Aditya Birla Capital Ltd. (ABCL)

Q2 FY25 Earnings Conference Call Transcript

Oct 30, 2024

Moderator:

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

Thank you so much. Good evening, everyone and welcome to the earnings call of Aditya Birla Capital for Q2 FY25.

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 our key financial highlights followed by a discussion on the performance of our key businesses by our business CEOs.

The Indian economy has remained resilient. We were the fastest growing economy in Q1 with GDP growth rate of 6.7%. Manufacturing activity continues to gain ground on the back of improving domestic demand and services sector remains buoyant. Improved agricultural activity brighten the prospects of rural consumption. Central banks across the world have started reducing interest rates. RBI has changed its stance from withdrawal of 'accommodation' to 'neutral' while highlighting upside risks to inflation from food prices and crude oil prices among global uncertainties.

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. This approach has helped us to accelerate our growth trajectory, build scale and increase market share across businesses. 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**
    a. Consolidated profit after tax, excluding one-off items, grew by 18% year-on-year and 12% sequentially to 834 crore Rupees in the quarter. The total consolidated revenue grew by 34% year-on-year to 11,804 crore Rupees
    b. As we had mentioned in our previous calls, we are focused on growing our portfolio with a strong emphasis on return of capital. We have been calibrating our portfolio over the last twelve months proactively. In our NBFC business, we made interventions and tightened underwriting norms in certain segments such as smaller ticket size unsecured personal and consumer loans to improve our customer selection. We identified target customer segments such as SMEs and increased our focus on growing secured business loans to SMEs. Further looking at the market opportunities, we have also accelerated the growth of our HFC portfolio. These steps have held us in good stead in the current volatile and uncertain environment with an improvement in the gross stage 2 and stage 3 loans in both our lending businesses while maintaining the growth momentum.
    c. Our NBFC portfolio grew by 23% year-on-year and 7% sequentially to about 1.15 trillion Rupees. The business loans to SMEs grew by 39% year-on-year and 9% sequentially. The corporate and mid-market portfolio grew by 25% year-on-year and 8% sequentially. As we had highlighted earlier, in personal loans business we are focused on increasing our sourcing from direct channels such as branches and the newly launched ABCD app and we expect the growth in personal loans to normalize in the next few quarters. We remain confident of growing the overall NBFC portfolio by a CAGR of 25% over the next two to three years.

       The overall gross stage 2 and 3 loans in the NBFC business declined by about 100 bps year-on-year and 21 bps sequentially to 4.24 % as of September-end. Our credit cost has improved from 1.43% in Q1 to 1.25% in Q2 FY25 which is the best-in-class in the industry. While our credit quality has held up very well, we remain watchful given the current environment and will continue to calibrate our portfolio with a paramount focus on return of capital.

       The profit after tax of the NBFC business grew by 15% year-on-year to 629 crore Rupees. The RoA and ROE remain healthy at 2.34% and 15.6% respectively.
    d. 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 reached a monthly disbursement run rate of about Rs. 1,400 crore. This has resulted in our HFC portfolio growing by 51% year-on-year to 23,236 crore Rupees as of September-end. The Indian housing sector continues to offer growth opportunities and is also aided by various government measure 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 218 bps year-on-year and 42 bps sequentially to 2.22% as of September-end.

       Moving on to asset management business:
    e. Our mutual fund average AUM grew by 23% year-on-year and 9% sequentially to about 3.8 trillion Rupees in Q2 of FY25. We had mentioned earlier that we had taken steps to strengthen our investments and retail sales team and investment

processes in FY24. These initiatives have started showing results. We have seen an uptick in equity fund performance across various categories. Monthly SIP flows increased by 47% year-on-year to about 1,425 Crore Rupees in September. The profit after tax grew by 36% year-on-year to 242 Crore Rupees.

Moving on to the insurance businesses:

f. We have seen a strong revival in growth in the life insurance business. The individual first year premium grew by 33% year-on-year in H1 of FY25 which is significantly higher than the private industry growth. The year-on-year premium growth across in partnership channels was 34% as compared to 11% in Q1. We are seeing traction in the mind share in our new tie ups in Bank of Maharashtra and IDFC First Bank and we are commencing sourcing business at the Axis Bank counter as well. We continue to be in the top quartile in the industry in terms of 13th and 61st month persistency. The new surrender guidelines which came into effect from October 1 will impact net VNB margin to a certain extent. To address this and mitigate some of this impact, we have realigned our commission structure in line with most of the industry players and have also initiated changes in product construct and product mix. Kamlesh will cover these steps in detail. We remain confident of growing the individual first year premium by CAGR of 20% over the next two-three years and our endeavour is to maintain a VNB margin of about 17%-18%.
g. 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 H1 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 120 bps year-on-year to 11.9% in H1 of FY25.

