Aditya Birla Capital Ltd. (ABCL)

Q1 FY24 Earnings Conference Call Transcript

August 2, 2023

Moderator:

Ladies and gentlemen, good day and welcome to the Q1 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 Q1 of FY2024.

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 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 continues to remain resilient amidst a slowing global economy. This is reflected in various indicators such as increasing manufacturing and services PMI, real estate buoyancy, resilient urban demand and continuing government led capex. There were net FPI inflows of about USD 12.5 billion in Q1 compared to outflow of USD 5.9 billion in FY23. Indian financial sector remains healthy and stable. Though there has been a pause in monetary policy tightening in India, trend in inflation needs to be monitored closely. We expect these positive trends in industry 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. This approach has helped us to accelerate our growth trajectory, build scale and increase market share across businesses. I am pleased to share that during the quarter our total lending portfolio of the NBFC and HFC business crossed 1 lakh crore Rupees.

We follow an omni channel architecture for distribution and provide complete flexibility to our customers to choose the channel through which they wish to interact with us. We had 1,331 branches across all businesses as of June-end. We have 621 co-located branches across 182 One ABC locations where customers receive assistance to achieve their financial goals. We will continue to increase presence of One ABC locations.

We follow a digital first approach for product innovation, customer selection, seamless onboarding and improving service delivery. We have seen a strong response to our comprehensive B2B platform for MSMEs, Udyog Plus. There have been more than 48,000 registrations and more than 13,500 loan applications since its launch. We have recently launched Payments lounge, which is an omni channel collections platform for merchants. It can be integrated with ecommerce platforms and digital platforms of merchants enabling them to make collections seamlessly.

During the quarter, we raised equity capital of 3,000 crore Rupees including 1,250 crore Rupees via preferential allotment to promoters and 1,750 crore Rupees via QIP. The QIP saw participation from marquee foreign portfolio investors, sovereign wealth funds and domestic institutional investors. The proceeds from the fund raise will be predominantly utilized for augmenting the capital base and, improving the solvency margin and leverage ratio, meeting the growth and funding requirements based on the opportunities across businesses and strengthening our IT infrastructure and digital platforms. We are deeply honoured and grateful for the incredible support and faith reposed in us by our promoters and investors, which demonstrates their full confidence in the strength of the franchise.

Looking ahead, we see favourable prospects for the Indian economy in the near and medium term. We expect India's domestic consumption and investment drivers to continue to support healthy GDP growth. Our strong parentage provides us seamless access to capital both equity and debt and the extended ABG and ABCL ecosystem give us multiple opportunities to accelerate our growth. Going forward, we will follow our One ABC, One P&L approach to continue 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 51% year-on-year to 649 crore rupees. The total revenue grew by 39% year-on-year to 8,144 crore Rupees in Q1 FY24.

In our NBFC business, we continued with a strong momentum of disbursements and granularization of book. Disbursements for the quarter grew by 65% year-on-year to 13,237 Crore Rupees in Q1 of FY24. This helped the loan portfolio to grow 49% year-on-year and 7% sequentially to 85,891 Crore Rupees as of June-end. The NBFC business had a healthy RoA of 2.54% and RoE of 17.89% in Q1 FY24.

In our Housing Finance Business, disbursements increased by 83% year-on-year to 1,620 crore Rupees during Q1 of FY24. The loan portfolio grew by 19% year-on-year and 5% sequentially to 14,509 Crore Rupees as of June-end. RoA was 1.90% and RoE was 13.23% in Q1 FY24.

Coming to our AMC business, the average AUM increased by 8% sequentially and 5% year-on-year to 2,96,937 crore Rupees, of which equity AUM was approximately 40% in the current quarter. With our continued focus of growing passive and alternate asset segment, passive AUM was about 28,675 crore Rupees at June-end which is about 2.3 times the passive AUM as of June-end last year.

In life insurance business, we were among the fastest growing life insurance companies in terms of individual first year premium with a growth of 32% year-on-year. Group new business premium grew by 20% year-on-year in Q1 FY24. Our net VNB margin was 11.8% in Q1 FY24.

In our health insurance business, our unique and differentiated "Health First" model helped us to deliver a growth of 22% year-on-year in Q1 FY 24. The market share of ABHI among standalone health insurers was 11.6% in Q1 FY24. Combined ratio was 117% in Q1 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 1 of FY24 contributing to a 7% quarter-on-quarter and 49% year-on-year growth in our AUM, taking it to Rs 85,891 Crore. Our Retail and SME segment AUM grew 56% year-on-year and now stands at Rs 57,518 Crore contributing to 67% of the AUM Mix. Our active customer base grew to 6 million compared to 4.8 million last year, a 25% growth year on year.

New business sourcing was strong in Q1 FY24. We disbursed Rs 13,237 Crore which is 65% higher than Q1 last year. All product segments supported this growth with our Business Loans segment being the biggest contributor in terms of disbursement mix at 40%, followed by Personal and Consumer loans segment at 36%. 88% of loans in the Personal and Consumer loans portfolio have a credit score of 700+, which speaks about our strong sourcing quality in this segment.

Our Net Interest Margins expanded by 43 bps year on year to 6.98% in Q1 FY24. Also, while the Opex to AUM ratio stayed flat year on year, our CIR reduced by 224 bps year on year to 30.48% for the quarter. And this is despite us adding 141 branches in the last 12 months increasing our geographical presence to 332 branches. Our Profits After Tax for Quarter 1 was Rs 516 Crore, growing by 54% year on year. As a result, the ROE for the quarter expanded by 441 bps year on year and by 134 bps quarter on quarter to 17.89%.

