

Aditya Birla Capital Ltd. (ABCL)

Q1 FY23 Earnings Conference Call Transcript

August 3, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 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 an 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. Thank you and over to you ma'am.

Vishakha Mulye: Thank you, good evening and welcome to the earnings call for Aditya Birla Capital for the quarter ended June 30th, 2022. I am pleased to present the business performance and the financial results for Q1 FY2023 and I am joined by my senior members of the team. Together we will present the result and take any questions you might have.

I have taken office as a Chief Executive Officer for Aditya Birla Capital Limited with effect from 1st July, 2022. I am delighted to be a part of ABCL, a Company that is uniquely positioned to capitalize on the opportunity in the financial services sectors in India.

Before coming to our performance this quarter, I would like to mention that the Indian economy has started on a good note in Q1 FY23. This has led by recovery in the demand to a pre-pandemic level, which is in turn has driven industrial activity and service sector. This is reflected in the service sector PMI at 59.2 and the GST collections at an all-time high of 1.44 trillion in June 2022. However, the overall macroeconomic environment has seen headwinds emerge over the past few months led by inflationary pressures and a slowdown in the global economy. Though continued concerns remain due to these headwinds, for FY23, the Indian economy is expected to grow at about 7%, driven by the domestic demand. This growth rate would put India as the fastest growing economy in the world. This will create great opportunities in the Indian market. We at ABC, believe that we have well positioned to leverage on these opportunities.

Now I'm pleased to report that Aditya Birla Capital has delivered a strong quarter with the Rs. 429 crore of consolidated profits after tax, a 42% year-on-year increase driven by the growth across our platform.

Let me quickly summarize the key highlights of our performance this quarter.

- In our lending businesses, the overall loan book grew at 22% year-on-year to close at about Rs. 70,000 crore.
- The insurance business gross written premium grew by 53% year-on-year to reach 3,250 crore.
- With 3.6 lakh crore of aggregate assets under management across our platforms we are one of the largest fund managers in the country today.
- Our active customer base has now reached 39 million customers reflecting a significant 55% year-on-year growth.

I am also happy to say that with this performance we are on track to deliver ahead of our previously stated FY24 target. Our focus on customer acquisition, retailization of portfolio, new products and customer segments as well as greater penetration in existing customers to enhance the market share by leveraging technology and data analytics has enabled us to deliver both growth and greater profitability across our platforms.

We have added about 4 million active customers in this quarter though our continued and sharp focus on customer acquisition, both through our expansion and our branch network and our digital ecosystem strategy. Our physical footprint has now reached almost 1,100 branches driving our presence in every town in India with a population of at least 3 lakhs. Our branch expansion is targeted at driving penetration into Tier-3 and Tier-4 locations and new customer segments. In addition, we have continued to drive our common One ABC branch roll-out with over 113 co-located branches now operational.

In addition to expanding our physical footprint, we have also added new and customized products to offset our product suite. To give a few examples, in this quarter we launched a co-branded credit card with SBI Cards in our lending business, a fixed maturity product in our life insurance business and OPD products in our health insurance business. We will continue to drive new product addition to serve the needs of our existing customers as we expand our target customer segments. We continued our focus on providing better customer experience through seamless customer journeys, on boardings and personalized solutions through digital offerings. For example, over 96% of our customers were on-boarded digitally. This quarter we had over 10 million customer interactions on a digital channel and 87% of our insurance policy are renewed digitally.

We leverage our analytics capabilities to increase the share of our wallet with our customer. In this quarter, 35% of our life insurance individual FYC and 20% of our health insurance retail fresh premium was driven by the data analytics led up-sell and cross-sell initiatives.

Let me now give you a brief summary of our business wise performance:

Let me start with our NBFC business; the outstanding loan book as on 30th June 2022 has increased by 26% year-on-year and 5% quarter-on-quarter. Within that the retail and SME loans grew by 39%. Retail and SME constitute now 64% of our loans as on 30th June 2022 as against 56% a year ago. The improved mix has driven NIM expansion by 33 basis points year-on-year to about 6.5% this quarter. The quarterly PAT for ABFL has increased by 43% year-on-year to Rs. 335 crore and ROA has increased by 46 basis points to 2.5% from 2% as on 30th June, 2021.

In the housing finance business, we continued our focus on the affordable housing segment. The outstanding affordable loan as on June 30th, 2022 grew 45% year-on-year. The NIM expanded by 59 basis points year-on-year to about 4.6%. The PAT has increased by 45% year-on-year to 56 crore. ROA for us as on June 30th, 2022 was at 1.9%.

Now let's talk about our mutual fund business. The average AUM in our AMC business has grown by 2% year-on-year. However, within that our equity AUM has grown by 14% during the same period. The overall equity mix has grown from 37% to 41% as on June 30th, 2022. Despite the challenging market this business has maintained its operating PBT at Rs. 172 crore. However, the market volatility and the interest rate environment has impacted the overall profitability for that business. Taking into consideration the mark-to-market impact, the PAT for this business was Rs. 103 crore for Q1 FY23.

The growth momentum in our life insurance business continued with 26% year-on-year growth in retail first year premium and about 2x growth in our group businesses. The total premium in this business grew 49% year-on-year to reach over Rs. 2,600 crore. We've also continued to see the profitability profile of this business improving and we are well on track to deliver the 17% to 18% net VNB margin this fiscal year.

In our health insurance business, our unique and differentiated model helped us to deliver industry leading growth of over 70% this quarter on a year-on-year basis. ABHI was the fastest growing health insurance player in Q1 FY2023. With an increase in a market share of about 300 basis points our overall market share is now 12%.