2. **Omnichannel architecture for distribution**
   a. 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.
   b. Our D2C platform, ABCD, went live in April 2024. It offers a comprehensive portfolio of more than 20 products and services such as payments, loans, insurance, and investments and helps customers to fulfill their financial needs. During the quarter we have introduced new products such as digigold gifting, family health scan and pocket insurance. ABCD serves as an acquisition engine for us. As we had communicated earlier, we aim to acquire 30 million customers over three years. I am delighted to share that ABCD has witnessed a robust response with about 2.5 million customer acquisitions till date. We are seeing strong traction in payments with more than 1.2 million VPAs created till date. Our motto behind the design of UI and UX of the app has been “Everything Finance as simple as ABCD” and I am happy to share that ABCD has been awarded the Fintech Solution of the Year under ‘Best in Class User Friendly Interface’ category at Global Fintech Festival 2024. In line with our commitment to enhancing “One Experience” for our customers, we will launch a revamped servicing app in the next three to six months.

This app will be built on a modular platform offering a unified and common servicing infrastructure across all our businesses.

c. Our comprehensive B2B platform for MSME ecosystem, Udyog Plus, continues to scale up quite well with more than 1.6 million registrations. Udyog Plus has reached an AUM of 2,900 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. About 45% of disbursements of Udyog Plus are sourced from ABG ecosystem.

d. We had 1,470 branches across all businesses as of September-end. We are focused on capturing white spaces and driving penetration into tier 3 and tier 4 towns and new customer segments. In line with our One ABC approach, we continue to expand our co-located branches, which increased by 41 during the quarter to 866 branches across 238 locations.

3. **Omnichannel architecture for distribution**

a. Our Board of Directors approved an amalgamation of Aditya Birla Finance with Aditya Birla Capital in March, subject to regulatory and other approvals. We are happy to share that the proposed amalgamation has received no objection from RBI. We have made an application before NCLT Ahmedabad and expect the amalgamation to get completed in the next six months.

b. During the quarter, we concluded the sale of our broking insurance subsidiary, post the receipt of all regulatory approvals.

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

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

Vijay Deshwal:

Thank you Vishakha and good evening to all of you.

The total consolidated revenue grew by 36% year-on-year to 12,007 crore Rupees during the quarter. Consolidated profit after tax grew by 42% year-on-year and 32% sequentially to 1,001 crore Rupees. The consolidated profit after tax in Q2 of the current year includes a one-time gain of 167 crore Rupees from sale of our entire stake in the insurance broking subsidiary.

In our NBFC business, the loan portfolio grew by 23% year-on-year and 7% sequentially to about 1.15 trillion Rupees. NIM including fee income was 6.28% for the quarter. The credit quality of NBFC business continues to remain robust with a credit cost of 1.25% in Q2. During the quarter, we infused, 500 Crore Rupees in NBFC to support its growth momentum.

Our Housing Finance Business continues to see strong momentum. The loan portfolio grew by 51% year-on-year to 23,236 Crore Rupees. During Q2 FY25 we further infused equity capital amounting to 300 crore Rupees in our HFC subsidiary taking the cumulative infusion during the year to 600 Crore Rupees. This infusion was done to support the growth momentum and maximize our share of opportunities which Vishakha mentioned earlier.

Coming to our AMC business, the average AUM increased by 9% sequentially and 23% year-on-year 3.8 trillion Rupees in the current quarter, of which equity AUM was approximately 47%. Alternate AUM (PMS & AIF) grew by 66% year-on-year to about 3,850 crores in Q2 FY25.

In the life insurance business, our first-year premium increased by 33% year-on-year and group new business premium grew by 45% year-on-year in H1. The VNB margin was 7.4% in H1 FY25.

In our health insurance business, our unique and differentiated "Health First" model helped us to deliver a growth of 39% year-on-year in gross written premium during H1 of FY25. Our combined ratio has improved from 119% in H1 FY24 to about 113% in H1 FY25.

I now hand over to Rakesh, MD&CEO, ABFL to cover the NBFC business performance.

Rakesh Singh:

Thanks Vijay, and good evening, everyone.

In our NBFC business, we saw a 23% year-on-year and 7% sequential growth in our AUM, taking it to Rs 1,14,710 Crore in Quarter 2. We continue to focus on SME segment and the business loans to SMEs grew at market leading rate of 39% year-on-year. This segment now comprises 55% of our overall portfolio. A large share of growth in this segment has come from secured loans which grew by 45% year-on-year.

