Aditya Birla Capital Ltd. (ABCL)

Q4 FY22 Earnings Conference Call Transcript

May 13, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 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 Mr. Ajay Srinivasan, Chief Executive, Aditya Birla Capital. Thank you and over to you sir.

Ajay Srinivasan: Thank you and good afternoon, everyone. It gives me great pleasure to present the business performance and the financial results for the quarter and year ended March 31, 2022.

Slide 3:

Let me start with Slide 3, which provides a snapshot of the key highlights for the quarter. With a profit after tax of Rs. 450 crore in the fourth quarter, we have ended the year with a PAT of Rs. 1,706 crore. The quarterly profits and the annual profits are both record high for ABC. Our Profit over the last 5 years has grown at a compound annual growth rate of almost 25% per annum and that catapulted us into the top 100 listed companies in India in terms of profitability. As you will note from a subsequent slide, we are on track to deliver the targets we had announced for each business for FY24, in some cases a year ahead of target and in some cases two years ahead. Building a material retail franchise has been one of our focus areas and through an expansion in our own branch network, which are now over 1,000 and our 150+ ecosystem partners, we have grown our customer base exponentially. Today, we have a significant retail franchise with over 35 million active customers, a growth of 36% on year-on-year.

Slide 4:

Slide 4 provides the progress made across our platform in terms of growth, in terms of margins and in terms of profitability. Our NBFC focus on the retail and SME segments has led to that book growing by 25% year-on-year and making that segment 62% of our book, an all-time high. That has led to Q4 FY22 margins expanding to an all-time high of 6.37% and an ROA of 2.4% for the quarter. The focus of our housing business on the affordable segment has d to very similar results namely high growth in that segment, all-time high margins and an ROA of 1.9%.

In our asset management, we have seen our focus on retail and equity lead to the equity mix growing to the highest level it's been at 41% and our profits for the year being an all-time high with an ROE of almost 35%.

In our life insurance business, we have seen strong growth in new business and in renewals and we have delivered a net VNB margin of 15% which is an all-time high and well ahead of the guidance given earlier.

In our health insurance business, our growth in differentiated model has led to us breaking even in Q4 FY22 excluding of course COVID claims, thus, making us the fastest standalone health insurance Company to breakeven.

Slide 5:

Moving on to Slide 5, the top left of the chart which shows that we have almost doubled our profits over FY20 and have grown 51% year-on-year. This is being possible by a very strong performance across all our businesses as you see on the right-hand side of this slide; with the lending businesses in particular, leading the way with a 44% increase in profitability year-on-year. With our platform profit before tax (Excl. gain on stake sale in AMC) of Rs. 2,666 crore, we are a significantly profitable player operating in the financial services industry.

Slide 6:

Slide 6 speaks on the diversification benefits that ABC enjoys versus some of its monoline peers. If I can draw your attention to the bottom half of the slide, you would note there that our PAT growth at 18% per annum over the last three years is actually significantly ahead of the average of a group of our peers consisting of ten large NBFCs, 5 large private banks, 5 large HFC's, 3 listed AMC's, and 5 large life insurance who delivered an average PAT CAGR of 2% over the same period. In fact, the benefit of our diversified model shows of in the fact that our profit growth is much greater than the median profit growth of any individual sector which you will notice on the extreme right of the bottom table on this slide. In effect, therefore, ABC has become the fastest growing Company in terms of profitability amongst the top 16 listed non-bank companies in India over the last 3 years.

Slide 7:

Slide 7 shows the progress made by businesses on each of the key metrics we had set out for ourselves for FY24. I will not go into each line, but I will say that other than our protection mxi for life business, which is lagging a bit due to industry issues, COVID and other such issues which Kamlesh will cover in his section, we are well ahead of plan on each and every metric and in some cases have already hit our FY24 target in FY22.

Slide 8:

Slide 8 slide shows the track record we have built in terms of building scale, a leading retail franchise and profitability. Our total gross premium of Rs. 13,867 crore makes us an insurer of scale operating in the country and the journey from negative VNB to a positive VNB by tripling our net VNB over the last 2 years in our life insurance business or the break-even of our health business in record time shows our strong focus on value creation. On the asset management side, our equity mix has jumped by 17% while our overall AUM has grown strongly and we are today among the leading fund managers in the country in terms of scale. Again, the journey from 19 basis points of PBT to 31 basis points this year has been the result of our strong focus on profitable growth. In the lending businesses with a book of ~ Rs. 67,000 crore, we are bigger than some mid-size banks operating in our country. The journey of our retailization and focus on profits is very visible here too and will be covered by Rakesh in some detail in his section. And finally, when you look at our other businesses, we have turned a loss of Rs. 10 crore in FY17 into a profit of Rs. 190 crore through our focus on portfolio optimization.