Slide 10:

I will now talk about our key focus areas going forward:

1. We intend to leverage the momentum we have seen across our businesses to accelerate our growth trajectory and continue to build scale and drive market share in each of our key businesses. We will continue to focus on quality and profitable growth.
2. Continue our retailization strategy by driving customer acquisition, by building a direct channel, partner ecosystem as well as by increasing penetration into new markets and customer segments. Our branch expansion will be primarily driven by increasing the footprint of our lending and health insurance branch network as well as the co-located One ABC branches.
3. Drive steady increase and digital adoption across our platform, investing and leading-edge technology, analytics and digitization is central to our approach. We will focus on integrating and adopting new technologies to improve our customer experience and new customer acquisition.
4. Focus on extended ABG and ABCL ecosystem to accelerate our growth. We will focus on very specific and unique prepositions including products and customer journeys for stakeholders within these ecosystems such as suppliers, distributors and employee.

With that I will now handover the call over to Rakesh to take us through our lending business performance.

Rakesh Singh:

Thanks, Vishakha and good evening, everyone. I will now walk you through the performance of our lending businesses starting with NBFC and then housing.

Slide 13:

In our NBFC business we had a strong start to the financial year. Our loan book grew 5% quarter-on-quarter and 26% year-on-year to Rs. 57,839 crore with our NIMs reaching another all-time high of 6.5%. This was also aided by strong growth in our retail segment book which grew 80% year-on-year and 15% quarter-on-quarter to Rs. 20,249 crore.

Quarter 1 PAT grew 43% year-on-year and 14% quarter-on-quarter delivering an ROA of 2.5%. This takes our ROE's to 14.3% this quarter which is an increase of 300 basis points year-on-year and 127 basis points quarter-on-quarter. Not only are we going strong on profit delivery, we are also continuing to acquire customers at scale. With 1.4 million customers acquired in Quarter 1, our active customer base has grown 32% quarter-on-quarter to 4.8 million. We disbursed Rs. 8,039 crore in Quarter 1, 3x of what we did in last year Quarter 1. 73% of our disbursement was in retail and SME segment which now comprised 64%

of our overall loan portfolio and we are already at our desired mix as per our guidance provided earlier. In retail we continue to drive granular growth with portfolio average ticket size reducing from 4 lakhs last year to 40,000 in Quarter 1. Our digital ecosystem strategy continues to fuel growth with 47% of retail disbursements coming from digital ecosystem in Quarter 1. We focused on leveraging data analytics to leverage cross-sell opportunity on the large customer base we acquired, and we saw nearly 20% growth in our digital portfolio come from cross-sell of personal loans on the customer base acquired through the digital ecosystem.

Further on asset quality, our gross stage-3 book is maintained at 3.2% while our stage 2 book has reduced over previous quarter. Our collection efficiency is at 99.3% consistently better than the pre-COVID levels. We have progressively increased our stage-3 PCR or provision coverage ratio taking it to healthy 48% in Quarter 1. And I also want to highlight that 73% of our portfolio is secured in nature. As of Quarter 1 end we have only Rs. 500 crore of the initial restructured book which is under moratorium which is only 0.85% of the overall portfolio. On rest of the restructured book, we are witnessing a healthy collection efficiency similar to last quarter.

Slide 14:

With that let me spend a couple of minutes on key developments in our growth strategy. We continue to focus on four essential pillars:

1. Retail portfolio expansion with increase granularization.
2. Specific industry focus and digital platforms to drive SME and B2B segment.
3. Acquiring customers at scale using digital ecosystem and data analytics.
4. Increasing direct sourcing through our branch expansion in Tier-3 and 4 markets.

And I have strong outcomes to share in each one of these areas:

Slide 15:

Starting with Retail, this segment grew 80% year-on-year and 15% quarter-on-quarter to Rs. 20,249 crore. And in terms of mix is at 35% of the overall portfolio as of June '22, an improvement of 10% over last year. More so the contribution from new products such as small ticket loans and digital ecosystems grew nearly 4x in the last 2 years. These products make up 32% of the overall retail segment and this mix has increased from 15% in Quarter 1 last year.

Slide 17:

Similarly, in SME segment we focus on specific industry's deepening penetration and leveraging digital MSME platforms to source from across the value chain. The SME business distribution footprint is now live in 25% of ABFL branch footprint as of Quarter 1 this year. Targeting SME clusters in chosen industry sectors.

Slide 18:

When it comes to investment in technology, we have two-pronged approach. We consistently look at enhancing our platform to onboard and underwrite customers faster and we have shared few key outcomes demonstrating strength of our technology capabilities, especially in three areas, - Customer acquisition, servicing, and process automation.

Slide 21:

Lastly, expanding share of direct sourcing is key to our retail strategy. We increased our branch count to 191 as of June '22 from 159 in March '22. We have also increased our sourcing from direct and digital ecosystem channels to 51% as compared to 21%, 2 years ago and our plan is to increase this further. While we grow our branch footprint, we have been successful in maintaining our cost income ratios at similar levels as of last quarter.

Slide 29:

Our financial numbers highlight our commitment to our strategy and we are well equipped to deliver strong growth momentum in FY23. We set out our growth aspiration for FY23 in the last quarter and we are confident of delivering an overall loan book growth of 20% in this financial year. With our small ticket and digital ecosystems firing at scale where we expect more than 2x growth by year end. With a current growth trajectory and continued focus on key segments our ROEs should comfortably reach the guided range of 16% to 17% ahead of time.

Slide 31:

Now I would shift to housing financing business. Coming to housing business, we had stated earlier that growth in affordable book is expected to drive speedy returns. We have seen growth in disbursements in our target segment in the housing finance business as well. Quarter 1 disbursements were up by 170% over the quarter 1 last year, of this the affordable segments disbursement mix was almost 50%. This has taken the affordable portfolio mix to 39% from 29% in the previous year. The shift in the segment mix supported by the lower cost of borrowing has helped the organization to report the highest ever NIM of 4.59%, an increase those 59 basis points over the last year. Not only have our margins expanded but our customer selection and calibrated

underwriting strategy has helped risk adjusted returns which is defined as NIM less credit costs to expand by 120 bps over the previous year. With improvement in margin housing finance PAT for quarter was up 45% year-on-year taking our ROA to 1.9% and ROE to 13.7%. Efficient collection management of 97.9% has led to a lower credit cost of 52 basis points compared to 1.14% last year. Only 3% of our portfolio is under moratoria, most of which is due for banking in quarter 2.

