# Aditya Birla Capital Ltd. (ABCL)

## Q3 FY23 Earnings Conference Call Transcript

February 2, 2023

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY 23 Earnings Conference Call of Aditya Birla Capital Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vishakha Mulye, CEO, Aditya Birla Capital Limited. Thank you, and over to you, ma'am.

**Vishakha Mulye:** Thank you. Good evening everyone and welcome to the earnings call of Aditya Birla Capital for Q3 FY2023.

Joining me today are senior members of my team Bala, Rakesh, Tushar, Pankaj, Kamlesh, Mayank, Pinky, Vijay, Ramesh and Sanchita. Together we will present the business performance and financial results and take any questions that you might have.

I would like to welcome and introduce two senior colleagues, Sanchita Mustauphy, Chief Risk Officer designate and Ramesh Narayanswamy, Chief Technology Officer who joined us recently. Our current Chief Compliance and Risk Officer, Mr. Dhananjaya will be superannuating on March 31, 2023. Sanchita will work closely with Dhananjaya and then take over as Chief Risk Officer from 1st April, 2023. She joins us from Tata Capital and has more than 27 years of experience in risk management including credit, market and liquidity risk. Ramesh will be leading technology transformation across Aditya Birla Capital and will strategize, design and deliver a ONE Technology organization with a key focus on building capabilities across core technology, digital, process automation and data. He has about 25 years of experience in technology domain across financial services, ecommerce and logistics and payments product development. He has experience of working in various fintechs and large organisations such as Citi, Standard Charted Bank among others.

Let me now begin by giving a brief perspective on the macro-economic environment. We continue to see a strong demand and improvement in industrial and services activity in the Indian economy. This is reflected in the lead indicators. Services PMI increased to 58.5 and manufacturing PMI increased to 57.8 in December 2022. GST collections crossed 1.5 lakh crore in January 2023. However, we are currently experiencing volatility in the global economy and financial markets, geopolitical tensions and high inflation, interest and exchange rates. Though concerns remain due to these headwinds, the Indian economy is expected to perform well in the current fiscal year driven by sustained domestic demand.

At Aditya Birla Capital, we follow "One ABC One P&L" approach, while continuing to focus on quality and profitable growth, in order to maximise our share of opportunities in the financial services space. We have a strong presence across Protecting, Investing, Financing and Advising that is PIFA offerings. We have adopted a customer centric approach with an aim to provide holistic solutions to our customers and their ecosystems to suit their life-stage and business needs. Our strong parentage and extended ABG and ABCL ecosystem provide us multiple opportunities to accelerate our growth. We follow an omni channel approach towards distribution. We believe in giving complete flexibility to our customers to choose the channel through which they wish to interact with us. Our endeavour is to provide a "One Experience" across channels to enhance seamless delivery of our products.

Based on the fast and dynamically evolving digital landscape and the consumer needs, we have embarked on an all-inclusive platform strategy for customers, businesses, and our channel partners to bring the power of One ABC to them. I will cover our value propositions for each of these stakeholders in detail.

**1. Customer:** Our customer franchise continues to grow well. In the last quarter we acquired 1.4 million customers taking our active customer base to about 43 million as of December-end. We added 62 branches during the quarter and our total branch count now stands at 1,220. Our branch expansion is targeted at driving penetration into tier 3 and tier 4 towns. Our Board today approved the formation of a wholly owned subsidiary to develop an omni-channel D2C platform. The purpose of this platform will be to serve our existing customers, acquire new customers and act as a one stop-solution to deliver PIFA to all our customers. This platform will have various touchpoints such as, app, web, branch and virtual engagement. As a first step, our customers at more than 400 branches across 113 locations will receive assistance to achieve their financial goals. We will also be integrating payments stack and value-added services through this platform, which will enhance customer experience and brand recall and enable us to become a full stack financial services provider.

**2. Businesses:** We had mentioned in our previous quarter's earnings call that we would be launching a comprehensive B2B platform for our MSME ecosystem. We are happy to announce that we have launched the platform in a closed user group and it will go live in the next 20-30 days. It provides the MSME ecosystem with lending and value-added services to manage and grow their business. The platform will enable cash-flow linked financing by using alternate data such as GST returns and transaction data in addition to traditional data sources to improve turnaround times and customer experience. It will also offer PIFA solutions and value-added services to cover full ecosystem of PODS which is promoters, owners, directors and authorized signatories of our MSMEs customers.

**3. Channel partners:** We have more than 2 lakh channel partners and we deeply value the vital role that they play in distributing our products. In the next nine months we will also be rolling out a B2D digital integrated platform for our channel partners which will provide them opportunities to grow their business volumes and enable them to fulfill the life cycle needs of our customers. It will help our channel partners to enhance their customer servicing and track status of their applications, business volumes and payouts. It will help us to increase our product penetration among existing customers and also provide us with opportunities to expand our customer base.