The asset quality has shown a consistent improvement over last year with (Stage 2 + Stage 3) book coming down from 8.91% in Q1 FY23 to 5.46% in Q1 FY24. Gross Stage 3 book has dropped to 2.8% from 3.7% in Q1 last year. Our Stage 3 PCR increased to 46.6%, which is higher by 4.4% over Q1 last year. I also want to emhpasise that more than two-third of our portfolio is secured.

As I had mentioned in the last quarter earnings call, we launched “Udyog Plus” - our unique and differentiated unified platform for MSME customers. It is built to cater to holistic needs of MSMEs through a complete paperless digital journey. In addition to financial assistance, Udyog Plus also offers a host of value-added services for MSMEs to manage and grow their business. Through this platform, we are now in the process of integrating with Digital Public Infrastructures such as OCEN and ONDC as well as our wider ABG Ecosystem. In a short span of 3 months, we have over 48,000 MSMEs registered on the platform as on date. We will continue to scale this platform as well as invest in strengthening our distribution capacity in FY24 to propel our next leg of growth.

To conclude and reiterate our performance, we had a strong quarter in terms of growth leading us to a Return on Assets of 2.54% in Q1 FY24. Going forward, we will continue to build a granular portfolio and enhance our Retail and SME Segment Mix. As we forge into deeper customer and product segments, strengthen distributions capacity and invest in technology, we remain committed to deliver sustainable returns in 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 Q1FY24. We have achieved a consistent growth in our loan book, profitability, and asset quality. We continue to invest in the areas of technology, digital re-invention and analytics for superior customer experience and customer advocacy.

Q1 key highlights are as follows:

- Disbursements of ₹ 1,620 Cr., which is an increase of 83% YoY
- Loan book as of Jun'23 is ₹ 14,509 Cr., an increase of 19% YoY and a customer base of ~56,400
- Net interest margin (NIM) is 5.11%, an increase of 34 bps YoY, and our profit before tax (PBT) for the quarter is Rs. 84 Cr, which is our highest ever in a quarter, with an increase of 18% YoY
- On asset quality, Stage 2 + Stage 3 has reduced by 21 bps QoQ and 401 bps YoY
- The PAT for Q1FY24 is ₹ 65 Cr., an increase of 17% YoY
- The ROA for FY23 is 1.90% and ROE is at 13.23%.

You can refer to the detailed financials on slide 26 of the presentation.

During our previous earnings call, we introduced our new loan origination system, 'Finverse.' I'm happy to share that we have successfully deployed 'Finverse' in 33 branches as of June 2023, and our plan is to implement it across all branches by the end of August 2023. Finverse embraces a low-touch, digital-first approach, supported by advanced analytics, bringing greater efficiency and depth to our processes. Put simply, this means higher face time, expedited decision-making, accelerated disbursements, and customer satisfaction. Furthermore, the platform streamlines the onboarding process for distribution partners and integrates real time dashboards and verification module delivering a seamless experience to all stakeholders.

We are building our analytics capability in the areas of data engineering, data science, and decision science. We are integrating application score cards for customer onboarding and AI/ML led behavioural scorecards for portfolio management.

We now have a nationwide presence, with 130 branches across twenty states covering 80 to 85% of the TAM of housing finance industry. We witnessed 30% growth in channel partners QoQ. ABG ecosystem now accounts for 6% of new disbursals. With ticket size of ₹ 25-30 lakhs, we remain focused on granularity.

Now coming to Portfolio Quality, our approach comprises three primary components: risk control at the origin, pre-delinquency management, and in house collections team supported by decision science.

With focus on quality of origination, 95% of our disbursements in Q1FY24 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 50%.

Our Gross Stage 3 has shown significant improvement, decreasing from 3.69% in June 2022 to 2.67% in June 2023. We are maintaining stage 3 PCR of 33%. The details of the same are provided on slide 24.

Lastly, moving to treasury Management. We have maintained an average cost of borrowing of 7.60% for the quarter, prioritizing diversified borrowing mix. The contribution of NHB to our total borrowings has increased from 14% in June 2022 to 20% in June 2023. We have maintained positive ALM across buckets, and CRAR stands at 21.01%. Further details are mentioned on slide 25 of the presentation.

In summary, we are focused on ensuring risk calibrated growth, healthy profitability, 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 first quarter of FY24.

ABSL AMC's total Average AUM including alternate assets for Q1 FY24 stood at Rs. 3.08 lakh crores showcasing quarter-on-quarter growth of 8%. Within this our MF AUM was at Rs 2.97 lakh crores and Equity MF AUM was at Rs. 1.19 lakh crores.

As a part of our customer acquisition strategy, we added approximately 1.2 lakh new folios. Our overall folio count as of June 2023 was at 79 lakh. Our SIP book size has witnessed a 10% Year on Year growth amounting to Rs 987 Crores. We have strengthened our sales ecosystem and distribution network by bringing together the key levers like Virtual Relationship Manager, Sampark, Service to Sales, Direct HNI Channel and Digital Distribution.

On the passives front, our product offerings grew by ~2 times to Rs. 28,675 crores as on June-23. We have expanded our passive bouquet to encompass 40 products, attracting a growing customer base of around 5 lakh folios. On the PMS and AIF front, we successfully raised commitment of Rs. 893 Cr in India Equity Services Fund (CAT III AIF) by leveraging our multi-channel distribution footprint.

In addition, after setting up of GIFT city, we have launched "ABSL Global Emerging Equity Fund" which will feed into the "ARGA Emerging Market Equity Fund" providing our investors access to and opportunities in emerging market.