We have created sufficient management overlay across all stages. We also have very comfortable ALM and our capital adequacy is at very healthy 23.8%. Growing out affordable book continues to be our focus and to drive affordable penetration further. We have expanded our branch count to 221 branches with 76% of these branches are in Tier-3 and 4 markets. We target to increase our branch footprint to 200 plus by end of this financial year. We have also augmented our frontline capacity to drive affordable volumes and create additional distribution capacity. Direct sourcing is already healthy at 72% in quarter 1 of this year and this really ensures higher customer stickiness. Our progress in digital capability gives us the confidence of scaling up ecosystem partnerships and co-lending as an alternate sourcing channel.

On the technology front, we have made some good progress. Majority of our customers are onboarded digitally. Overall, 92% of our customers are onboarded digitally. On service front we have enabled multi-channel servicing which includes WhatsApp, eBot, Google Assistant and self-served portals. This has led to 77% of our customer interactions coming from digital channels and over 98% of our housing collections are through digital means.

With this I would like to sum up the housing finance business; a structured shift in our business mix, wider geographical footprint and increased distribution capacity, we expect to see 20% growth in portfolio and steady margins. We have already surpassed NIM and ROA targeted for FY24 and the focus is now on growth as the operating leverage will now improve these metrics further. With this I will pass it on to Bala for our asset management business.

A. Balasubramanian: Thanks Rakesh and good evening to everyone. As I presented in our AMC analyst call, just to give a quick overview on AMC performance.

Slide 43:

The total quarterly average assets under management for the quarter ending June 2022, stood at 2.99 lakh crore with annual growth of 2%, continued to maintain our leadership position in the industry. Our equity mutual fund AUM grew by 14% year-on-year, touched 1.17 crore for the quarter ended June 2022. In fact, our equity asset mix now at all time high with 14% of our total assets coming from equity. We have also

added close to about 2 lakh NIM folios in the last quarter and overall SIP book has also shown improvement which has moved from Rs. 816 crore as of June, 2021 to Rs. 898 crore, coming from 32 lakh live SIP investors.

With respect to alternates business, as it has been updated in the past that we update a separate team of people to drive this business. In fact, our passive product offering grew by 6x to Rs. 12,696 crore in June 2022. Our emphasis of building passive strategy also gained momentum by way of launch of more products through ETFs, fund of funds, multiple index fund, our existing passive bouquet has gone to 20 schemes and another 20 schemes are in the pipeline to be launched this year. Our customer base in the alternate category especially in the ETF has gone to about 4,20,000 folios.

With respect to outsource business activities, we have witnessed received seed funding approval received for Greater India ESG Engagement Fund launched. We will take this to more number of investors in global market and we will look to raise more money we will plan. With respect to the offering more funds to NRIs under the GIFT City also offering products to LRS investors. We have planned some launches in this area subject to of course to regulatory clearances.

On the real estate front, the first round of subscription of the Aditya Birla Real Estate Credit Opportunities Fund got closed this quarter and we are evaluating multiple options both for offshore opportunities as well onshore opportunities for the second launch.

Slide 51:

Moving to the financial number, our focus continues to remain achieving robust asset mix between equity and mutual fund with high margin focus. We are maintaining our operating revenue and PBT even during the volatile quarter as Vishakha has mentioned. During the Q1 FY23, despite market volatility during the quarter revenue from operations remained at Rs. 303 crore as compared to Rs. 305 crore in the similar quarter of last year. Due to market volatility, the AMC treasury portfolio which is Rs. 2,200 crore has seen a mark-to-market impact due to the decline in other income compare to the previous year. As a result of this our overall profit after tax stood at Rs. 103 crore in Q1 FY23 while maintaining overall operating income closer to previous quarter.

With this I will hand it over to Kamlesh to give you update on ABSLI performance.

Kamlesh Rao:

Thank you Bala. Good evening to all of you.

Slide 53:

After growing through the last 2 years at a healthy 30% which was in line with the private industry growth. For the first quarter of this year ABSLI

grew at 26% in the individual life insurance business and 193% in its group life insurance business. Details of which are on slide #53. The good part about this growth is that it has been led by both productivity as well as the additional capacity that we created in the last quarter of last year. The total premium at Rs. 2,620 crore for Q1 has seen a healthy growth of 49% YoY with a 2 year of CAGR of 25%. The total premium growth is fueled by strong performance on renewals where we collect 74% in value terms and close to about 88% in terms of NOPs digitally and we have seen improvement in all cohorts of persistency with 13 months persistency now at 85.3%.

Slide 57:

On slide 57, tells the story about our new product. So, our new product success continues, and it has contributed to 57% of our business in Q1. We've launched an interesting product in July which actually will compete with Bank fixed deposit space and our new PAR products will help us complete the suite of our product portfolio. Our pre-approved sum assured which we call PASA, the success of that continues with 14% business contribution in Q1 and our relatively younger customer profile has allowed us to get 28% of our Q1 business firm up there. Our Group business grew at 193% in Q1 and this is on the back of 74% CAGR for the last 2 years and the AUM in this business is now at Rs. 16,000 crore and in the profitable ULIP segment we continue to be the second largest player. This year we are looking at more than doubling our credit life business under the group business umbrella.

Slide 58:

On slide 58 gives you a picture of all our quality parameters. We have done consistently across all persistency in various buckets be it 13th month, 25th month, or 65th month along with well managed OPEX to premium ratio. The firm now manages an overall AUM of Rs. 60,000 crore and we have had a good year on our investment management, doing better than the respective benchmarks across our various funds.