Slide 9:

Slide 9 sets out the many advantages of the ABC platform but let me illustrate the value of the ABC platform through just a couple of examples.

Slide 10:

I would like to draw your attention to Slide 10 which illustrates two important facts. First, the technologies that we have deployed to drive better outcomes and the fact that unlike many others, we have been able to leverage synergies and rapidly deploy these technologies across our platform. You will note from the x axis on the chart that several of these technologies are implemented across 4, 5, 6 and sometimes 7 of our businesses, thus, really achieving economies of scale and the benefits of synergy that we can arrive at, at such a platform. I cannot stress enough the value of this through our platform.

Slide 11:

Slide 11 shows some other assets of ours that bring to life the synergy benefits of ABC. Our mobile app, for instance, allows our customers to access over 250 services across ABC's businesses seamlessly. Our data analytics allows us to offer preapproved product offers across ABC to our direct customers when they view their ABC dashboard. Our One ABC branch format is allowing each of our businesses to expand their branch presence across the country in a highly cost-effective manner while providing revenue synergies as well.

Slide 16:

Let me end with Slide16, which shows our key financials from FY17 to FY22. With a 5-year PAT CAGR of about 25% per annum, we have effectively nearly doubled our profits over the last two years and tripled our profits over the last five. Given how challenging the environment has been over this period, this is really a testimony to our unique business model and the absolutely incredible efforts of our teams.

With that I will now pass you over to Rakesh, MD & CEO, Aditya Birla Finace, to walk you through the lending business.

Rakesh Singh: Thanks Ajay and good afternoon, everyone. I will now walk you through the performance of our lending businesses started with NBFC and then Housing.

Slide 18:

In the NBFC business, we had a very strong Q4 with our loan book grew 11% quarter-on-quarter, NIM's hitting all-time high at 6.4% and ROA at 2.4% for the quarter. As we have mentioned before, our focus of NBFC business is on growing higher margin retail and SME segment. As the environment started to normalize, we focused on expanding our business and as a result of which NBFC disbursements for Q4 increased by a solid 49% over last quarter and 51% over previous year. 65% of these disbursements have been to retail and SME segments in line with our stated strategy. As a result of this, our SME and retail book has grown by 15% quarter-on-quarter and 25% year-on-year and now accounts for 62% of our total book, the highest ever it has ever been. Our focus on growing retail has resulted in our active customer count growing to 3.6 million. We have also started cross-selling to customers acquired through the digital ecosystem, which will help us monetize this acquisition engine and result in better returns. Our focus on driving value by optimizing the product mix has led to continued upward momentum in our financial metric.

For the year FY22, our margins expanded by 91 basis points year-on-year. Cost-income ratio reduced by 106 basis points and credit cost reduced by 12 basis points. Margin expansion further supported with our continued focus on reducing cost-income ratio and improving asset quality has led to NBFC delivering a full year PAT growth of 44% over last year, taking our ROA to 2.3% for the full year compared to 1.7% last year.

I would like to specially mention the focus we have put in collections infrastructure resulting in a much better quality of book. Our Gross Stage-3 book reduced to 3.1% from 3.9% in last quarter. We resolved Rs. 130 crore of Stage-3 assets in Q4 FY22 and are on track to resolve another Rs. 220 crore by H1 FY23. Our collection efficiency has further improved to 99.6%, better than last quarter as well as pre-COVID levels and we are confident we will be able to sustain this quality of book going forward. This coupled with our Stage-2 portfolio going down to 5.4% from 7.5% in last quarter, reduction in 60+ DPD book to 1.1% from 1.5 % in the last quarter, we are looking at a much better financial performance going forward.

With a healthy capital adequacy ratio, we plan to grow our loan book by at least 20% in FY23. The financial numbers bear out the fact that the strategy we are following is delivering the desired results. As we continue down this path, we will see better returns.

Let me now spend some time setting out what has driven growth in retail and SME segments and give you some sense of where we are headed. Like I had described to you in previous quarter, our focus is on four pillars, product suite expansion with a strong customer focus, enhanced distribution capacity, cutting-edge technology by creating consumer and MSME lending platform and strong risk management catering to multiple product segments and delivering stable risk-adjusted returns.

Slide 22:

Let me share the progress we have made in these areas starting with our retail segment. The contribution from new products grew nearly 3x in the last two years. This includes small ticket loans for the emerging income segment and customized ecosystem products like 'buy now pay later', checkout financing, education loans, merchant loans, etc. We plan to grow this portfolio by more than to 2x in FY23. We have also increased our sourcing from direct and digital ecosystem channels to 49% as compared to 19% two years ago and plan to increase it further.