On the real estate front, we have successfully deployed two investments for the Aditya Birla Real Estate Credit Opportunities Fund (Category II AIF), and one more deal is in the pipeline.

Our Financials for the quarter –

- Our Revenue for Q1 FY24 was at Rs. 389 Crore versus Rs. 2,74 Crore in Q1 FY23 up 42% Y-o-Y.
- Profit after Tax (PAT) for Q1 FY24 was at Rs. 1,85 Crore in Q1 FY24 versus Rs. 103 Crore in Q1 FY23 up 79% Y-o-Y.

Kamlesh Rao:

The consistent growth journey of ABLSI in both the Individual and Group Life Insurance businesses continued in the first quarter of Financial Year 2024. Individual LI grew by 32%, compared to the private industry's growth of 8% making us the fastest growing LI company for the quarter in the top 10 ranked players . Our success in launching new products was key to our growth, with the new products launched in last 12 months contributing to 44% of Individual FYP for Q1 FY24. In the current quarter we launched 2 new successful products under our Nischit Brand in the area of savings as well as Pension

The success of our new products, combined with PASA contribution of 19%, were the hallmarks of our business in Q1 FY'24. The individual business with a healthy product mix of 81 % traditional business resulted in strong gross margins for the firm

In the Group Life Insurance segment, the private industry saw a growth of 13% in Q1 FY’24, while ABSLI registered a growth rate of 20%. We continue to remain No.1 in Group ULIP business with a growth of more than 100% over last year's base.

Our total premium of 3,105 crore has registered a growth rate of 19% over last year same period, with a 2-year CAGR of 33%, demonstrating our consistent business growth. This growth came from new business growth as well as renewal premium growing at 12%. Our digital collections now account for 79% of our renewal premium, and this growth is seen across persistency buckets from the 13th month, right upto the 61st month, with the 13th month now at an industry best of 88% and the 61st at 57%.

Our Assets under management now stands at close to 74,500 crore, with a YoY growth of 23% with a 74:26 composition of debt v/s equity. 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 "46". 100% of new business customers are onboarded digitally, 83% of all our services are now available digitally, covering 56% of our customer transactions, and our customer self-service ratio now stands at 86%.

We continue to manage the net margins story well, as seen in Slide "42". Last year In Q1 we achieved VoNB of 2.5% and have closed Q1 FY24 at 11.8% net margin. We have shown a growth of 935 bps in our net margins compared to last year same period.

Our approach is to continue the growth trajectory of this business ahead of the industry, backed by both productivity and capacity. Our forward guidance is that the quality of our book will get better across the 13th till the 61st month persistency from current levels. Growth will come from a diversified mix of both proprietary and partnership channels, and we will continue to be best-in-class in our digital infrastructure, cutting across prospecting and onboarding in sales at the front end, underwriting in the middle, and all customer touchpoints in 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 Q1FY24, we have registered gross premium growth of 22% year on year. This compares to an industry growth of 21% and SAHI at 27%, slightly lower because of the large base effect of a 71% growth in the Q1 of last FY.

We saw good growth in our larger retail channels with the proprietary channel growing at 31% backed by the capacity additions over the last 12 months and a focused geography strategy. Our Corporate business grew at 37% year on year, driven by our strong focus on cross sell and upsell and the industry leading OPD business enabling higher margins for our business. We continue to focus on Mid Corporate and SME segments to create a sustainable profitable Corporate and affinity business.

We continue to add new capacities in Bancassurance channel with the activation of PSB, UCO Bank and onboarding of India Post and Payment Bank. I am very confident that as we fully activate these new PSU banks partnerships, we will be able to serve a wider customer segment across the deepest parts of the country.

The new Expense of Management and commission guidelines, we have made some strategic choices in terms of customer segments and channel to further consolidate our retail strategy. We expect GWP growth to normalize in the coming quarters. By prioritizing both growth and profitability, we are building a resilient franchise.

Our Net loss has reduced to Rs. 62 Cr from Rs. 71 Cr in same period last year. Claims and expense ratios across both retail and group businesses have trended well overall at a company level. Our combined ratio for Q1 FY24 is higher compared to same quarter previous year, mainly due to the impact of seasonality of growth over the last 12 months. We expect the combined ratio to normalize in the coming quarters.

As a tech and digital-enabled data-driven health-first business, we remain committed to investing extensively 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. In the last quarter, we launched first of its kind digital face scan assessment feature to augment our customer health data gathering working with a health tech partner. Our digital health and wellness eco system which now has 60 plus partners across physical and digital platforms. 77% of our interactions with customers happen digitally. Our investment in building analytics capabilities, has helped us increase opportunities for better customer selection, increase the size of relationships with existing customers by way of upsell and cross sell which we have already demonstrated in our corporate business and is underway in our retail business and our health management interventions for high risk customers. Similarly we have developed strong machine learning enabled models to help us in Fraud, waste and abuse management and also customer retention efforts.

Looking ahead, we remain highly optimistic of the opportunities in the health insurance industry and our vision is to expand our franchise aggressively while maintaining best-in-class unit economics.

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 Q1 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:

Yea, thank very much for the opportunity. Vishakha, congratulations on the quarter. A very strong performance. So, three questions on the lending business first. We have seen 5% to 7% sequential growth across the businesses, and this does not even include the contribution from Udyog Plus which we will ramp during the course of the year. So, when you look at the growth target for FY '24 and beyond that, what kind of number should we be looking for?