Slide 60:

Our digital adoption across the various areas is visible in slide 60. 97% of our new business is sourced digitally and practically all of them come with the auto-pay mandate for subsequent renewals. In line with our guidance given earlier 57% of the sourcing is now auto underwritten, 81% of all our services are now available digitally and our self-service customer portal alone now contributes to 68% of our overall transactions.

Slide 61:

On slide 61 is the margin story. So we have managed to post positive net margin in the first quarter itself this year and are at 2.5% net VNB

margins. We closed last year the net VNB margins at 15% and with this healthy start that we have had this year we are on course to deliver net VNB of closer to 18% which will again be 1 year ahead of our previous guidance. And for the years ahead we to continue to maintain our guidance of doubling our absolute net VNB for financial year '25. With COVID claims now at subdued levels for two successive quarters our claims are in line with plan. Please note that we continue carrying a COVID provision of Rs. 47 crore for the balance part of this year.

To sum it up, our Q1 performance has been one of strong growth with all our quality parameters doing better than last year. This momentum will help us grow this business in a value accretive manner on both topline as well as products improve profitability for subsequent quarters. Thank you. With this I handover to Mayank for the health insurance business.

Mayank Bathwal: Thanks, Kamlesh. I'm happy to now present the performance for our health insurance business.

Slide 64:

We had a very strong performance in the quarter enabled by the very strong foundation of a differentiated health first model we have set over the last 5 years that we have been in operation. The power of the proposition which is more inclusive but more importantly relevant and engaging, leveraging the very powerful tenet of consumers health hence found a lot of acceptance by consumers and intermediary report. We had in the last quarter of FY22 demonstrated the superior unit economics of our business model by bringing up one of the fastest quarterly breakeven in the health insurance industry. Further given the tailwind for the category and all the enabling steps taken by the regulator and the Government in the last few months, we had given a guidance that we will now be taking up a growth agenda and get the growth leadership back that we've enjoyed over the last many years.

We are pleased to inform that at 71% growth YoY in the last quarter we were the fastest growing health insurance Company in the country, well ahead of the industry growth at close to 21% and SAHI growth at 29%. This was of course powered by a regional franchise growing at a healthy 37% YoY. In addition, our corporate business grew at 168% led by a huge focus on cross sell and upsell and creation of a new category of offering corporate OPD and these two together constituted 41% of the corporate business in the quarter. We believe we have set up one of the most profitable corporate businesses in health insurance in the industry.

Overall, we acquired 3.7 million net new customers during the quarter taking our overall customers to 22 million with 57% YoY growth. This has helped us take our SAHI market share to 12%, a 300-basis point increase

YoY. On the profitability front, our combined ratio came down to 109% for the quarter, a large reduction from the 154% in the same period last year because of COVID issues. This brought down our quarterly loss to Rs. 71 crore from Rs. 128 crore in the same quarter last year. Higher scale will continue to create operating efficiencies as we move ahead, and we continue to monitor our claims experience very closely.

To take our differentiated model ahead we continue to launch new range of offerings. Apart from corporate OPD we also launched one of its kind retail OPD offering. Our flagship product active health which gives 100% premium back to customers for good health behavior and it's one of its kind not just in India but globally continues to be a huge success and was rated the number 1 product in health insurance by Forbes and CNBC.

Our digitally enabled distribution mix is the most diversified distribution in the industry, agency being the single largest channel at 22% of our retail business. We now have more than 68,000 advisors across 200 plus branches. We have One ABC branch strategy to nearly double our branch network at a low cost and we are also synergizing with other BUs in areas like common advisors. We now work with 14 Banks having added IDFC First Bank and PUB Bank in the last quarter.

On the digital front our own digital business and digital alliance partners business together grew 130% YoY becoming a sizeable 16% of our total retail mix. We continue to invest extensively in our tech and digital capabilities with a clear focus on superior customer experience and scale hyper-personalized engagement given our health first model. We continue to enhance our digital health and wellness ecosystem which now has (+60) partners and digitally available and we are now working with multiple insure-tech and health-tech players to enhance customer value and operation efficiency. At 94%, we have the highest claim settlement ratio in the industry. Our digitally powered scale engagement helps us to know our consumers better with much wider access to consumers health and lifestyle data and we are using these through high-end analytics close to create a much better business outcome across the life cycle as outlined in slide 71.

Looking ahead we will continue to grow the franchise aggressively with the clear eye on best-in-class unit economics. We are now expecting to surpass our guidance out of 40% growth aspiration for the year as we gave at the beginning of this year, and this will be powered by our focus on getting more out of what we already have. Fresh capacity creation both in agency and other channels and also looking at exploring offerings for last wide spaces not yet addressed by industry. Thank you. I will now pass it back to Vishakha for her closing remarks.

Vishakha Mulye: Once again thank you all of you for joining us this evening and we are very happy to take if there are any questions.

Moderator: Thank you very much. We will begin the question-and-answer session. The first question is from the line of Kunal Shah from ICICI Securities.

Kunal Shah: Vishakha particularly on the strategic side when we look at it as far as the entire Aditya Birla Capital is concerned. So maybe in terms of the priorities out there and any strategic changes that you are looking at or maybe what we are seeing in terms of retail plus SME the targeted levels which are there within housing affordable that continues or there would be any kind of changes which you are looking at the strategic level and what would be your priorities at the business level, at the product level, at the team level if you can highlight that?