Slide 23:

Talking about enhancing distribution, we added 41 branches in Q4 FY22. Overall, 76% of our branches are in Tier-3 and 4 locations. Our retail book from Tier-3 and 4 markets has grown nearly 3x in the last two years. As we further expand to 320+ locations in FY23, we will enhance direct sourcing in the retail business.

Slide 25:

We will also continue to build a digital ecosystem to augment our sourcing capacity. From a technology perspective, our agile plug and play API tech-stack allows us to integrate seamlessly with a diverse set of ecosystem partners and drive digital sourcing at scale. With consistent investment in technology across the lending value chain, 96% of our customer acquisition and 98% of our EMI collection is now through digital platforms. All these capabilities have enhanced exponential volume growth.

While these initiatives will continue to be significant growth drivers for the retail segment, we have started implementation of our SME strategy like I had described last quarter and let me give you a quick update on it. On driving focus in SME industry, micro-market clusters underserved by banks, we are already live in 30 cluster locations and target to grow to 120 by the end of FY23. We have also gone live with our digital MSME platform in Q4 FY22 enabling simplified processes and better turnaround time. We, hence, expect our strategy to yield the desired growth in the SME portfolio over the next 12 to 18 months. The growth of our loan book has been accompanied by strong credit appraisal and risk management practices, which has helped us deliver stable risk adjusted returns, improve the quality of our book and deliver strong collection efficiency of 99.6% at a higher than pre-COVID level.

Our strong balance sheet growth supported by adequate liquidity, low cost of borrowing, investment in technology and efficient processes, along with bespoke product offerings, provide us the right to win in our chosen segments.

To sum up - On the NBFC front, we are very well positioned to deliver stronger growth momentum in FY23 as I mentioned before targeting 20%+ overall book growth with 65%+ retail and SME mix. With our current growth trajectory and continued focus on key segments and leveraging our technology platform, doubling the distribution with branch footprint to 320+ branches, we are confident we will achieve the guided metric for 24, which we have provided ahead of time.

Slide 33:

Now, I will move to the housing finance business. Coming to the housing business, we have seen strong growth momentum in Q4 in our chosen segments. In this business, we have earlier stated that we are growing our affordable mix as we expect that to drive superior returns. Q4 FY22 disbursements were up 20% over last quarter and 16% year-on-year. Of this, the affordable segment disbursement mix was at 47%. This has taken the affordable mix to 38% from 27% in the last year. The shift in the segment mix supported by lower cost of borrowing has help highest ever margin of 4.52%, an increase of 89 basis points over last year. Not only have our margins expanded, but our customer selection and calibrated underwriting strategy has helped risk-adjusted returns defined as NIM minus less credit cost expanded by 127 basis points over the previous year. With improvement in margins and reduction in income-ratio ratio, housing finance profit before tax for FY22 was up 44% year-on-year taking our ROA to 1.7% and ROE to 13%. Efficient collection efficiency was seen in this business also at 98.8%, has led to a lower credit cost at 65 basis points vs. 73 basis points in the previous year. We also have comfortable ALM (Asset Liability Management) and our capital adequacy is at a very comfortable level of 24%. Growing our affordable book continues to be our focus and to drive affordable penetration further, we have expanded our branch count to 120 with 68% of these branches are in Tier-3 and 4 cities, which is our focus market. We have also augmented our frontline capacity to drive affordable volumes and create additional distribution capacity. Direct sourcing is already at a very healthy 73% in Q4 FY22 and we want to really take up to 80% by Mar '23. This ensures higher customer stickiness. Our progress in digital capabilities gives us confidence of scaling up ecosystem partnerships and co-lending as an alternate sourcing channel.

Slide 39:

On the technology front, we have made some good progress. Overall, 85% of our files are sourced digitally and over 98% of collections are through digital means. We have also enabled multichannel servicing including WhatsApp, eBot, Google Assistant and self-served portals leading to 77% of our customer interactions coming from digital channel.

With this, I would like to sum up the housing finance business performance - the structural shift in our business mix, wider geographical footprint and increased distribution capacity, we expect to see 20% growth in portfolio and steady margins as we keep changing the product mix. We are already at a margin and ROA we had targeted for FY24 and our focus is on growth as the operating leverage will only improve these metrics further, so completely poised to meet the guidance which we had provided for FY24 ahead by a year.

Now, I will pass it on to A. Balasubramanian, MD & CEO, Asset Management business.

A. Balasubramanian: Thanks Rakesh and good evening to everyone. Since we have already presented in our AMC analyst call about few weeks back and I will give you a quick update on our AMC performance.