Rakesh Singh:

We have stated that we will double our book in the next three years and so that means 25% plus the kind of growth is what we are strategically looking at.

Anuj Singla:

Okay. And given the strong performance, is it fair to assume it can be more front-loaded with the higher growth in FY '24 and then tapering down to maybe 25%, 26%? Is that trajectory something we can look at?

Vishakha Mulye:

Anuj, it is always a function of the opportunities in the market and our aspiration. So, as Rakesh said, strategically he expects to double our lending books in the next three years. So, on an average, of course, one expects the book to grow at around 25%. In few quarters, depending upon the opportunity, it could be slightly higher. But we believe that over a period of time, i.e, next three years, we should double that book.

Rakesh Singh:

And it will be risk-calibrated growth. So that's the reason why we are saying we will double it in the next three years.

Anuj Singla:

Got it. The second question is on NIMs. So again, a positive expansion there despite the funding cost pressures across the two businesses, 8 basis points to 10 basis points Q-o-Q. Can you talk about the factors which have supported this and during the course of the year, do we expect this NIM levels to sustain at the current levels despite the funding cost pressure?

Rakesh Singh:

If you look at our last quarter, our cost of funds went up by 19 basis points. Our yields went up by 30 basis points. So, that is the reason you see the expansion of around 10 basis points on the NIM. Again, as stated, we have stated that we are looking at expansion of margins to 7.5% over the next two to three years with the change in the product mix. Most of the cost in terms of cost of funds have already been factored in. But there will be some marginal increase in cost of funds in the coming quarters, but that will be mitigated through the change in the product mix and the higher yields coming from the retail and SME segment.

Anuj Singla:

Got it. And lastly, on the asset quality, while the overall GNPA has declined for the NBFC side, the forward flow seems to be strong in personal and consumer loans, where GS 2 plus 3 combined has gone up by 50 basis points Q-o-Q. So, two questions there. One, is it possible to give colour on the customer cohorts which are driving this and secondly, can you also give some colour on how the sourcing done through digital partners is performing versus the direct and the DSA channel? If we can share some details here?

Rakesh Singh:

So, in terms of if we look at the forward flows, I think it's very stable, and it's in the range which we have guided. It's within the guardrails or the rates which we have really defined. So, even if you look at GS 3 is 2% which is where I think a best-in-class compared to the personal loans in the NBFC industry. Yes, it's gone from 1.7% to 2%. I think, I's just some pool moving in certain quarters. We are very confident that we will be able to maintain this quality, and it will be in the same range. So, at this point in time, the bounce rates and everything else is looking quite stable and quite good.

In terms of performance, Anuj again, we acquire customers on a similar scorecard, whether it comes through our channel or through the partner. So, the policy is the same. The credit bureau, which we have mentioned here is the same for both our direct channel and through the digital partners. So, we don't see too much of a difference between digital and physical channels. We review this on an ongoing basis. And if we see anything, any partner, which is -- if it's going up, we really tighten it, control it, or if we have to stop it, we do that. So, we are not seeing too much of a variance between the two.

Anuj Singla:

Got it. Thank very much. All the best

Moderator:

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

Abhijit Tibrewal:

My question is also on the personal and the consumer loan book. Understandably partly answered what I was trying to ask. But sir, I just wanted to understand, I mean, incrementally, what we've been seeing over the last two quarters and more particularly this quarter in terms of some of your peers who have reported there is some anxiety around personal loans. There are peers who have started talking about the FLDG arrangement now kicking and recoveries under FLDG arrangements now coming in. So, have we also had similar experiences where FLDG arrangements are getting triggered? If at all they are getting triggered, I mean, what are you seeing being covered under FLDG or is it also coming, and getting your balance sheet is the first thing that I am trying to understand here?

Rakesh Singh:

So, your first question on competition and players. See today, our personal and consumer book is only 20% of our overall portfolio. A lot of the players is much higher at 50% and higher. So, we are still much within the range which we have defined for ourselves. I had mentioned in my initial comments also that two-third of our portfolio is secured. And so, it's still within the range which we had defined, and we track it very, very closely. In terms of your question on FLDG, yes, we are evaluating. We are discussing with our partners, and we are reviewing with all our partners in terms of leveraging the FLDG, which is now being provided by RBI. So yes, for sure, we are discussing and evaluating, and we will leverage that.

Abhijit Tibrewal:

Secondly, speaking right now whatever arrangements we have with our digital partners, we don't have FLDG arrangement in place, is it.

Rakesh Singh:

No. Right now, and we have not dipped into any FLDG. We didn't have any FLDG. The guidelines, which came in December of 22 by RBI, did not allow any FLDG. So, we haven't dipped into any FLDG at this point in time. Right now, it's all the commercial arrangement, the sourcing arrangement which we have with the partners, and the credit cost. The actual credit cost is sitting in our balance sheet. So, yes, as I said recently, RBI has come with the guidelines and allows 5% FLDG, which we are evaluating and assessing, and we are discussing with our partners.

Abhijit Tibrewal:

Got it. Glad to hear that. And just a follow-up question, in your opening remarks you kind of shared that two-third of the book is secured? But very clearly, I mean, if I look at the disbursement mix, right, I mean the proportion of personal and consumer loans has been increasing very, very strongly from March 22, where it seemed to be 15% of the disbursement mix.

Today, it's almost 35% of the disbursement mix. So, very clearly, in terms of your loan mix as well, right, I mean, maybe three quarters, four quarters back what used to be 15% of the loan mix is to be close to 20%, 21% of the loan mix. So, what is the comfort level where you want to keep personal and consumer loans. Another question on housing loans, understandably you've kind of gone through the transition where you have implemented a new LMS, so now is it now time that we passed those sticking issues and loan growth even in your housing business can start accelerating just like it has done in the NBFC business?