Vishakha Mulye: As I said in my opening remarks that if you look at the franchise, we virtually have all the products across the customer segments starting from a retail customer going up to the large corporate. The second thing I would say is that each of our businesses have now demonstrated, you know the growth that we have seen across our businesses, and I think that momentum will continue as we go forward. My belief is that in each of our businesses we have building blocks in place. I think they are in that inflection point so as we feel the momentum in the Indian economy that all of us are extremely excited about, we'll see the growth reflected in our performance as well. Now what is unique for Aditya Birla Capital, in my mind is that the ownership of the customer. So, we today have close to 39 million customers as I said which is the growth of almost 55% year-on-year. We expect that growth of acquisition of the customer continue as we go forward. So we will work on our One ABC strategy which means one customer, the one ABC branches and so on and so forth to actually cross-sell an upsell the products. We gave you the numbers as well which are now reflecting, and we will only accelerate that as we go forward which will contribute to our bottom line as well as providing the complete solutions to our customer.

The second thing that we will leverage going forward is also the entire ABG ecosystem which of course we have done a modest beginning but we will continue to leverage that whether it's VM's, the suppliers, the customers, the employees of the ABG again, they could be our customers directly and we have already started that journey. We will only accelerate as we go forward which will also help us to add more customers to our franchise but will also have a profitable growth as we go forward. And of course, for doing all this the technology and analytics will play an important role in order to have the seamless journey across products and customer segments.

Kunal Shah: Sure. So if this would be even in terms of the priorities if we have to set out, maybe from the medium-term perspective and the longer-term

perspective, like these are the areas, these are maybe some of the gaps which you would want to fill at the entity level, what would that be?

Vishakha Mulye: We continue to identify those gaps. But I think we have articulated our strategies in each of our businesses, so there is not much of a difference. Probably what we need to do is we have to continue to focus on the execution of that strategy. Just to give you an example, in case of an AFL, we had said that we will continue to retailize our book. If you see 64% of us today, the book is coming from the retail side of the business. We will continue to focus on our SEB clients as well, we will continue to leverage our ecosystem within the group to acquire these customers profitably. And of course, we will be calibrated on our approach on the large class. And I think in each of the businesses again we have identified the specific focus area and we will continue to work on those.

Kunal Shah: Okay so broadly maybe the existing strategy continues, the only thing will be some acceleration out there much more focused on the execution and leveraging through the cross sell and the upsell.

Vishakha Mulye: Yes and the ABG ecosystem, you are right.

Kunal Shah: And one question for Rakesh in terms of, when we look at the restructured pool, so in fact that's down quite substantially on a quarter-on-quarter basis from almost Rs. 1,700 crore to Rs. 500 crore. So how has been the movement? It has been largely the repayments, prepayments, have we seen any kind of a slippage because we are seeing some inch up in the retail and the SME side? So how has been the movement from this restructured pool?

Rakesh Singh: So Kunal we have total of Rs. 1,599 crore of restructured pool, out of that now only less than Rs. 500 crore is left which is not opened for repayment. Others have all opened up. And now whatever the accounts which have opened up we have a +91% collection efficiency on that pool. So quite a decent performance of the restructured pool.

Kunal Shah: So 1,663 would be down to 1,599 as such in terms of the principal post the principal repayments. And out of that 500 is something which is still under the moratorium and on balance we are seeing almost 91% of the collection efficiency.

Rakesh Singh: Yes.

Moderator: The next question is from the line of Paras Matalia from Samco Asset Management.

Paras Matalia: My questions are around the digital ecosystem niche products. Are these BNPL products and what is the typical tenure of these loans and what is the mix of various products in this category?

Rakesh Singh: So we have different products for different ecosystem. We have BNPL for the consumer segment. We have checkout financing, we have merchant loans, we have lifestyle loans. So the entire range, we have healthcare financing, so we have an entire range of offering which we have and not only BNPL.

Paras Matalia: Okay and would you be able to provide the mix of these products in the niche category?

Rakesh Singh: Yes we can provide you that for BNPL and for different products different tenures are there. So short there will be a short-term loan for BNPL but for education loan it might be 18 months to 24 months, for healthcare again 12 to 15 months. So different products have different tenures.

Paras Matalia: What will be the percentage mix of these products?

Rakesh Singh: I can share that with you. I will get you that numbers as follow up.

Moderator: The next question is from the line of Deepanjan Ghosh from CITI.

Deepanjan Ghosh: First to Kamlesh, if you can give some color on your wallet share across some of the banking partners and how they have done in some qualitative aspects if you can shed some light. And also, the product mix across some of these partners. The second on the margin front the YOY increase that we see, it is just led by the mix change and maybe some amount of operating leverage or has there been some amount of changes in the margin within the respective product category also. Second it is to Mayank, a few questions. On the health insurance business which IRDI has recently started publishing the retail renewal ratio number, so if you can give some color on that, even FY22 trends would work. Second, customers who entered into the system around 2018 or 2017 the first customers into the ABHI ecosystem, they have probably completed 4 to 5 years now. How do you see that playing in those cohorts versus the overall change on the book or on even compared to peers? And lastly when you see a presentation, I see that there has been a strong uptick in origination through the digital ecosystem partner for ABHI. So, if you can shed some color on the operational trends like persistency or claims or price sensitivity for the customer in the digital ecosystem which is originated to agents or investment banking partners?

Kamlesh Rao: Kamlesh here, so let me take your second question first. On net margins that have gone up, I think it's a combination of more leverage that we are seeing in our proprietary business. So, on the business composition front more leverage there. That's partly the reason for net margins expanding. b) the mix obviously makes a difference on the net margin. If you see the ULIP contribution would have been bit down as

compared, we have done better than the plan. So obviously the composition of the products that we sell as a contribution on net margins, some part of the plan that the interest rates have been higher as compared to what they were, some part of that contribution also comes into the net margin. So overall it's a play that is there across some of these parameters that have helped us expand the net VNB margins and that's what gives us the confidence that we will be able to deliver the net margin for the years which should be again 1-year ahead of our guidance. On your question on composition that we have, we have tie-up with about eight banca partners. We have seen growth actually across the entire and we operate actually in the public sector bank space, we operate in the small Bank space, medium Bank and of course we operate on HDFC which is a large one. And we've seen across the board we've seen a growth rate coming in. In fact, some of the public sector Banks that we have has grown by more than 100%. Some of the smaller ones that we have garnered scale right now and they're growing at about 40%-50%. And actually, HDFC Bank continues to give us the steady state growth year-on-year. I think all of that has contributed to be on the partnership side. I think these were the two questions that you asked. Anything else Dipanjan or I will hand it over to Mayank now to answer the question that you asked him and then if you have anything else you can come back.