Slide 43:

The mutual fund AUM grew by about 10% backed by very strong consistent investment performance. Our equity assets on a year-on-year basis grew by 25% and overall mix in the assets under management of equity improved to 41% from 36% and fixed income we saw a marginal growth of about 1% to about Rs. 1.75 lakh crore. We continue to maintain overall leadership position in the asset management industry with 10% year-on-year growth in the overall asset under management.

With respect to building our strong retail franchise, in FY22, we added about 1.2 million folios totaling to overall folios of about 7.9 million customer folios. Our individual assets under management grew by over 9% year on year to about Rs. 1.38 lakh crore, which is contribution 48% of overall asset mix coming from individual MAAUM and these are the AUM. We continue to see steady momentum in AUM from B-30 market which grew 5% year on year, contributing about 16% of AAUM.

The another area where we have made a significant progress is on the SIP's registration. We have seen on quarter-on-quarter basis and month-on-month basis, the permanent SIP subscription keeps improving. In fact, in Q4 FY22, it grew by about 46% to 3.24 lakh registrations compared 2.22 laks in the previous year. As a result of this, our monthly SIP book contribution has now improved to about Rs. 895 crore. Again, building on the base a sustainable business for retail franchise.

With respect to financial performance, FY22 was one of the best year from a profitability point of view. We registered highest ever profit ever in the lifetime of Aditya Birla AMC in FY22. Total dividend as we had indicated during our roadshows, 50% of the PAT has been distributed in the form of dividend. In fact, the total dividend distributed for the full year is Rs. 11.45 per share and interim dividend of about Rs. 5.6 and the balance of Rs. 5.85 we have given in the current quarter. Revenue in FY22 grew by 17% to about Rs. 1,409 crore and PAT improved by 28% to Rs. 673 crore, which again as I mentioned is the highest ever PAT reported in the AMC business.

In terms of distribution network, while of course continued to maintain our momentum in dealing with all the key channel partners like IFA's, MFDs, banks, national distributors, we have made good progress with respect to our organized channel contribution, especially the banking channel contribution. In the last year, we saw an incremental growth coming from the banking channel, which again is nothing but a reflection of the product being part of the recommendation list of the bank and therefore on the basis of the investment performance, therefore the sales are getting pushed. While MFDs continued to be a dominant component, 15% of our asset management coming from MFDs again continuing to remain very-very strong and healthy. Then the fifth area where we are having focus in building our alternate business. In fact, since the time we set up a separate team of people, our focus on passive assets as well as AIF assets continued to gain strength. Our passive assets touched almost Rs. 9,000 crore as of March 2022, which is again 6x growth over last year. While doing that we had many funds launches, we also have a pipeline of 15 products pipelines in the current financial year to do more launches of such kind of funds will also be undertaken in building our passive business. We also closed our first Aditya Birla Sunlife Real Estate Credit Opportunities Fund with collection close to about Rs. 180 crore as the first trench and this is something again, we have done it after almost a 10-year gap, probably we will see this actually gaining momentum as we move forward.

We spoke about ETF in terms of the size, we also added close to about 3,27,000 customers which again similar on the back of our ETF product that are now being a part of the recommendation list and also being made available on technology platform for customers to buy. While doing that, we also sighted opportunity building the passive debt ETF during the same period, taking advantage of rise in interest rate and therefore, that differential product offering also helped us in building our alternate business.

Lastly, of course, I would just like to highlight in terms of digital, though the update what we had given there is no significant change in update what we gave on digital platform, but I can only say that the digital platform we have seen incremental adaption to digital platform and therefore incremental volume coming through digital platform. The digital partners with whom we have a tie up, we continue to expand the list, there are more and more platforms that are coming in, either from RIAs or any other transaction platform. We continue to step up our engagement in order to ensure our products are being part of the recommendation list and therefore is coming to the part of the overall contribution coming from these platforms. This was the quick update I wanted to give you on the AMC business.

I will now hand it over to Kamlesh Rao, the MD and CEO of Aditya Birla Sun Life Insurance Business.

Kamlesh Rao: Thank you, Bala. I will give you a snapshot of the life insurance business.

Slide 52:

The growth for ABSLI in Q4 at 11% was better than the industry and this is the second year consecutively that we have grown at 14% in the individual life insurance business. In the group business, this growth is more than double the industry growth for Q4 and here too we have grown at +30% for two consecutive years. What is heartening is that a large part of this growth has come on the back of higher productivity and now at net VNB margins of 15%. We are now demonstrating superior performance across relevant industry peers also in areas of persistency across the various buckets, growth in absolute embedded value as well as OPEX to premium ratios in the last two years.