Our disbursements in Quarter 2 were Rs. 19,322 Cr which are our highest ever quarterly disbursements. Disbursements grew 17% year-on-year and 10% as compared to H1 last year. This comes in despite the calibration measures in small ticket personal and consumer loans which I have spoken about in our earlier interactions. Disbursements to MSMEs grew at 27% year-on-year. Secured business loans to SMEs contributed 38% to overall disbursements. More than 58% 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". I am happy to share that we now have more than 16 lakh MSMEs registered on the platform. As we have highlighted in our previous calls, we have taken several steps to calibrate sourcing from digital partners in the smaller ticket size segment. We are in the process of scaling up our direct sourcing model and I am confident that the growth in this segment will pick up in the next few quarters.

Our efforts to tighten our scorecards and credit filters to improve the customer selection over the past few quarters have produced positive outcomes. Our credit cost has improved by 18 bps quarter-on-quarter to 1.25% which is well within our stated guidance of 1.5%.

However, we continue to calibrate our portfolio taking into account the current market environment. We continuously monitor off-us exposure of our customers and have carried out policy modifications to filter out customer cohorts with high leverage in our unsecured segment. As we have highlighted in our previous earnings call, we have taken various steps to calibrate sourcing from digital partners in smaller ticket size personal and consumer loans. To improve through the door quality, apart from leverage filters, we also continue to monitor, and when required, tighten underwriting rules such as number of enquiries, recency of unsecured exposure count etc. All these measures help us safeguard against any stress that might be getting created owing to extraneous reasons.

Our asset quality has shown consistent improvement with Stage 2 + Stage 3 book reducing by 100 bps year-on-year to 4.24%. The Gross Stage 3 book has declined by 14 bps year-on-year to 2.50%. Our Stage 3 book is well provided for with a PCR of 46%.

PAT for the quarter registered a strong growth of 15% year-on-year and stood at Rs. 629 Cr. The return on assets for the quarter was 2.34%. The return on equity for the quarter stood at 15.56%. Our net interest margin was 6.28% and cost-to-income ratio stood at 31.02% for the quarter. Our Tier 1 capital adequacy ratio stands at 14.47%.

Moving forward, we remain focused 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. All digital customer acquisition processes on the ABCD App and Udyog Plus are designed for end-to-end control, covering everything from underwriting to collections, ensuring complete customer ownership.

As we have mentioned in our previous earnings calls, we remain confident to grow the overall portfolio at a CAGR of 25% over the next two years. 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 hand it over 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 Q2 FY25. I'm happy to share that we've achieved our highest-ever disbursements for five consecutive quarters, driven by our investments in digital and distribution. Business from ABG ecosystem has consistently contributed 9-10% of disbursements over the last four quarters and we've consistently upheld strong performance in both portfolio and onboarding quality.

The key highlights for Q2 FY25 are as follows –

- We recorded highest ever quarterly disbursement of ₹ 4,010 Cr, which is an increase of 113% YoY & 31% QoQ
- Our AUM as of Sep’24 stands at ₹23,236 Cr., an increase of 51% YoY & 14% QoQ
- Our customer base is now at 75,300 and has grown by 29% YoY, with the average ticket size of retail segment at ₹ 27 lakhs
- We also recorded the highest ever PBT of ₹ 104 Cr, which is an increase of 7% YoY & 22% QoQ
- Net interest income to Average Loan book is 5.24%
- Stage 2 & 3 has reduced to 2.22%, which is a reduction of 218 bps YoY & 42 bps QoQ
- ROA for the quarter is 1.53% and ROE is at 11.54%

For more detailed financial information, please refer to slide 26 of the presentation.

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

First on portfolio quality, with a focus on quality of originations, 95% of our disbursements in Q2FY25 remain directed towards 700+ CIBIL or new to credit. Gross NPA has reduced both in absolute and percentage terms, which is at 1.30% in Q2FY25, the lowest level in the past 12+ quarters. As we are building our portfolio, we have increased our stage 3 provision coverage to 40.9%. This has resulted in a credit cost of 24 bps in this quarter. We expect our credit costs to normalise at current levels.

For more details on portfolio quality, please refer to slide 24 of the presentation.

On our second pillar, distribution, we now operate from 150 branches across 18 states. Our 'Sales CRM' has enabled last-mile planning leading to increased efficiency. The contribution of ABG ecosystem for Q2FY25 is at 9.2% of disbursements.

Moving to third pillar digital reinvention, Finverse', our unified digital lending platform continues to see 100% adoption. With 'Finverse', we are also now onboarding our channel partners instantly, and it's encouraging to see positive adoption rates among them as well.