The D2C platform that we are working on, will build an interoperable stack which will be leveraged by both B2B and B2D platforms to provide PIFA solutions to our customers.

Digital First approach is at the core of our business strategy for product innovation, direct acquisition, seamless onboarding and best in class service delivery. We leverage data and analytics to maximise wallet share through cross sell and upsell. 79% of our digital lending business happens using Machine Learning scorecards. In life insurance cross sell & upsell now contributes 35% of our individual first-year premium. In our health insurance business, 24% of our retail fresh premium originates from cross sell.

About 78% of our life insurance renewals happen digitally and 88% of our Life Insurance customer requests are serviced digitally. In our Health Insurance business, all our distributors are now onboarded digitally and 85% of our business is delivered by auto-underwriting.

We will continue to ensure that our tech architecture is robust, flexible, scalable and resilient. We will build and nurture a culture which is agile and uses adaptive, and collaborative approaches to build digital products and journeys for our customers.

Going forward, we will continue to follow our One ABC, One P&L approach to accelerate our growth trajectory and continue to build scale and drive market share in each of our key businesses. We will leverage our digital capabilities, innovative products and our “One Team” approach to drive cross sell and deliver superior transaction experience for our customers.

Now I will hand over to Vijay to give us a summary of results for Q3 FY23.

**Vijay Deshwal:** Thank you, Vishakha, and good evening, everyone. Our consolidated profit after tax for the company grew by 27% year-on-year to 530 crore rupees in Q3 of FY23. This excludes gains from stake sale in ABSLAMC in Q3 of FY22 and fair value gain related to investment in Aditya Birla Health Insurance company in Q3 of FY23. The consolidated revenue for the same period grew by 31% year-on-year to 7,699 crore Rupees.

In our NBFC business, we continued with a strong momentum of disbursements and granularization of our book. Disbursements for the quarter grew by 98% year-on-year to 13,099 Crore Rupees. This helped the loan book to grow 47% year-on-year and

12% sequentially to 72,994 Crore Rupees. Loans to Retail, MSME, SME and HNI segments now constitute 66% of our portfolio. NIM increased by 41 bps sequentially and 77 bps year-on-year to 7.00% in Q3 of FY23.

We continue to maintain strong focus on asset quality, with gross stage 2 and 3 assets reducing by 156 bps sequentially and 491 bps year-on-year to 6.49% at December-end. The provision coverage ratio on stage 3 assets was 49.3% at December-end.

In our Housing Finance Business, disbursements increased by 12% sequentially and 25% year-on-year to 1,387 crore Rupees during Q3 of FY23. The loan portfolio grew by 3% sequentially and 11% year-on-year to 12,874 Crore Rupees. NIM of the housing finance business increased by 22 bps sequentially and 106 bps year-on-year to 5.35% in Q3 of FY23.

Coming to our AMC business, the average AUM was 2,81,717 crore Rupees, of which equity AUM was about 43% in the current quarter. We continued our focus on building retail customer franchise with addition of about 0.5 mn folios in the 9M of FY23. The total active folios now stand at 8.0 mn at December-end. With our continued focus of growing passive and alternative asset segment, passive AUM grew by 28% sequentially and was about 21,620 crore Rupees at the end of December.

The growth momentum in our life insurance business continues with 25% year-on-year growth in retail first year premium which was significantly higher than the industry growth in the same period. Group business premium grew by 41% year-on-year in 9M of FY23. Renewal premium grew 14% year-on-year, to reach 4,870 crore Rupees in 9M of FY23. Our VNB margin was 15.5% in 9M of FY23 and we are well on track to deliver over 18% net VNB margin in this financial year.

In our health insurance business, our unique and differentiated "Health First" model helped us to deliver industry leading growth of over 59% year-on-year in 9M of FY23. ABHI expanded its market share by 220 bps year-on-year to 10.4% among standalone health insurers in 9M FY23.

With that, I will now hand over the call to my colleague Rakesh to take us through the NBFC business performance in detail.

**Rakesh Singh:** Thanks, Vijay. Thanks Vishaka. Good evening, everyone.

In our NBFC business, we saw strong momentum across all segments contributing to an overall loan book growth of 12% quarter on quarter and 47% year on year taking our loan book to nearly 73,000 crore Rupees in quarter 3. Loans to our Retail, HNI and SME customers grew 59% year-on-year. We grew faster than competition and at double the rate which we had guided for overall loan book growth for FY23.