Deepanjan Ghosh: No Kamlesh I think that's fine. Just one, so I think you mentioned 40%-50% growth as far as the smaller Banca partners around 100% for the PSU Banca partners? Is that correct?

Kamlesh Rao: Yes Deepanjan.

Deepanjan Ghosh: That will be for the quarter, right?

Kamlesh Rao: Yes, for the quarter.

Deepanjan Ghosh: Okay, thanks Kamlesh.

Mayank Bathwal: On your question on claims. Yes, we have cohorts of our business which have completed 3-4 years and therefore the breaking period. The big statement is that our claims experience have broadly in line with what we tried and as you know we always have the ability to reprice our product which is allowed on the regulatory regime, and we continuously monitor that. About 1.5 years back the price, one of our products to take care of the emerging claims ratio. The other thing is that some of the claims ratio today are emerging because of we are just coming out of the COVID period and therefore to the extent that the claims experience had COVID claims embedded in it, we'll have to watch for the next about 6 months and see how the post-COVID claims

experiences fully playing out as even the non-COVID claims etc. start to emerge fully because as we know that in COVID situation, some of the non-COVID claims gets postponed. So, we are now keeping a close eye on how that trend is emerging. Sometimes during COVID period, the non-COVID claims it is has you know gone up as we have guided last year, that's tended to happen in those. So, all of those are now starting to normalize and we continue to watch them very closely and as the industry has done in terms of looking at repricing wherever required, we always have that opportunity. And we are well positioned in terms of the price range that our products have, to have that ability to do well as and when we feel necessary. On the digital business, there are two-three kinds of partners we have. One is where very regular offerings are sold to partners like Policybazaar and other such web aggregators. There our claims ratios are actually again fairly well in the line with what we expect. Typically, in health insurance if you see the spread of claims agency has on the slightly higher and then you see such partner like Policybazaar and then Banks. And the obvious reason is because of the way the customer selection is done, you know the best selection tends to happen in the Bank where you know the customers much better than let us say in an agency environment. Cost, all of that are also accordingly spread where the lowest cost as you spread out the initial fixed cost in agency. So I think each channel has its own kind of profitability signature. There are other set of digital partners which are selling what I call the non-traditional, bite-size, contextual in the context, so their journey happening on their platform product. Where again we have had very good experience of claims well within what we have expect and in fact in some cases a better in which cases what we tend to do is to go back and make the product more kind of meaningful for the consumers by passing on some of the benefits in the way we re-price the products. Renewal ratios, yes, over a period of time we have seen that the traditional challenge which have been in the business for long like agency which really because health is a more high engagement business, you need the distributor to go and resell the product in the year 2 and year 3. Typically, you see a bit of a fall in year 13-month persistency and then picks up very rapidly in the 25th and 37 months because once the consumers has paid for 2 years they tend to stay with that product. We've seen similar experience in our case in channels like agency. Banks are now kind of finding the whole process to become more mature because they have started selling health insurance more recently and the engagement model is also now starting to emerge in terms of the way was both manufacture and the Banks tend to work. As we have seen the experience of life where, as they start making the process more mature based on their experience that's happening in the Banks also where they are now starting to catch up with the traditional channels like agency. So overall, I think the experiences are good and in line with what we see in the industry.

Moderator:

The next question is from the line of Anuj Singla from Bank of America.

Anuj Singla: The first question is with regards to the credit card partnership which we have the co-branded card with SBI Cards. So two questions there. One, how is the data sharing arrangement with SBI Cards and who will own the customer? What kind of value do we see here if SBI Card is going to own the customer there? Secondly as per the recent directives RBI seems to becoming more open to giving credit card licenses to NBFCs. So why not, are we exploring opportunity to issue a card going solo? Is that something on the cards as well?

Rakesh Singh: Yes, we have started. We have been working on this for the last 7-8 months with SBI in terms of co-branded card and that is the one which we have launched. Yes, we are evaluating both the regulation which has come from RBI, we are evaluating in terms of can we do it ourselves and we are in discussion with RBI in terms of our application for approval. In terms of SBI co-branded, we are looking at distributing it to our customers within ABFL, within Aditya Birla Capital customer base and also extending it to Aditya Birla Group ecosystem. That's how we are looking at and also, we will look at in terms of open markets who think for this card as well. So, we are looking at just step by step. We have already launched it internally to our Aditya Birla Capital ecosystem and we will extend it further to the Group as well.

Anuj Singla: So, on this just to extend it. We we will just be getting a sourcing fee and SBI Cards will have access to all the data on the customers?

Rakesh Singh: These are our customers. We will have all the data of these customers. Once the credit history is built on these customers, we will have the ability to cross sell any other lending product or insurance product from the Aditya Birla Capital. So we will be able to cross sell to these customers as these are our customers as well.

Anuj Singla: Okay. Second thing is with regards to the capital requirements like we have already outlined our growth for FY25, and we are doing very well on the targets. When I look at the next 5 years some of the businesses might need more capital including the insurance and the fast-growing health business. So what kind of capital requirements do we see there? Are we confident of generating it through the internal cash flows or will we be depending upon some kind of issuance? Will we need to depend on the market for that?

Vishakha Mulye: So at the moment actually, we did our capital assessment and our view is that all our businesses are well capitalized. As you know we recently have infused some capital at both our life and health companies. As we go forward, we will keep calibrating the opportunities in the market and the capital requirements and course we will evaluate all the sources which are available to us in order to raise that capital. But looking at our brand, looking at our positioning, looking at the

parentage that we have, I don't see an issue in raising capital for all our segments.