Lastly on data and analytics, we've successfully deployed various models till date, spanning across the customer journey from demand generation to collections. Our pre-delinquency model, and flow prediction model, has played an important role in improving portfolio quality, resulting in a 218-bps yoy reduction in stage 2 + 3 compared to Sep'23.

Going forward, our growth momentum will be driven by evolving opportunities within the housing finance sector. This growth will be enabled by robust digital platforms, penetration led by ABC- ABG eco system, strong analytics and effective portfolio 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 Q2 FY25.

- At ABSLAMC, our Overall Average Assets under Management, including alternate assets, reached Rs. 4 lakh crores, reflecting a 24% year-on-year growth.
- Our Mutual Fund quarterly average AuM reached Rs. 3.83 lakh crores growing 23% year-on-year. The quarterly Equity average AuM stood at Rs. 1.81 lakh crores growing by 39% year-on-year.
- The SIP book during the quarter crossed Rs. 1,400 crores, a 47% year-on-year increase, from Rs. 968 crores in September 2023 to Rs. 1,425 crores in September 2024. We also added around 11.55 lakh new SIPs, a 5x increase compared to the previous year.

I am happy to share that our total investor folios have crossed 1 Crore with around 19 lakh new folios added during the quarter.

I would also like to mention that the strong investment performance supported by the increased level of engagement at the ground level, is helping us narrowing the dip in the market share on a quarter-on-quarter basis. This has in fact created a positive perception, among our distribution partners and investors at large, leading to an increase in the overall Net Promoters Score.

As we have been highlighting about our commitment to building our Alternate Assets and Passives business, we are making good progress on this segment.

- Our PMS/ AIF assets grew by 66% from Rs. 2300 crores to Rs. 3900 crores.
- Our Offshore assets, grew by 31%, from Rs. 9700 crores to Rs. 12,700 crores.
- Our Gift City operations, the gateway for inward and outward remittances, has also gathered momentum. We are currently raising funds for Global Emerging Markets Equity Fund and India ESG Engagement Fund. We also have a ABSL Flexi Cap fund and ABSL Global Bluechip fund in pipeline.
- On the credit front, we have launched the ABSL Structured Opportunities fund series II, under AIF.
- On the Passives front, as of September 2024, our assets total to approximately Rs. 30,000 crores. Our customer base has grown to over 9.5 lakh folios and we also have a diverse product portfolio of over 47 products.

I am also happy to share, that during the quarter we have also won the ESIC mandate under the advisory route and documentations are under progress.

Moving on to the financials for the quarter -

- Our Total Revenue is Rs. 520 crores v/s Rs. 391 crores in Q2 FY24; up 33% year on year.
- Our Profit after Tax is at Rs. 242 crores v/s Rs. 178 crores in Q2 FY24; up 36% year on year.
- For H1 FY25, our Total Revenue is at Rs. 1,001 crores up by 28% year on year and Profit After Tax is at Rs. 478 crores up by 32% year on year.

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 H1 FY25, Individual first year premium grew for the Overall industry by 21% and for the private players by 24%. For ABSLI during the same period it was at 33% with healthy growth across proprietary and partnership channels. Our new business policies have grown by 27% in H1. It was a very good second quarter for ABSLI as 19% growth for Q1 ended in a 33% growth for the first half of the year.

For ABSLI the proprietary channels saw a robust growth of 30% and our Direct business grew by 69% over last year in H1FY25. As Vishakha mentioned, our new tie ups in Bank of Maharashtra and IDFC Bank saw us gain mind share in the first six months of launch and business has now started at the Axis Bank counter too, these combined with our existing bank partners saw growth of 34% in H1 for ABSLI

In the Group Life Insurance segment, the private industry grew by 2%, overall Industry grew by 20% in H1 FY25 and ABSLI registered a growth rate of 45%. Better growth was contributed by superior performance both in the Fund as well as the Credit Life Business. Our Group AUM has now crossed 25,000 Crores as on Sep'24 and contributes to 25% of ABSLI overall AUM.

Our total premium for the period of ₹ 8,657 crore has registered a growth rate of 27% over last year same period, with a 2-year CAGR of 17%. This growth came from new business as well as renewal premium growing at 12%. Our digital collections now account for 81% of our renewal premium. We continue to work on Customer Lifetime value, which is reflected in our upsell ratio which touched 29% and helped productivity growth in both proprietary and partnership channels.

In the product mix of the individual business, traditional business including protection contributed 64% and ULIP was 36%. The increasing trend in sale of ULIP business has continued into this quarter for the industry as well as for ABSLI. We launched a ULIP product – Param Suraksha which was a combination of ULIP with inbuilt higher protection as well as critical illness riders which was a big success in our BANCA counters.

