then when you are creating the UPI handle you can use it. The first option is bank account, second option could be RuPay credit if you have it and the third option will be the credit line, which has been given to you by your issuing bank which you can link. Once you link it on the ABCD app, then you can make payments from all the 3. So that's the first part of the story. So we'll be going live with that functionality. So if, let's say, a customer is an ICICI Bank customer, example, and he's already got a credit line for ICICI Bank and it's also having the credit line facility with UPI. When he opens up the ABCD app, he will be able to -- he or she will be able to link up the credit line. That's one.

Second is we are also going one step further. There could be some customers who may not have the credit line from the bank. It's not preauthorized. So working with the banks to ensure that this credit line can actually go that of the bank, and they can provide a credit line. And then instantly, we should be able to move it up on credit line on UPI facility.

Right now credit line on UPI is not there for NBFC. In time to come, we've also put in our request to NPCI to make sure that also gets done. When that happens, then that line could also be an ABFL line, which could make this complete in-house.

Coming to your third question, which is BT in. So like you're rightly asking, we also track disbursements which come to us, which is the first time and also the BT. So probably a BT disbursements, that number between 8% to 10% of the total disbursement that we do.

Abhijit Tibrewal:

Can you repeat that, please? What was the BT in?

Pankaj Gadgil:

The credit disbursement that we do, that proportion of BT in is between 8% to 10% of total disbursements that we do.

Moderator:

Next question is from Avinash Singh from Emkay Global Financial Services.

Avinash Singh:

A couple of questions. The first one on your lending businesses against what I want to understand I mean if I look from the profitability perspective and go back, say, 4 quarters. In the NBFC, you were kind of delivering nearly 2.4%-odd kind of ROA. Now at this juncture, of course, that unsecured business winding down had an impact.

But today, kind of you are at a 2.1%-odd ROA. Now from here to, say, 2.5% because I recall even at 2.4%-odd the ambition was to further improve eventually, I mean, more towards 3%. But now from this 2.1%, if you are aiming for, say, 2.5%-odd, I mean, how this road is going to be because if I look from interest rate perspective, by and large, I mean, on the asset and liability side, fixed and floating are matched.

So I mean, the rate cut cycle is also not going to help. So rather improvement has to come from, I mean, largely, I would expect from the margins because on the opex side, you are already reasonably good. So how is this journey and how long will this take again, say, maybe 2.1% to 2.5% journey. That's on the NBFC side.

On HFC side now, of course, I mean you have been investing a lot in capacity building, and that is delivering growth, but that is also leading to sort of a currently opex ratio being elevated. So at what scale, what time line, I mean, you would expect and what is that optimal your opex to AUM or cost to income? I mean, currently, you are running more closer to 2.9% kind of opex to AUM and for HFC to be kind of a reasonably, I would say, respectably profitable you need to significantly lower it down.

So what could be the time line, at what scale probably you would be hitting that and what is that desire of opex to AUM? These are sort of a question for lending. And just one data keeping kind of a question, if you can just provide some color on the ARC transactions that you have done in this quarter in NBFC. I mean what was the underlying asset, what sort of recoveries, cash or like what the structure with ARC based?

Rakesh Singh:

First question was on ROA, come down to 2.1% from 2.4%, and that's primarily a result of the margin compression, which we spoke earlier. As we change the product mix and improve our disbursement and growth in personal and consumer and also the MSME unsecured, I think that margin expansion should happen. Also, if you look at the overall product mix at this point in time, almost 74%- 75% is secured. That should also help us at least in the near future in terms of bringing down the credit cost. So I think these are the 2 levers, which should help us to go from 2.1% to 2.4% to 2.5%. So that's a question you had on NBFC.

Pankaj Gadgil:

Yes. I'll go next. So I think the question that you had raised was what is the long-term -- how do we see the ROAs going up? So if you see the numbers, I think currently, the NII for us is 4.94%. And as you had mentioned, the opex to average loan book is 290 basis points and credit cost is about 19 bps. I think we've been speaking about this and to your question at what capacities the operating leverage will come in, when the proportion of new disbursements to the overall book keeps reducing because the book becomes larger, the current opex to average loan book, which is 2.8% is bound to get to in the range of somewhere between 1.6% to 1.7% in the next 18 to 24 months, which is about 110 to 120 basis points reduction.

We also expect that the NII which is now 4.94% to be in the range of between 4.6% to 4.7% due to competitive intensity and cost of borrowings changing a bit. So if that is the number the NII-4.65%-4.7%, and 165 to 170 basis points is the opex with a similar kind of a credit cost, the ROA post tax will be in the range of between 2% to 2.1%.

That is the guidance, probably that we are working towards. And those numbers should get achieved between the next 18 to 24 months. That is where we are on this. I think the growth I already spoke, about the consumer trajectory of growth. So the next 18 to 24 months where the book size will be one can estimate that.

Tushar Shah:

On the ARC front, there's no new transaction we have done. The profitability is due to the increase in the net asset value of the assets we are holding. So that's the reason for the profitability. Otherwise, we have not done any new transaction in Q3.

Moderator:

Next question is from Punit Bahlani from Macquarie Capital.

Punit Bahlani:

Mainly on the PCR bit, you said that because you are going to -- sorry, since you're going into a secured mode, PCR is low. But as we plan to expand our personal loan business, is it fair to assume we'll be adding back towards the 50% PCR level? Or what's the plan there? And accordingly, should we bake in maybe some 10 bps to 12 bps increase in our credit cost?

When I look at the unsecured business, the Stage 2 and Stage 3 has increased by around 20-30 bps. So what's -- like are there any forward flows? Is there any cause of concern here in this business?

And thirdly, on the overall Stage 2 -- like Stage 2 has increased, but the Stage 3 has declined. So while you clarified that Stage 2, you have managed to pull it off in January. But is the Stage

3 decline because of higher write-offs? Or is it any other reason? Yes, those are my 3 questions.

Rakesh Singh:

So first question on PCR, when we grow consumer and personal loans, whether the PCR will go back to 50%, see the PCR as an outcome of the ECL model. With the unsecured business growth, the PCR will grow. So to answer your question is that if the personal and consumer and unsecured businesses grow, PCR will grow.

The second question which you had on the forward flow of the unsecured business, so if you look at the personal and consumer, that has been quite stable in spite of book not growing and de-growing I think that is quite stable, both Stage 2 and Stage 3.

On unsecured business, there has been a marginal increase in Stage 2 and Stage 3. The forward flow in that segment is anywhere between 40 crores to 60 crores on a quarterly basis. And last quarter also, the forward flow is 50 crores. So there is nothing new or nothing worrying which we are seeing. It's because of the denominator effect, you are seeing the percentages looking slightly higher.

Punit Bahlani:

And since this is credit guaranteed like what is the timeline? I think last quarter, we had highlighted we get the recoveries in 12 to 15 months. Is that also may be a reason that the recoveries once they come in, then you account and the number swings down, something like that?

Rakesh Singh:

Yes. So this is a question about cash flow of SIDBI and when and how it releases the funds, In the new financial year, I think there will be release of funds. But to answer your question, there can be a question on the cash flow. It's only a timing issue.

Moderator:

Thank you very much. Due to time constraints, we'll have to take that as the last question. I would now like to hand the conference over Ms. Vishakha Mulye for closing comments.

Vishakha Mulye:

Thank you, everybody, for joining us. If there are any more questions, please feel free to reach out to any of us, and we look forward to answering all your questions. Thank you so much.

Moderator:

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

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