Rakesh Singh:

Yes. So, first question on consumer and then I will ask Pankaj to address your housing question. But if you look at still yes 35% of the disbursement is from personal and consumer, and I will throw some light in terms of these loans. These are small ticket short tenure products. We acquire customers at scale, we see their performance over a period of time, and then only we cross-sell our personal loans to these customers.

So, clearly, not only looking at the credit performance in the marketplace through the credit bureau, but also the performance with us. And that gives us comfort in terms of the growth in this segment. Also, if you look at our secured business also is growing the same. So, if you look at 31% of the mix on disbursement mix is coming from secured business.

And then the corporate also is completely secured. So, if you combine the two are still secured. The stated strategy is that there will be a cap in terms of how much of unsecured business which we will have. So, clearly, the secured also has grown quite well in the same period.

Vishakha Mulye:

And on your question on ultimate product mix question, today, retail and consumer is around 67% of our portfolio balance is corporate. And within 67%, around 50% is SMEs and small business loans, and the balance is consumer and personal loans. We believe going forward this segment, which is consumer and personal loans and SMEs and small business loans, will be around 75%, and the corporates will be around 25%

over the next three years. So that's the final thing that we would expect the product mix to be.

Pankaj Gadgil:

Pankaj here. On the housing business, I think over the last few quarters, you would have seen that the loan growth has been picking up. And in fact, the last financial year, we grew at 14% Y-o-Y, which was slightly higher than the overall housing finance industry growth, which was about 11% Y-o-Y. I think the first quarter has been even more promising as we've touched 19% Y-o-Y loan growth and housing finance industry.

Your point on the LMS, would say, it's the fastest implementation of loans origin system that we have done in the housing finance space. We've done this in 6 months. And this is just not a standalone LOS. It's the engagement platform that we are trying to create, which has the entire CRM also in build, and it has a single sign on which ensures one experience, one customer which we've been propagating as ABCL as a platform.

So, it allows our distributors, our connectors, our relationship partners, our employees, all to come on a one single platform and log in their cases. And most importantly, the anxiety of where the case is lying. I think that anxiety it kind of quells because there is a dashboard which is very intuitive, interactive, which allows the customers to check where is he or she in a low life cycle.

So, I think that's stabilized in 33 branches. I already spoke about it. We have already gone live with the platform and by the end of August, we should be going live Pan India. And also, you spoke about the ramp-up of distribution that we are seeing. Obviously, interest levels are being created in the channel fraternity and ABG ecosystem is contribution to about 6% of our disbursements now. So yes, looking forward to a healthy growth in times to come and leveraging the opportunity with the entire housing sector presents to us.

Rakesh Singh:

And Abhijit, if I can just add on the secured and unsecured in the business loans, if you refer to Slide 12, of the Rs. 8,574 crores, 21% is supply chain, which is in a way receivable and if there is an underlying trade which is there. But the remaining Rs. 5,000 crores, I think the business loan is all backed by the credit guarantee provided by SIDBI. So that also, in a way, is secured. So, you can just keep that in mind.

Abhijit Tibrewal:

Yes. Thank you so much. This has been very useful and thankful for patiently answering on my questions. Best wishes to the ABCL team.

Moderator:

Thank you. We have a next question from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh:

I have a few questions. First one would be on the NBFC, if you can just help with some kind of a data around your disbursement mix via direct and ecosystem, particularly in the retail and consumer and unsecured SME. So, that's on NBFC. On housing, the question would be that, I mean, in your strategy, you have stated your sort of ambition to have a balanced towards affordable as well as, I mean, the prime home loan.

But if I sort of look at your bureau score mix, that is more or less suggesting you are more going towards prime -- I mean mostly going towards a prime customer. Then the question is how are you going to sort of maintain your profitability here because I mean housing to prime is a very, very kind of a thin margin business and there is enough sort of balance transfer that keeps happening because banks are also aggressive.

One more question on the capital you have raised Rs. 3,000 crores, what sort of a deployment plan, of course, the two lending businesses will require capital. But likely health insurance, the business will also require some capital a year or so. So, I mean, is there some sort of a plan for you to again find outside investor for health insurance or I mean if you can just provide some broad colour around the deployment of the Rs. 3,000 crores capital?

Rakesh Singh:

So, if I can start by giving on the sourcing mix. If you look at our direct sourcing at a company level, 45% is direct, 23% comes through the DSAs, and 32% of the business comes through the digital. So, this is the mix at the company level. In terms of personal and consumer, 11% comes through direct, 10% comes through the DSAs and 79% comes through digital channels.

Avinash Singh:

Yes, and same for unsecured business, if you can

Rakesh Singh:

So, on unsecured business, 60% comes through DSA, 35% comes through digital, and 6% direct. And as we mentioned in our opening remarks, once the Udyog Plus is, I think once we have a start, we have many more registrations on these platforms and MSMEs starts coming on this platform, we expect that the direct sourcing to go up in this segment.

Pankaj Gadgil:

In the second question, Pankaj was on housing actually and I think you made observation on the mix. So, if you see the slides also which are there in the investor presentation you will see the mix that we have kind of got today. So, at the end of quarter 1, we have 50% of our book is prime about 42% is affordable and 8% is construction finance. So, we have been leveraging opportunities across all the segments.