We drove our ULIP mix with a combination of products to garner higher mind share at some of our large counters which worked successfully, having achieved this our outlook in the second half of the year is to optimize the ULIP mix to ensure sustainable value and growth. Some drop in margins was planned for in the first half and we have a plan in place to get to our projected Net margins for the year

Our quality parameters continue to trend better across various areas, persistency across all buckets did well with the 13th month at 88% and the 61st at 67% which will make us top quartile in the industry, our consistent efforts on bringing cost efficiency into the business has resulted in Opex to Premium being fairly consistent at 20.6% vs 20.2% last year same period.

Our Asset under management now stands ₹ 95,553 crores, with a YoY growth of 24%. 25% 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 42. 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 94%.

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.

Based on the new surrender regulations, as we called out last quarter, we do expect some impact on our margins. Approach on realignment of commission structures has been finalized for the distributors. We have also initiated changes in product constructs in terms of customer benefits to ensure this impact is mitigated.

We have relaunched major top selling products in compliance with the new surrender regulations in October. as desired by the regulator No adverse impact is expected on the new business on account of this

We have raised sub debt of Rs 550 Crores in Q2 to support our growth aspirations and our solvency continues to remain at a healthy rate of 188%.

The H1 also focused on beefing up distribution by increasing capacity in our proprietary channels covering both agency as well as our direct business , we invested in capacity in our newly acquired bank partners which helped us garner incremental mind share , with this we have a reasonable ground set for penetrating in H2 and we have an opportunity to get triple digit premiums in the next 12 months time in some of these counters

All this has resulted in Net margins for H1 are at 7.4% given the preponed investments into channels as well as our planned higher ULIP sales. Focus on H2 will be on moderating ULIP and higher productivity of investments done in H1. For the full year we are estimating the same to be at projected levels of 17- 18%. On the back of strong growth and quality of our book, we are reporting an EV of ₹ 12,368 Cr with a growth of 21% over Sep 2023.

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.

We had a very strong Q2. We continue to build on growth momentum from Q1 of this fiscal year. Our Q2 growth accelerated to 43% vs 35% growth experienced in Q1. We achieved a gross premium of Rs. 2,171 crores with a strong 39% YoY growth in first half of the year. This growth is significantly higher compared to the SAHI growth of 25%, thus further strengthening our position as the fastest-growing SAHI player.

Our market share in SAHI has increased from 10.7% to 11.9%, a YoY an increase by 123 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 1.25 lac agents has experienced at 38% YoY growth. All our major bank and digital alliance partnerships have also experienced impressive growth leading to our retail franchise growing at 51% in H1.

Our flagship product Activ One launched late last year continues to be the most comprehensive indemnity product in the industry. The product Positioned under the theme "100% Health: 100% Health Insurance," continues to be exceptionally well received by the market, helping us penetrate newer customer segments, including, the HNI segment and segment comprising of people with existing chronic conditions. Our recently, introduced category defining Maternity Product, aimed at expectant parents has been well received in the market. We also have collaborated with India's leading wearable device manufacturer to introduce a product, integrating wearable based health tracking to promote proactive health behaviour and to get access to a very large base of young and healthy customers.

The Corporate business experienced a strategically controlled 27% YoY growth, driven by a sharp focus on profitability through careful customer segmentation, cross-sell/upsell strategies, corporate wellness initiatives, and our industry-leading initiatives. We are strategically concentrating on Mid Corporate and SME segments to continue to build one of the very few sustainable and profitable corporate business in the industry.

By prioritizing both growth and profitability, we are building a resilient franchise. Our net loss improved to Rs 115 crore in H1, compared to Rs 140 crore in the same period last year. The Combined Ratio also improved to 113%, from 119% in the previous year. Both our Claims and Expense Ratios have trended positively at the Company level and we continue to maintain a positive outlook as we work forward to meeting EOM guidelines in the next fiscal year.

Our Health First model continues to scale and mature and show visible improvements in both consumer engagement and therefore financial outcomes for the company. 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 33% on an enlarged customer base. These customers continue to exhibit lower loss ratios, ranging from 20% to 40% at various cohort level. Likewise, customers earning Health behaviour based incentives experience loss ratios up to 34% lower than the baseline case. This is shown in slide 53.

We have invested in building deep capabilities in managing customers with high health risk which also happens because of the ageing of the portfolio. We have also created 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 120,000 High risk lives to improve their health vitals leading to lower Claim ratios thus removing the challenges most of the health insurance companies with vintage in the market are facing today.

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.