Anuj Singla: And is there a timeline around that Vishakha given our targets you've set, is it going to be a 2-year kind of timeline or maybe a longer period timeline like 2-to-5-year timeframe as per the growth outlook that you have?

Vishakha Mulye: So looking at the you know, the today's opportunities as we see it, I think all our businesses we believe that we are well capitalized for the next 3 years growth but as I said we will have to keep calibrating the opportunities in the market, our own positioning, how we want to leverage those opportunities and we will not starve our businesses for the dearth of capital. That much I can say, and you will agree with me that capital therefore will not be a constraint because of the reasons that I articulated. But at the moment we have looked at a 3-year horizon.

Moderator: The next question is from the line of Sahej Mittal from HDFC Securities.

Sahej Mittal: Firstly, to Mayank, I couldn't get the claims ratio of this, I don't know if it is displayed in your investor presentation. If you could just give us that number firstly. And secondly was on the life insurance business. So, given the kind of improving the non-PAR which we are seeing business which we are seeing, is there some repricing which you have done after the increase in the interest rate across Bank...

Kamlesh Rao: Sahej, can you repeat the question, we couldn't hear it properly.

Sahej Mittal: My first question was on the health insurance business. If you could give out a split of your combined ratio in terms of the claims and OPEX ratio?

Mayank Bathwal: On the combined ratio out of the 109% it's about close to 55% claims and 54% expenses.

Sahej Mittal: And what's our target for the full year, I mean in terms of combined ratio for the health business?

Mayank Bathwal: This is something that we continue to monitor because there's so much of growth tailwind that we have in the business that we like to participate and given our growth leadership. I think and especially now that the regulator is also opening-up so many more opportunities so I think that will depend on what stand we take on the new opportunity that come up. But as I said earlier, we keep a very close eye on the unit economics of everything and every new business or every new opportunity that we pick up. As we have demonstrated in the last quarter when we demonstrated our breakeven. So that's the overall focus we will keep in the way we run the business.

Sahej Mittal: But do we think we are on the target to achieve 100% combined by Q4 FY23 itself?

Mayank Bathwal: We had given the guidance last year that what was important for us to demonstrate is that our business model is unique and in a unit economics is much more superior than what you have observed in our business where typically companies have taken 7-8 years to breakeven and we demonstrated as much ahead of time. Now that we have demonstrated at a unit economics level, we would like to fully participate in the growth opportunity because if you're writing at a unit level profitable business we will not like to leave a growth opportunity on the table and that's the growth mandate that even Vishakha was referring to earlier and with all the tailwinds I think it makes sense for the franchise to continue to build on this business because the rate at which new consumers are also getting added, can actually be very value accretive to overall franchise as well.

Sahej Mittal: And on the life insurance?

Kamlesh Rao: I got your question. You asked about the non-par business. Let me try and answer that. Basically, what we do is we try and focus on the mix of what we sell and it has to be relevant for the point in time. So two questions you asked about the mix that we have with the non-PAR is higher. I think higher interest rate scenario in the market provides an opportunity at a point in time this year like I explained some of these products with your customers. Similarly, also because the protection prices are significantly higher this point in time and the associated risk with that is not fully evident because we just moved out of COVID. We basically are playing no ball on that and as and when we want to get back to the trajectory obviously, we'll get back to protection. From a risk point of view, we follow a clear strategy to say that 100% of our expected maturity benefits are fully hedged. And therefore, we have a strategy which keeps looking at that, at different points in time. Like I said we have launched a very new innovative product on which will compete with the Bank fixed deposits. That is also on a guarantee one participating platform and some part of the mix we would like to make sure we get through the year because we are launching another product on PAR which will complete our product suite. So it's a function of what we want to do at that point in time. There's an opportunity like I said because of high interest rate we placed those products and from a risk point of view they are fully hedged, 100% of our expected maturity benefits are fully hedged.

Sahej Mittal: Have we repriced any of our non-PAR products? Have we increased IRR on any of the products?

Kamlesh Rao: So when we look at various products with rates changing at different points in time, life insurance companies are allowed to re-price their

products through what they call minor modification. Yes, in some of our flagship products, one or two of them, yes, we have re-priced some of these products with inter-state moving up as offerings to consumers.

Moderator: The next question is from the line of Alpesh Mehta from IIFL Securities.

Alpesh Mehta: First question is on the housing finance business. We are running higher than the guided range of margins and ROAs and what I understand from your comments that as the growth will pick up the operating leverage will also play out. So would you like to revise the guidance on that front? That's the first part. Secondly on the NBFC business looking at the current state of the portfolio including the COVID related portfolio which is coming out of the moratorium etc. Would you like to offer some guidance on the credit cost side?

Rakesh Singh: The first question was on the housing in terms of reviving our guidance. I think if you look at on the profitability metrics, we have delivered what we have guided for. We are looking at getting to the growth metrics on the balance sheet and that's what the focus right now is. We will continue to focus on the affordable segment with the focus on growth. And if there is a need at the end of this financial year, we will relook at our guidance. On the NBFC....

Alpesh Mehta: Sorry to interrupt to you on this. In case you are going to grow on the affordable as the incremental mix is going to be higher on the affordable housing side. Where do see the margin compression coming up for you in the sense for you to have a ROA of 1.5%-1.6% versus currently have 1.9% the only metric that I can think of would be the margins right since the credit cost is as come more or less on a steady state basis now?

Rakesh Singh: If you look at our cost income ratio because we have invested for growth and that will start delivering. So, we have increased our capacity, we have enhanced our branch footprint, and all this will start delivering in terms of growth. So as we get out to growth all the investments which we have done on the cost side that will start I think you will see efficiency there and that should help us improving or maintaining the ROA-ROEs which you are talking about. So clearly our focus is.....