Now referring to page 16 of the presentation let me call out a few key highlights. We added 1.35 million customers this quarter, taking our active customer base to 5.9 million doubling the customer base from 2.3 million last year.

In terms of absolute loan book growth, we added ~ 8,020 crore Rupees of loan book growth in quarter 3, which is more than what we added in entire of H2 of last financial year. Personal and Consumer Loans contributed significantly to this growth, comprising over 40% of this net addition in quarter 3, making it the highest contributor across all product segments. 30% of the incremental book has come through digital channels. We continue to expand our physical footprint and added 51 new branches in Q3 taking our footprint to 272 as of Dec'22 and we have a target of 325 branches by March'23 of this year.

Loans to our Retail, HNI & SME customers are about 66% of total loans, which is ahead of the guidance provided for FY24, which we had given in Q3 of FY21. As a result of this continued improvement in segment mix, we have achieved the highest ever quarterly NIM of 7% which is 77bps higher than previous year and 41 bps ahead of previous quarter.

This has led to our NII growing by 50% year on year and 20% quarter on quarter. Quarter 3 was also a strong quarter in terms of profit delivery, with a profit before tax at an all-time high of 540 crore Rupees, registering growth of 40% growth year-on-year and 11% quarter-on-quarter. The YTD PAT grew by 36% year on year. The ROE for the quarter was 16.2%, which expanded by 351 bps year-on-year and 153 bps quarter-on-quarter.

On page 18, we have shared our overall disbursements for the quarter. We disbursed 13,099 crore Rupees in quarter 3, which is by far the highest for a quarter and we have disbursed ~2 times of what we did in Q3 last year. While 73% of our disbursements was to the Retail and SME customers, all product verticals contributed to this momentum. Let me share further color on the disbursements:

a. We disbursed 4,649 Crore Rupees in the personal and consumer loans segment, which was up 4.7 times compared to last year taking the segment book to 12,812 Crore Rupees. Here we focus largely on salaried professionals in the emerging income segment. 79% of this segment comprises of personal loans of which nearly 56% has been sourced digitally.

b.The balance 21% comprises of consumer loans where we finance various end-uses such as lifestyle, healthcare and education. Nearly 36% growth in our digital portfolio was driven by Personal Loans cross-sell compared to 32% last quarter.

c. Both unsecured and secured business loan verticals recorded very strong growth as well. In unsecured business loans segment, we registered a loan book growth of 73% year-on-year taking the segment loan book to 7,254 crore Rupees. In secured business loans segment, which majorly comprises of loan against property and working capital solutions to self-employed and MSMEs, we disbursed a total of 3,894 Crore Rupees, an increase of 29% year-on-year and as a result the segment book stood at 29,186 crore Rupees in Quarter 3 clocking a 30% growth year on year.

d. I had mentioned in the last quarter earnings call, the next leg of growth in business loans vertical is going to be driven by a unique and differentiated unified platform we are building for MSME customers to enable digital journey for our products as well as value added services for MSMEs to transact seamlessly.Vishaka covered in detail & we are looking at Q4 launch for the platform.

Now providing some details on asset quality on page 24, we have seen consistent improvement over last year with Stage 2 + Stage 3 book coming down from 11.40% in Q3 of last year to 6.49% in Q3 of this financial year. This has been driven by a strong pull back in stage 2 book of 1,279 crore Rupees owing to superior collection efficiencies across product segments and better resolutions which has reduced our stage 2 books. Gross stage 3 books reduced to 3.1% compared to 3.9% in Q3 of last year. We continue to maintain our Stage 3 PCR at nearly 50%. Our overall collection efficiency is at 99.6%, consistently better than pre-CoVID levels. Also, 99.8% of the restructured is already banked as on 31 Dec'22. Further, collection efficiency on the restructured pool is healthier than last quarter. As a part of the regular process, we reviewed our ECL policy due to which there is a one-time higher ECL provisioning during the quarter and majority of the ECL costs increased for the quarter has come from stage 1 provisioning.

Now to conclude and reiterate the Q3 performance, not only did we have a strong quarter in terms of growth but the progressive increase in retail and SME portfolio mix, we have track well ahead of the FY24 guidance on all parameters. We expect this strong growth momentum to continue for the rest of this financial year.

With this I will now handover to Pankaj for Housing update.

**Pankaj Gadgil:** Thank you, Rakesh, and good evening, everyone. I will cover the performance of ABHFL. In Q3 we experienced continued momentum in disbursal and book growth. Robust financial performance and focus on portfolio quality resulted in consistent improvement across all return metrices.