Our renewal premiums grew at 24% for the year and we ended at a total premium of Rs. 12,140 crore. Both these numbers of renewal premium as well as total premium have grown at a CAGR of +20% for the last two years. Our enhanced digital capabilities allow us to collect 85% of this renewal premium collected digitally in terms of NOPs. Our renewal bot that we spoke about a few quarters back that we call Zara collected Rs. 440 crore of renewal premium this year and the rate at which we are growing our BOT alone will give us the capability of collecting close to Rs. 1,000 crore.

Our balanced product mix has consistently helped us take our net VNB margins up. We ended the year at 15% net VNB margins, which is one year ahead of our last guidance. At this rate, we have tripled our net margins in absolute value in the last two years, reaching an absolute number of Rs. 369 crore this year. The performance on net VNB is an outcome of managing gross margins and expenses very efficiently and we expect our margins to be in excess of 17% for the next year.

While that is the story of business numbers and margins, the quality parameters have also consistently done well for us, across persistency in various buckets with 13th month now at 85% and OPEX to premium ratios at 12.7%. Both these numbers on persistency and OPEX to premium are again one year ahead of our guidance given earlier. The firm now manages an overall AUM of Rs. 60,000 crore and we have had a credible year on our investment management doing better than the benchmark as well as our peers, we are in the top two quartiles on performance for majority of our funds.

Our average age of customers being younger in the 36 to 37 years range has helped us immensely in upsell initiative this year with PASA contributing 22% of our new business and high digital adoption has led to better customer experience with self-servicing now at 83% level. COVID claims, which are in line with our market share of business was at Rs. 257 crore and in spite of taking this hit, we have managed to grow PBT by 16% year on year in FY22, which has made us fare better than a lot of relevant industry peers during the COVID times. The absolute EV growth at 1.5x over the last two years, our

EV now stands at Rs. 7,609 crore, which is a growth of 18% over last year with strong RoEV at 15.4% for the year.

Our key guidance for the next year revolves around growth in business at 20% fueled by productivity-led growth in our proprietary channels as well as garnering larger mindshare in our partnership channels for individual business and growing value accretive segments in the group business. This growth will come at higher net VNB margins at 17%+. This trajectory will help us double net VNB margins in the next 3 years and in terms of absolute value getting us closer to the Rs. 750 crore mark.

So, overall, it has been two years of consistent growth of business for us with all our quality parameters doing well, resulting in good net margin. With the investment that we have made in the last year, we are confident of a 20% growth planned for next year with better net margin and consistent RoEV's.

With this, I will hand over to Mayank, CEO, Health Insurance for Update on the Health Insurance Business.

Mayank Bathwal: Thank you, Kamlesh and happy to share the performance of our health insurance business.

Slide 65:

We had another successful year which ended at a gross premium of Rs. 1,727 crore, growing at 33% year-on-year, ahead of the industry. We also had a milestone of completing our five years of operations and we have consistently grown ahead of industry with the last three years, our compounded growth at 51%, at 3x, the average industry growth rate of 17%.

Our retail including the rural creditor business, constitutes about 76% of our overall premium and grew 23% year-on-year. But what was also encouraging was a very profitable growth in our group business which is typically more price-sensitive in the industry, aided by our wellness-driven differentiation in the market. Today, we cover about 19 million lives which grew 40% over last year.

The key milestone for us last year was, as we have been guiding for the last few years, our first quarterly breakeven in Q4 FY22 excluding COVID claims, from whatever information we have is fastest breakeven amongst all the SAHI players from inception. We ended the year at 109% combined ratio, clearly showing a consistent reduction.

All of this has been enabled by a very unique data-driven "Health First" business model which we see is the first of its kind. With this model, we not only cater to the existing population but also add the highly underpenetrating younger and healthier consumer pool, which actually gives us more years of relationship with this pool as we get them into insurance. As we gather more and more health data, we continue to engage with consumers around this whole type of personalized health scheme. And we launched our IP around a health. We now cover close to 1 million of our retail lives to this, giving us a clear ability to engage much more deeply with our consumers than the traditional model.

We continue to launch newer set of products in the market. And our relaunched flagship product, "Active Health", which offers first of its kind 100% premium back, which is I think unique globally, not just in India, has constituted about 39% of our fresh premium last year. All of this also has helped us getting much better business outcomes, with our average age of consumers being five years lower than industry. 4% lower claims and 25% higher persistency for our highly engaged customers, which we will continue to add based on our differentiated model.

We have ensured that we take this proposition fast to the market through our very high scaled diversified distribution model with the traditional agency model constituting around 25% of our business. But the bancassurance model, which actually not just gives us an inorganic capability to reach out to the large mass of Indian consumers, but it's also something where we can continue to grow aggressively because of the large capacity there.