The industry leading Activ Health App has been relaunched with multiple Freemium Services. The Activ Health App now provides opportunity for non-policy holders to experience our comprehensive app ecosystem. Our YoY App downloads have increased by 95% with YoY MAU increasing by 88%.

Looking ahead, we remain optimistic about the long-term growth prospects of the health insurance sector. The recent regulatory changes, including current changes, are laying the foundation for a more transparent and robust industry and we believe we are positioning us to capture future growth opportunities.

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 Puneet Balani from Macquarie Capital.

Puneet Balani:

Your PCR has declined while the credit costs have also declined. PCR has declined and especially when I look at secured segments they are like close to 30% now. So, what's the reason, any guidance here like we are comfortable with these levels? And second is on earlier Stage-2 assets yes, they have declined. But has your Stage-2 coverage also declined based on that? That's it from my side.

Rakesh Singh:

So, Puneet if you look at, our secured book has grown from 67% to 74%. So now of the total loan book 74% of our loans are secured by real estate collateral or listed securities. So that is the reason why the PCR because this follows a ECL model and that is the reason why the PCR has dropped marginally because of the change in the product mix and there is no decline in terms of stage two provisioning.

Puneet Balani:

So, we can expect these levels to continue, as you are growing the secure book as well? So, we can expect the PCR levels around these to continue.

Rakesh Singh:

Yes, depending on the product mix and the ECL model is what our provisioning will be.

Moderator:

We'll take the next question from the line of Avinash Singh from Emkay Capital.

Avinash Singh:

So again, on PCR, I mean if you see the movement, again in the two businesses, the Housing Finance and Aditya Birla Finance. On the one hand Aditya Birla Finance Stage-3 PCR has been taken down to 46%, with a particularly sharp drop in secured where of course there is no government guarantee. But on the Housing Finance side you are taking it higher to close to 40%. Again, that's secured. So, what is the sort of change that your ECL model is showing just in the quarter? There are kind of a divergent moves particularly if we compare secured with secured. So, I mean housing going to 40% whereas I mean in the secured piece of your NBFC, is going to 31%. And NBFC also disclosed that loan book acquired in the quarter still remains reasonably close to 11 billion or so. So, when you are tightening your credit filter, I mean what kind of a comfort do you have if I understand the SME LAP book has a kind of a 12 month or so holding period. So, what's the comfort you have on this acquired book?

Rakesh Singh:

So, Avinash your first question was on the provision cover in the NBFC. I will address that and maybe Pankaj can add on the housing one. The reason in NBFC what happens is what is the security. We have EAD, exposure at default into LGD loss given default which is basis the over last 5-10 years of our recovery rates on the security. So, it depends on what is the security cover I have and that is the basis on which the provision is created. So, if my security cover is 2x or 2.25x, the provision will be lower because the LGD will be lower. So that's the logic with which yes, both of the businesses are secured but on one side in the housing the LTV might be different for different customer segments, Pankaj can add there. But in the NBFC one it all depends on what is the security cover which we have. So that's the reason why the PCR or the ECL will change. Your second question was on the acquired portfolio. So, on the acquired portfolio if you look at in the last quarter, we have acquired securitization closer to Rs. 1,107 crores. That's what if you look at, out of the 19,000 crores of the disbursement which we would have done for the quarter 1,107 crores is buyout and if you look at sequentially it has come down significantly from Quarter 1, it's almost 50%.

Pankaj Gadgil:

Avinash, Pankaj here. I think the question is on the higher provisioning coverage ratio on housing which has gone to 40.94% from 34.55% which was there in Quarter 1. So here first I would want to say that if you look at Stage-2, Stage-3, it is true reflection of the portfolio and in Stage-3, you would have seen from 315 crores you would come down to 288 crores here. So that is one side of the story. The second side of the story is that while we use the ECL methodology, obviously we keep looking at each and every account and we also look at the ageing of the account and also the probabilities of recovery from time to time. And when we looked at specific accounts, we felt that in some of the accounts that we have, the probabilities of loss could be slightly higher there and that is where we have taken that higher coverage. That is the philosophy there. I think it is very range bound. If you look at the entire HFC industry, the PCRs range from between 35% to 50% as well. So, I think it is very range bound. We are at 40% and it's not only Stage-3, but we keep looking at the accounts also individually to look at the provision coverage ratio.