Some of the key highlights are:

a. Disbursements of 1,387 crore Rupees in Q3 which is our highest disbursements in the last sixteen quarters, an increase of 12% qoq and 25% yoy
b. Loan book as of Q3 is 12,874 crore Rupees, an increase of 3% sequentially and 11% yoy. We have now witnessed growth for last two consecutive quarters, this is encouraging especially considering muted growth in the period FY20 to FY22. More importantly, the quality of origination continues to be very healthy. Later in the conversation I will share with you details on the parameters for quality of origination.
c. NIM has increased to 5.35%, 22 bps sequentially and 106 bps growth yoy
d. Profit Before Tax for Q3 is Rs.78 Cr, an increase of 4% sequentially and 16% yoy

Portfolio health has improved where the gross stage 3 loans have reduced to 3.50% at the end of Dec'22 from 3.60% in Sept'22. Stage 2 plus stage 3 loans have reduced by 60 bps qoq and 158 bps yoy.

You can see that, we are improving on every front, whether it is book growth, asset quality, or core profitability. Now, let me take you through each one of these pillars in more detail.

**First pillar – Growth**, we are leveraging depth & width of our distribution network and enhancing digitization throughout the customer lifecycle. As I had mentioned in the previous quarter, we have launched a Digital Index that helps us to measure our digital penetration to provide a seamless onboarding experience to customers. I am happy to inform you that the digital index has improved significantly from 19% in Apr'22 to 37% in Dec'22. We are very confident to exit at 50% level by Mar'23.

We recorded accelerated growth in disbursements across both Value and Growth segments for the quarter. You can refer to page 31 of the investor presentation for the detailed segmental contribution. We continue to focus on granularity with average portfolio ticket size of ₹ 23 lakhs.

We have opened seven branches in Q3 and all these branches have been opened in tier 2 and tier 3 cities. Now we have 127 branches across twenty states and UTs with a truly pan India presence and a well-diversified portfolio. The customer base is about 55,000 and has grown by 5% qoq and 35% yoy. We continue to build capacity and enhance productivity through investments in talent, technology and analytics, the cost-to-income ratio is 41% as of Q3FY23.

**Pillar Two - Portfolio Quality**, the moratorium on all the COVID restructured cases has ended. All the numbers which you are seeing on page 33 of the investor presentation are including the performance of restructured cases and 100% of the cases are now presented for collections.

We have incorporated the RBI circular dated 12 Nov 2021 on NPA recognition, from Sep'22 onwards. Our Gross Stage 3 has reduced from 3.60% in Sept'22 to 3.50% in Dec'22. We are maintaining stage 3 PCR of 33% and additionally carrying a management overlay of 56 Cr Rupees.

With robust debt service framework and pre-delinquency management the collection efficiency is consistently at 99% plus. We continue to emphasize on quality of originations. Salaried and self-employed professional segment now contributes 55% of disbursals in Q3. ~94% plus disbursements in Q3FY23 are towards customers with 700+ CIBIL or new to credit. You can see the detail breakup of the same on page 32 of the investor presentation.

Now I will move to the third pillar which is robust financial performance and liquidity Management. We are ALM positive across all the buckets and 22% positive on a 12-month basis. You can refer to page 34 of the investor presentation for more details. We are rated AAA by ICRA and India Ratings and continue to focus on diversified long-term borrowings. The contribution of NHB borrowing has increased to 17% in Q3FY23 from 8% in Q3FY22. We have a 25% liability book at fixed rate which helps us mitigate the cost in an increasing rate cycle. We are confident of maintaining competitive borrowing mix considering our growth trajectory and improving asset quality.

As you can see on page 35 of the investor presentation, we have been able to sustain NIM at 5.35%. Going forward, however I think our NIM will be range bound between 4.7% to 4.9% considering the lagged impact in borrowing cost and competitive intensity.

a. The PPOP is the highest ever at 104 Crore Rupees in Q3FY23 with a growth of 8% qoq and 27% yoy.
b. The PAT for Q3FY23 is 61 Crore Rupees, an increase of 3% qoq and 15% yoy.
c. The ROA is 1.9% for the quarter and ROE is at 13.7%.

To summarize we continue to invest in long term growth while maintaining robust profitability and a quality portfolio. With that, I now hand over to Bala, MD and CEO of our Asset Management Company.

**A. Balasubramanian:** Thank you, Pankaj. As I have presented in analyst call of the AMC few weeks back, I will give a quick rundown of the performance for ABSLIAMC for Q3 FY23

Our Overall quarterly Average AuM for the quarter ending December 2022 stood at 2.93 lakh crore Rupees. Our Mutual Fund quarterly average AUM was at 2.82 lakh crore Rupees with market share of 7.9% excluding ETF.

Our Equity Mutual Fund AUM for the December 2022 quarter was at 1.20 lakh crore Rupees with mix at 42.6%.