We now are present in across 4,700+ cities through our 16,000 partner branches, but also through 56 rural and MFI partners. Last year, we leveraged one ABC branch concept very well, adding newer locations and also new agents in those locations. One of the pleasing outcome last year was that we grew our digital franchise very fast, growing at 89% year-on-year, and the mix of our digital business is now 11% versus 7% in the previous year.

Because our model is highly engaging, we have invested in digital and data capability from the very beginning. And we work with some of the best digital partners across the entire lifecycle of traditional health insurance model, but also around the theme of health and wellness ecosystem, which has served great, much better access for health and wellness for our consumers and also gathered both structured and unstructured data which is then leveraged for detailed analytics to be able to engage with customers at a highly personalized level as I mentioned earlier.

Looking ahead, given the fact that we have demonstrated a superior economic model, which we follow, we are now looking at next year at a 40% growth in our gross written premium, which will be driven by both, capacity addition and productivity enhancements in our existing capacity. We look at doubling our agency, leveraging the one ABC branch concept, which actually gives us a low-cost agency expansion unlike when we do on a standalone basis.

Similarly, we now work with 12 Banks, but we will continue to grow the banca franchise and also deepen our relationship there. But also expand our digital footprint given the strength that we have shown both in products and journeys.

And lastly, we continue to add new set of customers into the risk pool of insurance, which will be a clear growth lever for years ahead.

With that, I now pass it back to Ajay for the concluding remarks.

Ajay Srinivasan: In conclusion, let me just reiterate that ABC has continued scale be it in terms of AUM, in terms of lending book, in terms of its insurance premium, number of customers, and of course in terms of profits. We are today amongst the top 100 listed companies in India in terms of profitability. Our unique model and our strong focus on the value drivers in each business has led to the delivery of key metrics well ahead of our FY24 guidance. Over the challenging three-year period, we have outperformed peers, tripled our profits over the last five years and doubled our profits over the last two years. We have strengthened the platform in a huge opportunity in financial services, gives us confidence that the business is poised to continue to grow strongly into the future.

With that, we'll be happy to open up the session for any questions that you might have.

Moderator: Ladies and gentlemen, we will now begin the Q&A session. First question is from the line of Naishi Shah from Acko General Insurance. Please go ahead.

Naishi Shah: I just wanted to know regarding the new RBI regulation regarding the issuance of credit cards, now that NBFCs don't need to tie up with Banks for credit cards. Do you think that's a segment we will be exploring?

Rakesh Singh: We have got the in-principal approval from RBI for co-branding with the largest issuer and we are going live in Q1 FY23. We are also parallelly looking at taking RBI approval for having a license to issue credit cards for ABFL as well. So we would look at that.

Naishi Shah: Okay and any plans for borrowing in the market anytime soon and with the expectations of like the rate hike in June itself?

Rakesh Singh: We have enough from a liabilities point of view, funding point of view, we have enough funding available, capital adequacy is quite comfortable at around 22% for both our businesses; 22% and 24% for housing so we don't need a capital raise of funding and in terms of increase in pricing or the cost of funds going up, the rate hike, which you mentioned, we have majority of our portfolio is floating rate loans and we have the ability to pass it on to our customers if the cost of funds goes up and we have demonstrated that over a period of time.

Naishi Shah: What would be the proportion of floating rate loans if you could give us a breakup?

Rakesh Singh: We have a very well-matched asset ALM. We have 35% of our liabilities is fixed and 65% is floating. On the asset side, we have 34% of our assets are fixed and 66% of our assets is floating. So it's very well matched. Also, majority of the fixed rate loans are on the retail side where we have two years, three years in term loans and personal loans or business loans, which we give it to them which is at a much higher yield. So we don't have any rate risk which we see. If it goes up, we will be able to pass it on.

Moderator: The next question is from the line of Pankaj Upadhyay from State Bank of India. Please go ahead.

Pankaj Upadhyay: I have two questions. What is the breakup of restructured loan book in both, NBFC and HFC, from which segment the contribution is more, like from retail, SME, so certain light on that? And my second question is how many partnerships both NBFC and HFC have entered as a co-lending model?

Rakesh Singh: 70% of our restructured portfolio in NBFC is retail and close to around 25% is SME. That's in terms of the mix of the restructured portfolio. Co-lending, we have close to 16-odd partnerships where we have different models in terms of arrangements with these partners. So whether we participate or we co-lend, but yes, we have 16-odd partnerships which is which is there at this point in time.

Moderator: Next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Sir, on the AMC business, how should we think about PBT to AUM, of course the PAT to AUM ratio over the next three to four years given that competitive intensity in this segment has gone up quite significantly where we read that incremental equity AUM is coming at just 20 basis points of the yield. So how should we think about core PBT to AUM over the next two to three years?