We have stated that we are going to grow in the most meaningful way and leverage opportunities across the segment. I think the strategy that we have kind of articulated earlier also is to maintain the right mix, and we've been speaking about the right balance of the value segment and the growth segment and to be fair, I think with Aditya Birla as a group. I think we are amongst the top quartile and the cost of borrowings also you will see that we are AAA rated. I also spoke about the NHB refinancing. The percentage of the borrowings from NHB has moved up from 14% to 20%. So, I think the real crux is balancing the mix there. And very surprising when you are speaking on a bureau scores, 88% of the book is 700+, but we'll be surprised also within the affordable segment which is I would say slightly higher than the informal segment, which is below 15 lakhs, but in 15 lakhs to 50 lakhs, there are customers who have 10 lines very surprisingly and when you scrub you find out that they are very conscious also on the credit score. So, we're actually finding out in our portfolio also we have given the detailed breakup also of what bands of bureau that we have got today.

So, we have only 7% customers who are new to credit and 88% customers or 700 plus. So, that's the shift, which is happening in the country, that's real. Especially even in the metros and outskirts of metros, people are conscious. So, it's -- I would say, judicious mix. And last but not least, again, when you're speaking about prime, I think there are internal sourcing also which happens, which is in the prime. It could be the employees of ABCL. It is also the large distributors that we have only mutual fund, life insurance and also health insurance who are able to leverage the in-house customers that also really helps us in building the prime. So, it's going to be a judicious mix of all the segments, leveraging all the opportunities with risk calibrated growth that i spoke of.

Avinash Singh:

And if you can give some in terms of balance transfer out and I mean in your response what I mean, sort of any balance transfer in is how much?

Pankaj Gadgil:

Balance transfer is always going to be there. It comes in on two counts. It may be situations where somebody is giving you a higher limit, somebody's taking higher exposure, and sometimes it also happens to rates, but what I can say very confidently is I spoke about customer advocacy. I spoke about superior customer experience.

We are also seeing with the processes improving with the turnaround times improving and with the overall, I would say, mindset improving of customers, of Aditya Birla Home Finance in the last 10 months to 12 months, I am seeing that trend also going down. So, I think that's very clearly coming in. We are in the business, and there will be – we also better transfers in, in the business as well. So, it's a part of the business that you have to focus on both side of the business.

Vijay Deshwal:

I think your next question was on capital allocation that how do we look at the deployment of the capital that we have raised?

Avinash Singh:

Yes

Vijay Deshwal:

So, first thing that the majority allocation of capital will be towards the lending businesses depending on the market opportunity. Secondly, whatever growth capital requirement will be there from our LI and HI businesses, we will provide that. We'll not starve any business for capital. That's our stated policy. In terms of getting an outside partner for health insurance, see, right now, we already have two strong JV partners in MMI and ADIA, and we feel that they will support all the growth capital requirements in their proportion whenever it is required. That's how we plan the way forward.

Avinash Singh:

And just if you can give some -- I mean a question for health insurance. If you can just give the breakup of combined ratio of 117% in terms of the claims ratio and opex?

Mayank Bathwal:

Avinash, we don't discuss the breakup of this. We can maybe subsequently look at addressing it.

Avinash Singh:

Okay. Thanks

Moderator:

Thank you. We have a next question from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh:

Firstly, two questions on the health insurance business. First, if you can quantify your retail new business growth on a Y-o-Y basis. That would be great or give a split between the new business versus renewals. Second, you mentioned that you have made some strategic charges post the change in expense of management guidelines. So, if you can give some colour on how has the payout strategies changed across different channels and how are the distribution -- or how will the distribution mix incrementally change based on that or what are the parameters based on which you kind of made the strategic choices maybe you can answer this, and then I'll have two questions on the life insurance business?

Mayank Bathwal:

Yes. So, I think our overall retail business grew at about 17% Y-o-Y as I mentioned earlier already. The choices was about some of the segments that we said we need review in terms of overall economics. You would have seen from our numbers that our rural business has come down, and there are some parts in the retail broking side that we sell that we need to review.

Otherwise, we remain optimistic on all the other channels, especially proprietary. Our agency channel is growing very well. We have grown about 31%. Our bancassurance channel continues to grow. We are adding new capacities there. Our digital alliances businesses we remain optimistic, which will grow well in the future. So, there were some segments which we felt that looking at -- given our experience over the last 5 years now and where we forecast future economics where we feel that it may be a good idea to review our strategy. And we will continue to explore that opportunity because we feel that some of these opportunities remain large, but we go into that segment once we have finalized our approach.

Dipanjan Ghosh:

Sure, just a follow-up on the first question I wanted to like if you can split the growth between new business versus renewals?

Mayank Bathwal:

I would not have that data completely ready. We can come back to you separately on that.

Dipanjan Ghosh:

Sure. And just 2 questions on the life insurance business. If you can give the walk of your VNB margin movement over the last trailing 12 months between product mix volumes or assumption changes or something like that. Second, on the product mix, if you can kind of give some colour on the traditional non-linked business and the mix within that and how the guaranteed written product has been doing on a Y-o-Y basis or even in July for that matter?

And lastly, I think across one of your major bancassurance partners, which has now kind of merged with its erstwhile parent, the sister concern seems to be suggesting continued counter share gains at that particular count. On that context, do you see any volume pressure from a medium-term basis out there, those are my three questions?