We have witnessed an increase of our monthly SIP book from Rs. 892 crores in December-21 to Rs. 942 crores as on December-22 from around 32.6 lakhs live SIP account. Around 2.3 lakh new SIPs registered in Dec-22 quarter.

Customer acquisition remains an integral part of our strategy. We have added close to 5 lakh new folios in 9M FY 23 and with this, the overall folio stood at 8.1 million.

Coming to Alternate business, which is our focus area from overall growth point of view as well as profitability point of view.

a. Our passive product offering has grown ~4 times to Rs. 21,619 crores as of December 2022.

b. On the PMS and AIF front, we have raised commitment of Rs 350 Cr in India Equity Services Fund in Q3 FY23 and have four products in pipeline under AIF product offering.

c. On the Offshore front, we have been granted approval by International Financial Services Centres Authority (IFSCA) which is GIFT city to act as Registered Fund Management Entity for non-retail at GIFT city Ahmedabad. Prospectus for ESG Engagement fund has already been filed with the GIFT city.

d. On the real estate front, our collaboration with Bentall Green Oak has already started making some progress, we have started Roadshows for overseas market soon you will see some outcome on this.

On the digital front, we continue to enhance our process efficiency and build volume in increasing overall transactions to the digital platform. We have onboarded 75% of new customers digitally, 84% of overall transactions are digital and 89% of customers are onboarded and serviced via digital platforms.

Moving on to financial numbers. As Vijay mentioned,

a. In Q3 FY23 Revenue from operations is at 314 crore Rupees vs 311 Crore Rupees in Q2 FY23.

b. Operating Profit before Tax in Q3 FY23 is at 174 Crore Rupees vs 173 Crore Rupees in Q2 FY23

c. For nine months ending December 2022, Revenue from Operations is at 930 Crore Rupees as compared to 969 Crore Rupees for nine months ending December 2021

d. Operating Profit before Tax (excl. extraordinary item) for nine months ending December 2022 is at 518 Crore Rupees as compared to 566 Crore Rupees for nine months ending December 2021

Our efforts to build scale and size continue to remain the focus area in the competitive AMC industry today. With this I handover to Mr. Kamlesh Rao, MD and CEO Aditya Birla Life Insurance Company.

**Kamlesh Rao:** Thank you, Bala and good evening to all of you. I will cover the life insurance business. The consistent journey of ABSLI growth bettering the private industry continued for the 9 months ending December 2022 in both the Individual as well as the group life insurance business.

Individual FYP grew at 25% against the private industry at 19% as seen in slide number 49 and this business growth has come out of the combination of both increased productivity as well as capacity that we have invested last year. New products launch were key to our success with our newly Launched PAR product under the brand name Akshaya collecting 100 crore Rupees premium in less than a month, we also launched an Industry first Immediate income Guarantee product under the Nischit brand which did its first 5,000 policies in 17 days flat.

Our new Products success combined with our PASA contribution of 20% were hallmarks of the business done in Q3 of this year, the individual business has come with a very healthy product mix as you can see slide no. 51. Traditional business at 77 % and the ULIP business at an all-time low of 21% which has augured well for the gross margins of the firm, this combined with the fact that 29% of our business comes from upsell to our existing customers has helped productivity growth in both the proprietary as well as the partnership channels.

The group Life insurance for the private industry saw a growth of 16% till Q3 against which ABSLI registered a growth rate of 41% as you can see in slide no. 49, we continue gaining market share in this business and we continue to maintain our 2nd position in the profitable Group ULIP segment and within the group business we continue our focus on Credit life business which is growing at more than 100% over last year .

Our Total premium at Rs. 10,114 crore as seen in slide no. 47 has registered a growth rate of 25% over last year and a 2 year CAGR of 24% is evidence of the consistency of our business growth, this has come on the back of new business growth as well as renewal premium growing at 14%, the digital collections composition of our renewal premium is now at 78% and this overall growth is seen across persistency buckets from 13$^{th}$ month to the 61$^{st}$ month with 13$^{th}$ month now at 86% and 61st at 54%, we continue maintaining upward bias in our forward guidance for these persistency numbers

Our Asset under management as seen in slide 53 now stands at close to Rs. 68,000 crore with a YOY growth of 15% and here again a 2 year CAGR of 17% is demonstration of consistency of our growth, 24% of this AUM is in equity and balance 74% in debt, investment performance seen either from a 1 year lens or from a 5 years perspective, will see ABSLI having done better than the respective benchmarks across all three categories of Equity, Debt or even Balanced funds .