Avinash Singh:

I can just have one more question. That on life insurance I mean first half VNB margin 7%. You are hoping the margin uplift of 10% odd by the year end. Now if I see this kind of a margin uplift had happened in FY23 and then the situation was different that you had a kind of a strong sales of that non-par product in the month of March ‘23. But here if you look big time, ULIP continue to remain flavour of the season and in H2 the new surrender regulation also comes into picture. Now what is it that you are still hopeful of taking a margin from 7 to 17 because it has not happened last year, it has not happened earlier in FY22. It only happened in FY23 and there was a particular reason. This time the reason is just the other way. But if at all there could be some negative impact on the surrender regulation. So, what is giving you the confidence that the margin can actually go up by 10% in the second half?

Kamlesh Rao:

If you look at the last 2- or 3-years’ time, I think you validly raised the point saying that in one year there was an uptick also on account of the new regulations setting in. But prior to that you would have instances of ABSLI would be in the rangebound margin of 7% to 8% and we have gone even actually to 23% in that year. But a fair point made that ULIP is on the growth angle. But like I said all the new products that are getting launched in the second half of the year are non ULIP products. Protection, we have launched a suite of two new products which actually happened in the month of September. So that will flow into the second half of the year significantly better. Typically, the margins which accrue from our agency business is significantly higher and between the first half of the year and the second half of the year, the investment in capacity that we have done in the agency business has been about 40%-50% more. It takes time for that to fructify which we think will happen in the second half of the year. So, all of this would combine and of course like you rightly said the ULIP business will need to get moderated as compared to the ULIP business that happened in the second quarter. And we actually did that as part of a strategy because in some of our large bank counters we wanted to garner additional mind share. Normally when you get additional mind share in a bank counter when you substitute your products your mind share typically remains the same. But you get your combination of suite of products and that's the strategy that we have played and that's the reason why you see significantly larger growth rate in the second quarter. We want to use whatever we have created with the combination of products that we will launch in the second half of the year. And like I said in agency which will see traction in the second half of the year more than in the first half is where the uptick of the margin is expected from 7.5% levels to about 17%-18% that we are projecting for the end of the year.

Moderator:

The next question is from the line of Subramanian Iyer from Morgan Stanley.

Subramanian Iyer:

Just had one data keeping question. Can I get the total ECL for the NBFC for both the quarters?

Rakesh Singh:

Subbu, we can share that. I don't have readily available. I can share that offline.

Moderator:

We'll take the next question from the line of Mayank Mistry from JM Finance.

Mayank Mistry:

My question is on the housing business, actually when we see from the March quarter, we have grown at 26%. So, what is our AUM guidance for over there and second also there had been concerns on aggressive lending in the housing space by RBI recently. So has there been any communication with the regulators?

Pankaj Gadgil:

I think the growth has been very consistent if you see over the last six quarters and like you rightly said the growth is now 51% y-o-y, 14% q-o-q. So, like we have said earlier, the focus is on doubling the book in the next 18 to 24 months. That has been the guidance that we have been giving because this is coming on the back of the huge opportunity that the industry has and I think the investments that we have made on digital platforms and also distribution and also the ABG ecosystem we have seen, the contribution of the business coming in from the ABG ecosystem, also helping us in garnering shares. The growth is coming across all the segments which is the affordable, informal, prime business as well as the CF business. So, guidance is on that side. Particularly we have not received any such indication from the regulator on aggressive housing loan growth, etc. But they have been in the past, of course regulator has opined and just to also mention that this growth that we have done over the last six quarters, we would be one of the very few companies which also speaks about our onboarding quality consistently. And you would have noticed that 95% of our sourcing today which is happening is in the top quartile bureau and also new to credit. And that is clearly showing also in the Stage-2 and Stage-3. So, both in absolute numbers as well as in percentages at all points of time, we have been speaking about the portfolio quality in consonance with the growth that we have actually had.

Mayank Mistry:

But do we have any number on the growth that we are targeting?

Pankaj Gadgil:

I just mentioned that I just said that we have been speaking about growing the book and doubling the book in the next 18 to 24 months and that kind of stays on course and like I mentioned in the transcript also, we keep looking at the risk reward opportunity which exists in the sector and appropriately we look at leveraging the sector in the best possible way.

Moderator:

We'll take the next question from the line of Chintan Shah from ICICI Securities.

Chintan Shah:

So firstly, on the capital allocation, when we have after the latest fundraiser for roughly 3,000 crores which we have completed also how much of that has been allocated to NBFC and HFC?

Vijay Deshwal:

Chintan out of the total, we raised about 3,000 crores of capital in June '23 and after that we also got about 570 crores of capital from the AMC-OFS during March and June of this calendar year and about 167 crores recently from the ABIBL stake sale. So far, we have invested close to about 2,100 crores in the NBFC and about 600 crores in the Housing Finance business.

Chintan Shah:

How much of this would have gone into the digital arm, digital company?