Kamlesh Rao:

Hi Kamlesh let me answer your last question first. We spoke about the largest banca partner. If you look at the numbers for the first quarter, in fact, as compared to last year, we have gained a little bit of mindshare in the counter. In that counter, obviously, the size of the premium is so high, and there is aspiration for that line to grow on a consistent basis. At this point in time, we are not seeing any change in approach. It's a function of how good your products are, and processes are and whatever has been there for the last three-four years we have not seen any change in stance over the last three or six months. And therefore, like I said, we registered about 30% plus growth rate there in the first quarter in that counter. So, that's the answer to your last question.

The answer to your question on traditional products, so, we have used the interest rate scenario during the period that it has remained stable and benign for increasing the share on our guaranteed savings products. But the average guarantees that we have in all our products put together roughly is at about 5.1%-5.2%. We follow a very dedicated, focused risk mitigation strategy through FRAs, where 100% of our expected maturity benefits are fully hedged.

So, once we keep looking at every opportunity of the guaranteed savings products, we also make sure on the risk side, they are fully taken care of. During the period in the quarter, as I said, when the interest rates have started going down, we repriced some of our guaranteed savings products downward, which is in line with a bulk of what the competitors have done, and therefore, we haven't seen much impact in the area.

Your first question on the bridge, I mean, normally, we give a bridge on embedded value movements and give sub-components of that. But I think you're focusing on the net VNB margins, and the bridge for margin which we were playing -- came largely out of our net VNB margins as well as all our operating assumptions were positive, and that's the reason we added about Rs. 800 crores of net VNB margins last year and are embedded value grew about Rs. 9,000 crores.

But for the VNB of the first quarter is largely driven by a product mix strategy. Also, it is driven by our strategy of significantly larger productivity, which is coming across our various channels. Our proprietary business grew at about 30% plus. Our direct business grew at about 40% plus. Our Banca business grew at about 35%-40%. So, a combination of productivity-led growth as well as the product mix has actually contributed to the expansion of margins in this quarter on the same quarter last year.

Dipanjan Ghosh:

Sure. Just if I can just squeeze in one small question. Similar to the health insurance business, have you taken any strategic calls on the life insurance side also with respect to the EOM guidelines

Kamlesh Rao:

Actually, on the guidelines that came in for whatever business that we were doing through our various channels, we only capitalize on that more. Some of these channels like Mayank mentioned, we never did a large amount of business. So, there has not been any need for any change of strategy for us as far as life insurance is concerned.

Dipanjan Ghosh:

Sure. Thank you and all the best

Moderator:

Thank you. We have a next question from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh:

I just had three questions. So, one is what will be your target mix of this unsecured business? I'm just asking because an incremental disbursement basis it seems to be something nearly 45%

Moderator:

I am sorry his line is disconnected. I'll take the next question from the line of Renish from ICICI. Please go ahead.

Renish:

Just two questions, first on the NBFC. So, if you look at the credit provisioning, that has been a little steep at around 1.5% of the lending book, despite the fact that stage 3 and the lead indictors of the asset quality metrics keep on improving on a quarter-on-quarter basis. So, it is fair to assume that given the book mix change, the 1.5% credit cost is the new normal for us?

Rakesh Singh:

So, credit cost, yes, we have said that it will be in this range with a change in the product mix and unsecured business, which has grown over the last couple of years. Yes, we expect the credit cost to be in this range. But as we mentioned, we will evaluate the FLDG, and we are assessing that, and we'll come back in terms of how we leverage that.

Renish:

Got it. And secondly, on the housing finance piece, okay, if you look at the asset yield, which has been increasing over the last two quarters, three quarters, again, despite of the fact that, let's say, the customers of more than 700 CIBIL score are getting acquired incrementally. So, what is driving these high yields in home finance?

Pankaj Gadgil:

Yields are anyways on the portfolio is also a function of what have you been able to pass on in the last year. So, last year the given the repo rate increased by 250 basis points. We had the ability of passing those rate hikes to the customers there. As you will note at the borrowing rates, there's always a trailing impact of how the borrowing rates increase. And now you are seeing those in Q4 and Q1 specifically. The reason why we've been able to hold the NIMs, one, obviously, like I mentioned, it has been a very, very sound treasury management that we've been able to do. So, the cost of borrowing is really top quartile amongst the HFCs that we have got and maintaining the right mix on onboarding on the affordable, informal and CF portfolio with the prime segment has been able to get us the requisite net interest margin and also the yields.

Renish:

So fair to assume that this 12% blended yield on let's say the effective interest rate, what we are seeing in the PPT is more or less sustainable going forward?

Pankaj Gadgil:

I think we had mentioned this last time as well that NIM looks at we spoke about 5% NIM which was also there close to 5% at the end of the year. It will be a range bound. But I think you will see that range anywhere looking about 470 to 475 points as the NIM that we should be able to see in times to come as the cost of borrowings likely keep moving up.

Renish:

Got it. And just last question on home finance. So sequentially, we have seen the cost to income as well as the opex to AUM increasing very sharply, almost 40- 50 basis point on the opex to AUM side. So, of course, we do understand that we'll be investing on the tech side. But in terms of the incremental investment towards the franchise build-up, why do we stand as on the June quarter?

Pankaj Gadgil:

I think that's the right observation. I think we had spoken about this earlier as well. I think we are making investments on technology, digital, and analytics, and the contribution of our expenditure obviously disproportionate in these three areas. And in my assessment, as the book size keeps growing, the operating leverage will kick in and you will see that showing up in times to come. So, I think that is where the investments are actually going.

We haven’t added too many branches. But within the location, I think we have expanded the locations. And now we are present in a significantly higher number of pin codes that gives us access to a very large opportunity in the housing finance space, which is the TAM that I spoke of earlier.