Our Digital adoption across various areas is demonstrated in slide number 54, 98% of new business is sourced digitally, we continue our guidance of 60% of this sourcing being auto-underwritten by year end, 83% of all our services are now available digitally which covers 55% of our customer transactions and our customer self-service ratio now stands at 88%

We continue to manage the net margins story well as you can seen in slide number 55, last year same time we delivered Net VNB of about 11.2% and closed for the year at 15% Net VNB margins. We have shown a growth of 430 bps in our net margins as compared to last year, we now have a 15.5% Net VNB margin for first 9 months of this year which gives us the confidence of closing the year at more than 18% Net VNB margins which will once again be ahead of our guidance provided for this year.

Our approach as seen in slide 48 will be to continue the growth trajectory of this business ahead of the industry backed by both productivity as well as capacity, our forward guidance is that the quality of our book will get better across the 13th till the 61st month persistency from current levels, growth will come from a diversified mix of both the proprietary as well as partnership channels and we will continue to be best in class in our Digital infrastructure cutting across prospecting and on-boarding in sales at the front end, underwriting at the middle end as well as all customer touch-points in service as well as claims.

With this now, I hand over to Mayank, who will give you details of Health Insurance.

**Mayank Bathwal:** Thank you Kamlesh. I am happy to now present the performance for our health insurance business.

We had another strong quarter in terms of revenue growth, enabled by what I have shared in the past a very strong foundation of a differentiated Health First Model and as we have said the power of this proposition which is more inclusive and more importantly relevant continues to find a lot of acceptance by our consumers and intermediaries both.

We continue our growth leadership this year and we are pleased to inform that with 59% YOY growth in the first 9M of this financial year. We are the fastest growing health insurer in the country, well ahead of industry growth at 20% and SAHI growth at 26%. The growth was powered by our retail franchise which grew at 30% YOY. This has helped us take our SAHI market share to 10.4% a 220 bps increase YOY. Overall, we have acquired 6 Mn net new customers during this 9 Months taking our customers served to 25 Mn, a 33% YOY growth.

Our Corporate business continues to do very well for us and grew at a staggering 151% powered by a huge focus on cross sell and upsell and also opening up new category like Corporate OPD. Our Corporate business is modelled on Right risk, designed to capture market opportunity targeting New Age Company and has delivered less than 100% Combined Ratio. We believe we have set up one of the most profitable corporate business in the industry.

On the overall profitability front our combined ratio has come down to 114% for the 9M, a reduction from 136% over the same period last year. The 9M loss has reduced to 217 crore Rupees from 283 crore Rupees in same period last year.

On the claims front we saw a continued increase in the retail claims which started early this fiscal this experience is in line with industry experience and is attributed to final treatment of delayed medical interventions due to Covid and also some impact of the long Covid linked diseases and some impact of provider inflationary pressures. To manage this impact we are monitoring this extremely closely and take suitable steps including further review of our sourcing guidelines, engagement with Providers, and increasing price of most of our flagship products. We will continue to closely monitor the situation including collaborating with the industry where required.

Overall, a higher scale will continue to create operating efficiencies as we move ahead.

We have the most diverse distribution footprint in the industry. We are now happy to announce our partnership with 2 PSU banks namely UCO Bank and Punjab and Sindh Bank in the last quarter. We have been chosen by these banks as their HI partner over all other tenured players demonstrating superiority of our business model. This takes our total bank partnerships to 18 and strongly supplements our growth aspirations.

Our digitally enabled distribution mix being the most diversified now with agency being the single largest channel at 21% in our retail business. We are continuing to grow our agency franchise with more than 80,000 advisors across 200 plus branches leveraging the One ABC branch strategy completely.

On the digital front our digital business has now through alliance partners grew 80% YOY becoming a sizeable 15% of our retail mix.

To take our differentiated model ahead we continue to launch new range of offerings. We had launched ACTIV FIT – the industry's first product mainly for millennials early this quarter. This is already constituting a very good proportion of new sales early this quarter.

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 model. At 96%, we have one of the highest claims settlement ratio in the industry, a testament to focus on the moments of truth for our consumers.

Our latest brand campaign of the theme of 'Kya Peeche Chhoda Hai' showcases our business model and its impact through the lens of experiences of our actual customers that they have had with our proposition, an industry first feat again.

To further know our customer and their health we are the first SAHI company to integrate into the Ayushman Bharat Digital Health Platform providing the opportunity to our customer for creating their ABHA health IDs. We will continue to enhance our digital health and wellness ecosystem and it has now got 60 plus partners. We have just in the previous quarter released our freemium version of our leading consumer app, Activ Health app to further increase the engagement level with our consumer.

Looking ahead we will continue to grow on the franchise aggressively with a clear tailwind that the category had especially powered by the enablement that the regulator is providing. But we keep a very close eyes on the best-in-class unit economics. We are now confident on surpassing our guidance of the 40% growth aspiration that we had for the year and will continue to work on opening newer white spaces for the industry.