Vijay Deshwal:

As we had mentioned during March that till March, we had spent about 100 crores and we would have additionally spent about 50 to 75 during the year in the digital proposition.

Chintan Shah:

And so, under the unsecured piece, I think in this quarter we have seen some growth coming up in the QOQ disbursements. So, I think last quarter we had mentioned that we would be changing. We are working on better sourcing it via internally and refraining from any external sourcing. So how does it go now? Is it entirely internal sourcing for the unsecured and have we tightened the filters or how is it given that in current environment unsecured probably is not the flavor of the town right now?

Rakesh Singh:

So, I covered this in my opening script and covered that we have tightened underwriting whatever cohorts which was showing any performance which was not in line. So, we have tightened it across in terms of underwriting in different cohorts. So that has been done. We have built our acquisition channel now. So, if you see majority of our loans are coming through our direct acquisition channel which is the digital journeys which we have built internally. Also, the branches which we have built over the last 2-3 years have started yielding results. So that also is helping us. So majority of our disbursements in personal and consumer loan is coming through. Yes, some bit will be coming through DSA which is part of our branch network.

Chintan Shah:

I just wanted to understand this because in the last quarter also we had seen a steep decline in the disbursement and this quarter despite the environment, disbursements have been quite strong. So, anything which has changed very much the cohorts and the tightening of the filter that has happened in this quarter itself or how is it?

Rakesh Singh:

The tightening has been happening over the last three-four quarters and that's the reason the disbursement has been coming down from—we used to do close to—5,000-5,500 crores of disbursement that came down to 2,000. So it's been coming down. We have been tightening our underwriting norms over the last three to four quarters and all the branch led disbursements and our own digital journey the ABCD app through which we acquire customers, those are the things which is growing at this point in time.

Chintan Shah:

Just a last question if I may ask. On the Housing Finance we have seen certain accounts where probably there are some signs of stress and that's why we have increased the higher provisions. So, under what segments these accounts would cater into affordable or prime? And given that we already have the security then probably why would we be so I would probably say concerned on the asset quality other on front for these accounts?

Pankaj Gadgil:

See the quantum is very minimal. We're talking about 8-9 crores. That's how the PCR has changed broadly. We keep doing at all points of time, all those securities are there, LGDs we keep measuring, what could be the LGDs that you will be getting on some of these assets.

And I would just mention that it is spread across all three segments. But the quantum itself is very small.

Chintan Shah:

So, if we could just give the total provision on the HFC book for this quarter and the last quarter, I think that data is not handy, so you can share that with me as well. That would be helpful.

Pankaj Gadgil:

The credit cost was 6 crores earlier, this is now 12 for this quarter, that is the incremental which is there and on PCR anyways if you want to know on the PCR as well, then we can share that with you subsequently.

Chintan Shah:

Basically, entire ECL provisions on the book for the ABHFL business, how much has that increased probably QOQ?

Pankaj Gadgil:

6 and 12, 6 was the credit cost for Quarter 1 and 12 crores the credit cost for Quarter 4.

Moderator:

We'll take the next question from the line of Kishore Agarwal from Bajaj Finserv AMC

Chintan Shah:

I have two questions. One on the margins on the NBFC side, we have seen the second quarter of sequential decline in margins. So, is it primarily because of the increase in secured mix and where do you see the margins settling? And my second question is on asset quality. Do you think that this improvement in asset quality can continue even in the second half?

Rakesh Singh:

So, margins if you look at that's on the backdrop of change in the product mix. Our secured business going up from 67% to 74%. And also, on the other side unsecured business has declined 20% odd to 14%. So that's the reason, because of the change in the product mix why the margins have come down. As I mentioned in the earlier reply, we are building our own acquisition channels and we want to build up the personal consumer segment through our own channels and also the MSME, small ticket MSME loans, the business loans which we call it. I think these two things should be able to offset the yield compression which is happening on account of the secured business growth. But it might take a quarter or two because I think the shift will happen. In terms of also looking at the environment, the small ticket loans in unsecured we have completely stopped doing it, less than Rs. 50,000 unsecured loans we are not doing it. We have tightened our all-underwriting norms. So that's the reason why the margins have declined. But once that starts picking up and also our business loans picks up on our B2B Udyog Plus platform, we should be able to mitigate the decline in margin. And to your second question in terms of whether we will be able to sustain the asset quality and the ECL, yes it will be range bound. Our guidance has been that the credit cost will be around 1.5%. We have come down to 1.25%. We expect it to be in the same range and we don't see this going up.

Moderator:

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

Vishakha Mulye:

Thank you so much for all of you to join us today evening and very Happy Diwali to all of you and your family.

Moderator:

Thank you. 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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