Alpesh Mehta: Clear in case the operating leverage is going to play out and your current ROAs are 1.9 versus the guided range of 1.5-1.6 so the only metric that I can think of would be some compression on to the margins as the growth will pick up. So, is the understanding, right?

Rakesh Singh: So, margins yes, if we start looking at the growth there will be some segments which we were not focusing on and we start getting into those segments. You will see but we want to really keep the margin in the

same range, some basis points here and there to keep the margins we want the cost really start, we want to leverage all the investments which we have done on the cost front. So that's how we look at it. Yes, we want to maintain at the we are not guiding that the ROA will come down with the increase in the growth. We want to maintain the guidance on the current ROAs which we have but our focus will be on growth going forward.

Alpesh Mehta: And which are the products where you are not focusing on, and you would like to focus within the housing finance segment right now?

Rakesh Singh: Some bit of prime housing which we can do. Some bit of construction finance right now is a very-very small portfolio, so we want to look into that. Also, the distribution which we have built from a 62 branches last year to now 121 and our plan is to go to 200. That will help us to increase and improve our sourcing as well and that should help us book growth. All of this should combine should help us maintain a profitability.

Alpesh Mehta: On the NBFC side the credit cost any guidance on that front?

Rakesh Singh: So long-term guidance we have been giving this I think we will if you see last quarter, it was 1.13 was our credit cost. We will stay in this range as of now because a lot of retail growth is coming through. Yes, the credit cost will come down on the corporate side but as we grow the retail segment it will range in this 1.2 is what the guidance which we had given or we had discussed earlier and we will stay in that range.

Alpesh Mehta: So even in case of NBFC business we don't see any risk for the ROAs coming down from the current levels of 2.5%? If at all there would be some improvement with the operating leverage pays out?

Rakesh Singh: Yes. So, we are looking at improving that. Now the ROAs won't come down.

Alpesh Mehta: Just last question on the life insurance segment. Since the protection we have been guiding for around 12% to 15% kind of a mix but currently we are at around 3% to 4% kind of a protection. There are some issues at the industry level as well. Any guidance that you would like to offer and when we are giving a net VNB margin guidance of around 18% what kind of protection mix are we factoring into that?

Kamlesh Rao: The guidance of 18%, at this point in time doesn't have any indication of the protection business is going up significantly from where we are. The reason for that like I said is there is a significantly high pricing built in this. So, it will look like a high margin product but today we, the insurance pricing in this business is significantly different from what it used to be. Therefore, risk adjusted, and re-insurance adjusted, is it as exciting as it used to look one year back, the answer to that is definitely

no. Like I said as and when because we are in a post-COVID scenario we have seen prices even from our reinsurance point of view moderate say in the group term insurance business now not yet in the individual life insurance business and previously when we used to be at 6% and we wanted to take that number to 10, we were able to actually do that in about 90 to 120 days in first quarter of last year. So, at this point of time two things that you asked whether we think protection business will go up from here, it will be range bound at about a 4%-4.5% and guidance of 18% is not dependent on protection business going up significantly through the years. But if there is an opportunity and price is moderate and it becomes an interesting product both from risk like I said in adjusted for the insurance price will step up the accelerator on that through in the second half or last quarter of this year.

Alpesh Mehta: Just one final question on the life insurance. On the CLI business in the group life insurance segment, do you expect the mix to remain the same or the mix is likely to change to in favor of any particular product?

Kamlesh Rao: You're talking about credit life insurance business, right?

Alpesh Mehta: Credit life insurance, yes.

Kamlesh Rao: I mean we are present across the various segments be it micro-finance, be it housing, be it personal loans and we created some product which has given us an uptake and in our endeavor to growth that business like I said more than double the composition or the mix is not changing significantly.

Alpesh Mehta: And are there any profit pressures into that business or the competitive pressures coming up, considering protection is having some issues right now?

Kamlesh Rao: You are talking about credit life business again?

Alpesh Mehta: Credit life insurance business again, yes.

Kamlesh Rao: I mean like I said the repricing that happened across the group term insurance business, credit life and individual life insurance. We are seeing that pressure easing out on the group OYRT and credit life to some extent. It's more a question of the opportunity and the products that we have which actually compete in the markets slightly better and we have the advantage of being able to find that products and get it approval. So that is what helping us try and get higher momentum on the credit life insurance directly.

Moderator: The next question is from the line of Rikin Shah from Credit Suisse.

- Rikin Shah:** Just had one question for Rakesh. If I look at the NPAs across NBFC and HFC they have marginally inched up sequentially and just wanted to check whether that was only due to slippage from the restructured book or there is more to it?
- Rakesh Singh:** Rikin, yes there is some slippage from the restructured book and which we are looking at resolving in quarter two specially coming from the SME segment. I think overall numbers and if you look at from a provision cover also and also stage 2 has come down for us, so collection efficiency is looking quite good. So it's just that the restructured portfolio has slipped forward otherwise I think portfolio is looking in good shape.
- Rikin Shah:** Would you be able to quantify the slippage from the opening restructured book in this quarter? Did I hear correctly that the slippage has mainly been the SME segment?
- Rakesh Singh:** Yes, SME and the retail segments. These are the two segments, the small ticket loans. So, there's primarily the slippages are there.
- Rikin Shah:** The amount of slippage from the opening restructured in this quarter?
- Rakesh Singh:** I can just share that with you Rikin offline. I don't have it readily available.
- Moderator:** Thank you very much. Ladies and gentlemen due to time constraint that will be the last question. I now hand the conference over to Ms. Vishakha Mulye for closing comments.
- Vishakha Mulye:** Again, thank you very much for joining us this evening for our call and we look forward to keeping in touch. Thank you so much.
- Moderator:** Thank you very much. On behalf of Aditya Birla Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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