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

**Vishakha Mulye:** Thank you, Mayank and this concludes our comments on Q3 FY23 performance and now we will be happy to take any questions.

**Avinash Singh:** Yes, hi. Good evening. A couple of questions. The first one on NBFC business. FY23 growth is into a different trajectory, particularly because you are finding new sources of growth, in the consumer and SME segment. Now, by the end of FY23, all these new growth engines will be sizable enough. Now, if we look beyond FY23, like FY24, considering that some of these segments would have matured or become a reasonable size, what kind of growth trajectory you are going to follow on an overall basis in FY24? What sort of a credit cost trajectory considering that your business mix has been changing meaningfully towards smaller ticket consumer loans. So that's on NBFC. And the second would be on life insurance, on what has happened in yesterday's budget and its impact. What sort of impact do you see on your growth and if I can extrapolate it to say that, if you want to maintain certain growth in that high-ticket segment by making your product more competitive by sacrificing margin, so where that sort of the yesterday changes you, with the gross and margin trajectory. Thank you.

**Rakesh Singh:** Let me just take the question on the NBFC on the growth. If you look at the last 4-5 quarters, the growth has been very strong across consumer, personal loans and MSME segments. We are building our capabilities across the retail and MSME. I also mentioned in my opening remarks, as we are building a portal for B2B, so that we can really reach out to our micro SMEs and all, that will be another lever of growth which we are looking at in the next 12-18 months, that should play out.

We have built our digital assets over the last 2-3 years, and that's been playing out quite well. We see there is opportunity across these segments, especially the personal consumer and MSME segment, there are opportunities for a player like us to grow and consolidate. Given the track record, given the opportunity, which will be available in the market, we will continue to grow. What will be that range will be, I think, we will try and calibrate that, but yes, we see a good growth momentum going forward as well.

As your second question on the credit cost, yes, as we go more into the retail and the MSME, the credit cost will go up in line with the margins. And if you see our margins have opened by 77 basis point year-on-year and 41 basis points sequentially, this is on account of the product mix change, so that will have a slightly higher credit cost. But the way we look at it is the risk adjusted return. If the margins are higher, the credit cost it should be able to absorb. But we did a one-time ECL revision in Q3, we think in the near term, our credit costs should be in the range of 1.5-1.6 level.

**Kamlesh Rao:** On your question on life insurance, you must refer to the fact that something happened like this last year, where a similar thing happened on the ULIP for greater that INR 2.5 lakhs, and I think the industry and both of us modulated our product suite to make sure that anything of that is factored. The growth during this quarter front, has now come in traditional products. The ticket size right now is about INR 5 lakh.

We do about 15%-16% of our business in this area. But you must remember that large part of this proposition is because of you will have the offering which generally tells you what you will get for the next 30-40 years and these are guaranteed products. So significant percentage of them buy for the fact that we know that they can do for 30-40 years, obviously there will be some people who would be interested in the tax benefit also.

We will get an impact of this over a period of time, but like I said, the way we manage the portfolio during this year to take care of no growth, nothing impacted us with the ULIP change. The thinking process right now is we continue maintaining our aspiration on the growth levels that we want to have, irrespective of the change that we got in the budget.

**Avinash Singh:** Let me just sort of a follow-up on this. I mean in ULIP, the good part was that, okay, the tax applicable on the accrual was capital gain, particularly it's a maturity amount, 10% in case of equity and the benefit of indexation in case of debt-related funds. So, net tax impact was lower, that's for customer side. For insurance company also, ULIP's share in profit and the VNB would be much lower. Now here this kind of change is very extreme. Again I am repeating that if it goes to extreme, that all the gains will be clubbed income from other sources and marginal tax-rate to be applied.

That leaves you in a situation where, it's very difficult to keep your product competitive because the tax is marginal tax-rate. The contribution of profit from these guaranteed products particularly because these are profitable product in short term as well, so in VNB just not you, I mean for the industry, it is very high. I would say marginally different vis-a-vis the ULIP scenario, and that is why the question was.

**Kamlesh Rao:** So, your question is absolutely fair. Like I said, because the difference in the margin between the ULIP and the products that we are talking about on guarantee is different. But like I said, the cap is on greater than INR 5 lakhs. There is a sizable business that happens below INR 5 lakhs too. And therefore, the industry and us will specifically ensure if you have a larger concentration of that.

And see, finally, you must make do with the loss of opportunity is about 10%-12% of our business. Also remember that, during the same point of time, protection over the last 12-18 months' time has been low call or has been lesser for the industry, per se.