Parag Joglekar: So, overall looking at the PBT of the asset management business, it is a mix of the overall mix of asset, which will be equity, high margin debt and the alternate asset which we are trying to build. So over the period, we are trying to maintain or improve our overall revenue, bps to AUM and that should flow in the bottom line also, because our focus will be on rationalizing costs and bps of costs to the overall AUM to maintain our current level or reduce it further.

Nidhesh Jain: What is the driver of revenue bps improving?

Parag Joglekar: So it will be the overall growth in the overall assets which we manage, plus the growth of equity and high margin debt in the overall mix of domestic assets plus the alternate asset, which we have created a very focused approach, will start contributing higher to the overall mix.

Nidhesh Jain: Secondly, in the life insurance business, if you can share what is the impact because of mortality in the EV walk for FY'22?

Kamlesh Rao: As I said, the incremental impact has come this year is obviously on account of claims, and we put that number on record to say it's Rs. 257 crore of COVID claims that we paid. Non-COVID claims were by and large on plan and as we see through the year, if I see quarter four of last year, we are back to the normalcy level. That impact we have been able to take but like I said, impact of taking that hit, we've been able to show PBT growth higher compared to last year.

Nidhesh Jain: Because still after taking such high impact of COVID, we have reported positive operating grants. So, if you can give a break up of what has driven this positive operating grant that will be helpful.

Kamlesh Rao: No mortality assumptions protocol has changed. Like I said, between normal and COVID, the exception was only on account of COVID, normal was not having any impact, there are no change on long term mortality assumptions into any of the products.

Nidhesh Jain: Because I believe that there will be negative impacts on the EV walk in the operating variance, there will be some negative mortality impact but despite that, we have been reported positive Rs. 17 crore of operating variance. So, there must be something very positive either on persistency or expenses. So, I just wanted to understand if you can give the breakup of the Rs. 17 crore of operating grants?

Kamlesh Rao: If you see there is a bridge which starts from the opening EV and for the elements that are considered in the ROEV at 15.4%, there are a lot of positives in terms of OPEX management, lot a positive in terms of the gross margins that we generated, and if we knock that off against the variance on account of mortality, the large contributors of that 15.4% would be the unwind of the profits and the net of the acquisition that we have done. So of the 15.4%, the contribution of that will be close to about 15.1%, 15.2%. And everything else that we've done would be offset against the higher mortality. It's given us incremental data there. But like I said, on a long-term basis net of COVID with mortality assumptions not changing, that number will look better over the next few years.

Nidhesh Jain: Last question on the health insurance business. There we have been able to scale bancassurance business really well. I don't see such high contribution coming from bancassurance for any other standalone health insurance Company. So, what are the key factors which has driven that and how do we control the renewability of the business which is coming from bancassurance side?

Mayank Bathwal: I think one of the reasons we've got good success in bancassurance is our product profile and also the match that it has with the customer segment of the Banks, typically Banks like HDFC, Axis Bank, they have younger salary customer profiles, and for them our kind of products appeals to the younger and the healthier consumer segments, has given us a big headway because it's actually opened up a newer segment of customers for these Banks. Of course, our brand strength always helped us. We took that first mover advantage when in 2016, and other insurers were not necessarily looking at Banks, focusing on agency, we felt that it could give us an inorganic growth opportunity and in over a period of time, we've just strengthened our capabilities over our competitors. As regards renewability, my sense is that there's no reason why in the medium to long term, Banks will have any lower renewability than any other channel. It's just that Banks are kind of in a way maturing in the health insurance category, just like they took a few years in the life insurance side, and you as very well know that in life insurance, the persistency is much higher than agency. I think as their processes, the way they will work along with manufacturers you know start maturing, I think we start getting closer and closer to the ABC. And you're already seeing that trend in the last 18 months.

Nidhesh Jain: On the health insurance business that we're getting from banca, is it structured as a retail business or structured as a group policy?

Mayank Bathwal: Virtually, everything is retail like there's a small segment of what I call, voluntary retail on the group platform, but we hardly do the corporate or group business, there is hardly, not even 1% in the banca franchise.

Moderator: Next question is from the line of Bhavik Dave from Nippon India MF. Please go ahead.

Bhavik Dave: Sir, a couple of questions. One is on the on the retail side of the business, which you are scaling up well. Just wanted to understand the partnerships that we have with fintechs, right. So we've mentioned that 15% of the portfolio is currently there. So I am assuming 15% of Rs. 17,600-odd crore is the one which is via these digital partnerships, right, is that a fair assumption?

Rakesh Singh: Yes, that's true.