Renish:

So, it is fair to assume that this 3% I mean roughly 3% you have said is at peak level

Pankaj Gadgil:

That's right. These are peak levels.

Renish:

That’s it from my side and best of luck for following quarters.

Moderator:

Thank you. We have a next question from the line of Shubranshu Mishra from Philipcapital. Please go ahead.

Shubranshu Mishra:

So, two questions, three questions the first one on the personal loan and consumer loan. We onboard customers for the Paytm postpaid, what is the run rate on a monthly basis or maybe on a quarterly basis, we can speak on that and make any kind of FLDG we have with Paytm on that particular piece. Second is thanks for the update on how we onboard customers according to CIBIL. But is there any specific rules around having any customer onboarded who has done more than 30 DPD across lenders at any point of time in a credit history?

And the third is that we see the GS3 increasing as well as the PCR decreasing for the personal loan as well as consumer loan and especially with the ticket sizes, we operate along towards various fintechs, that is a cause of concern, which has been highlighted by various industry leaders and as well as credit Bureau. RBI has put out a cautionary note around it. So, what are we going to curtail that? So, these are the three questions?

Rakesh Singh:

There are quite a few questions. So, let me just recollect. In terms of sourcing through partners, as I would have mentioned earlier also, we source small ticket loans, short tenure loans and once we establish their performance on our portfolio, then only we go and give a personal loan. So, that's what our sourcing strategy is with our partners. In terms of your question on certain partners with FLDG, I had mentioned it earlier also. Right now, we don't have any FLDG because the December guidelines of RBI did not allow FLDG. Recently, the FLDG has come in. So, we are evaluating, we are assessing, and we are in discussion with partners in terms of leveraging the FLDG.

Shubranshu Mishra:

What is the run rate in Paytm?

Vijay Deshwal:

We don't discuss individual-specific partners' run rate. As Rakesh mentioned that it's a part of the overall strategy and we onboard customers through this channel and then once the credit history is established with us, we look at expanding the relationship.

Shubranshu Mishra:

And I've got two more questions. The second one was on if we onboard customers who have done 30 DPD across lenders at all?

Rakesh Singh:

Yes, sorry, I missed that. We never onboard any customer who has DPD. So, if they have and their DPDs are seen in the credit bureau, we never or in their bank statement, if we see anything, we don't onboard any one of these customers.

Shubranshu Mishra:

All right. And my third question is still unanswered what are we doing to curtail the disbursements in these kind of ticket sizes that we operate in and personal loans?

Rakesh Singh:

So, completely, if you look at -- and I think I will just refer to a slide, slide 12. If you look at our portfolio, which is there in personal and consumers, 77% of the portfolio is in personal and 23% of the portfolio is in consumer. And I think in the consumer segment is a small ticket and short-tenure loan. We onboard customers through that. We establish their credit behaviour and then only slightly larger ticket and longer tenure. So, it's quite well calibrated in terms of after looking at the performance of these customers is what we are.

As I mentioned earlier also, we review these customers through the door in terms of any bounces, it starts with onboarding through the door-analysis then the bound trend, what is causing that and if we find any cohort or any product or any partner where it's beyond the threshold, we take immediate corrective action. And we will -- and that's the reason we mentioned that we want to grow in a risk-calibrated manner. Even though currently, our growth is much higher, but we are giving in terms of direction that in the next three years, we will double our books. So, I think all the growth will be risk calibrated.

Shubranshu Mishra:

Understood. Thanks.

Moderator:

Thank you. We will take the last question from Sanket Chheda from Dam Capital. Please go ahead.

Sanket Chheda:

Yes. Sir, just wanted to know the sourcing mix again on the personal and consumer and unsecured. If you can again share this.

Rakesh Singh:

So, Sanket, I will again give this at a company level, 45% of our sourcing is direct, 23% is through the DSAs and 32% is through the digital channel. In terms within that, the for personal and consumer 10% is through DSA, 11% is direct and 79% is through the digital partners. In unsecured business, 60% is DSA, 6% is direct and 35% digital, and as we build and enhance and strengthen our Udyog Plus, this 6% direct on MSME business will go up, and that will be our direct acquisition for MSME customers. Secured business 46% comes through DSAs and 54% comes directly.

Sanket Chheda:

Sure, sir. That was helpful. And just one question on the FLDG thing that you eluded to that as of December 22, based on the RBI circular we didn’t use to have FLDG. But is it right to assume that in terms of the pricing we offer, there will be a markup baked in to take care of the delinquency rate? So, to put it another way, if somebody offers the FLDG, the pricing would be lower compared to what you were getting earlier?

Rakesh Singh:

So, Sanket the pricing is determined by the customer profile, credit history, cash flow, everything, and we have built scorecards on the basis of that which we price to our customers. So, basis the product in terms of whether it's secured, unsecured, whether what is the credit profile of the customer, the pricing is a range bound. So, that's how we price the customer.

Sanket Chheda:

No, it is more towards say pricing for the sourcing done to ecosystems or digital partners.

Rakesh Singh:

Again, the basis projected the credit risk of that customer profile, that customer cohort, we price to the customers.

Sanket Chheda:

Sure sir. Yes, those were the only two questions, sir. Thanks.

Moderator:

Thank you. I would now like to hand the conference over to Ms. Vishakha Mulye for closing comments. Over to you.

Vishakha Mulye:

So, thank you so much all of you. And if there are any pending questions, and Vijay and Pramod and Aashwij are available. Of course, I'm also available. Please feel free to contact us. Thank you so much.

Vijay Deshwal:

Thank you.

Moderator:

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

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