A part of it, if you make up through higher protection, this is what the industry will look at. We are also looking at it specifically. It is a fact that we've already launched two new products of protection in the month of January, and the margins of that are significantly higher. So, I think if you put a strategy in place to be able to recover a part of that through selling more in lesser than INR 5 lakhs segment and bring your product mix to protection, there is a possible product mix structure, then margins will get protected for sure.

**Avinash Singh:** And is industry looking to communicate with the Ministry or Department, to give you an indexation or something to put a sort of parity with other products.

**Kamlesh Rao:** So, our house view or the view of the council covers all the life insurance companies, of course, making a representation, because if it is taxable and technically it should have indexation. The spirit of the thing is HNI should not have the benefit of 10(10D), the INR 5 lakh or something more than that is appropriate. So, you will have to keep in mind that these products also offer 10 times of your premium as cover. There is also a mortality element that is built in, which is not available in any other product. I would say, based on that, of course, we will make a representation for sure, but that time will tell you what's the answer of that.

**Avinash Singh:** Okay Thanks.

**Moderator:** Thank You. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:** Thanks for the opportunity and congratulations for a good performance for the quarter. In the lending business, can you quantify the ECL, one-time ECL impact for the quarter?

**Rakesh Singh:** It is 42 basis points on Stage 1, Nidhesh.

**Nidhesh Jain:** Okay. Sure. So current Stage 1 provisioning has increased to 42 basis point, or it is a change in 42 basis point is additional provisioning that we did in this quarter?

**Rakesh Singh:** If compared to Q2, it is 22 basis points and Stage 1 is higher for this segment.

**Nidhesh Jain:** Okay. Secondly, in the personal and consumer loans, what percentage of our disbursement of AUM is coming from Paytm?

**Rakesh Singh:** We have multiple partnerships and there is no one large partnership which we have. There is nothing which is a concentration risk, which we are talking about here. We have multiple partners. And we also have direct business from these digital assets. So, it's post the DSG guidelines, all the businesses are now, which is as good as our own business which we used to do. So, everything has gone back to the way we used to do personal and consumer loans. There is no difference.

**Nidhesh Jain:** Sure. And lastly, in this segment, how the collection infrastructure will stack up, because this ticket size of 52,000 unsecured is a difficult segment historically? So, what gives us confidence on the sustainability of credit costs and how are the collection infrastructure in this spectrum?

**Rakesh Singh:** We have a collection infrastructure across our geographies where we are present. And before we launch a new branch, we have a collection infrastructure. If you look at majority of the collections we have done by tele-calling via our automated dialing and all, and wherever it goes to the field collection, we have a field collection team, our in-house collections team, in-house tele-calling team. So, we have quite an elaborate collections infrastructure, which we have built over the last 3-4 years, which will take care of the growth in this segment, and we continue to invest in the collection infrastructure.

**Nidhesh Jain:** Sure, thank you sir. Thank you. That is, it from my side.

**Moderator:** Thank You. Next question is from the line of Sameer Dalal from Natverlal and Sons. Please go ahead.

**Sameer Dalal:** Yes, I missed this one number, you said the business that the government has put a cap of INR 5 lakhs, what percentage of the overall business is that? And can you also give us some indication of what was that business as a percentage of new business that was going on in the at the current time?

**Kamlesh Rao:** So, a better number is, when you conclude the year of last year like I said, if you take the number of INR 5 lakh plus premium, it would be in the range of 17%-18% of the new business segment. I mean this year not having ended, it would not be appropriate percentage because numbers change in January, February, and March. But like I said, like-for-like for the full financial year of last year, it would be about 17%-18%.

**Sameer Dalal:** And of the overall insurance business of yours, how much is that as a percentage as of today?

**Kamlesh Rao:** That is what I said.

**Sameer Dalal:** No, I am asking two questions. One is the overall percentage, which you are saying that is 17%-18%. I am saying, last year what was the percentage of sales of the new sales that happened in FY 22?

**Kamlesh Rao:** Of the new business premium that we did in FY 22, on the individual life insurance side, of that greater than INR 5 lakh is 17%-18%. Obviously, if I take the entire business, then the number will be insignificantly small. But on pure individual life insurance business, the new business that you do is called a new business premium, adjusted APE business that already published for FY22, if you take that and INR 5 lakhs plus if we take as the numerator, that number will be 17%-18%.

**Sameer Dalal:** Okay, thanks.

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

**Vishakha Mulye:** So, thank you all for joining us today evening. Look forward to keeping in touch. Thank you.

**Moderator:** Thank you very much on behalf of Aditya Birla Capital that concludes this conference. Thank you for joining us, you may now disconnect your lines.

*Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.*