Bhavik Dave: Okay and also if you could just help us understand what is the kind of throughput that we are seeing with these digital partners like in the sense you mentioned that 37% of disbursals for the year has been via these partnerships. If you could just spell out the number for fourth quarter and how has the monthly run rate been on these platforms for us on the disbursement basis?

Rakesh Singh: So, we have built a very unique digital distribution capability which we integrate with the partners, and we have built an in-depth ecosystem across education, healthcare, eCommerce, payments, merchants. So that's how we are looking at across the industry segments. And in terms of throughput, we have close to half a million customers which gets onboarded through these ecosystem.

Bhavik Dave: And what would be the disbursement amount in the fourth quarter? You mentioned 37% for the year.

Rakesh Singh: So 37% of our retail business is coming through the digital ecosystem. In terms of disbursement, that is 15% of the overall retail portfolio.

Bhavik Dave: I think Rs. 9,800-odd crore is our disbursement for the quarter. 65% is retail plus SME. How much would be retail and SME separately if you could just spell out?

Rakesh Singh: Retail is close to Rs. 4,000 crore and SME is Rs. 1,650 crore.

Bhavik Dave: So, 37% of that Rs. 4,000 crore is roughly the digital partnership-led disbursement, right?

Rakesh Singh: Yes.

Bhavik Dave: You've mentioned that you have already got like 4.1 million customers via the digital partners and ecosystems, and we intend to do cross-sells of personal loans to these customers or BNPL. How does economics work here, because if the customer has come in via like suppose ABC fintech partner, and now the customer is with us, because we are lending our balance sheet, so can we cross-sell products to them without paying a fee to the digital partner or every time we interact with that customer, we have to pay out that 2%, 3% payout that we do to our digital partner?

Rakesh Singh: So we have different arrangements, which is there with different partners, and through our own ecosystem also where we acquire customers directly, and we have built a cross-sell and up-sell journey. So it's similar to what we do it for our internal customers, we do it with the partners as well. And we have different arrangements with different partners. And also on the economic side, I would just like to add, it's more of CAPEX model than OPEX model. Once we have built our digital capability and we have built our analytics and analytics model and scorecard models, I think post that, I think the cost is very little in terms of onboarding the customer or in fact, even if we have to go and give them a top-up, so very little variable cost which is involved here. It's more a CAPEX model, which we have already invested in.

Bhavik Dave: And lastly, on the affordable housing piece, when I see that future planning on affordable housing, just wanted to understand if we reach 65% of our home loans for housing business into affordable housing, why is the expectation of ROA is only 1.5% 1.6%? What we see from the listed affordable housing players today, they generate anywhere between 3% to 4% ROA's when they are like dealing with subprime or lower end of the spectrum, low ticket size customers. Just want to understand how different is our strategy versus them because the ROA expectations are fairly like half..

Ajay Srinivasan: That was a target which we set for FY24. So obviously, since we're already ahead of that, as we go ahead with this affordable strategy, there should be upside to that number. We have not revised that number, but that was our target which we had set earlier.

Moderator: Next question is from the line of Aswin Balasubramanian from HSBC Asset Management. Please go ahead.

A. Balasubramanian: Just wanted to understand on the housing finance book. The restructured portion under moratorium you have mentioned is 3.4%. So earlier, if I am not wrong, the overall restructured book used to be about 7%, 7.5%. So just wanted to understand the rest of the book, has it come out of moratorium and when will this remainder come out of moratorium and what's been the performance of the book, which has already come out of the moratorium?

Rakesh Singh: 4.6% of the restructured book has already come out of the moratorium and they have started paying their EMIs. So that's the reason why you see 3.4% is still under moratorium.

A. Balasubramanian: Out of the 4.6%, how much would have slipped?

Rakesh Singh: In terms of collection efficiency on this portfolio is also pretty high. In terms of slippages, I can share that details with you. So even if you see after opening up of, it reached 4.6%, the restructured portfolio which has opened up, our our stage-III and stage-III both has come down. So that's a clear indication in terms of what is flowing forward and getting results.

A Balasubramanian: And the similar number for the NBFC, so, there, the restructured book used to be about 4% and that has come to 3%. So, the rest of the book, this 3% is still under moratorium or does this also include a portion which has come out of the moratorium?

Rakesh Singh: So 67% of this 3% is already started paying their EMIs. So that has opened up. So it should be very similar to what we have. It will be around 1%, which will be left. 1%.

A Balasubramanian: In the housing finance book, the prime home loans, if I look at it, let's say year-on-year also has come down even in absolute terms. So, is this more like conscious strategy or is it because of higher bps out in the segment? A related question would be what would be the yields across the various segments in terms of affordable, prime home loan, LAP and affordable LAP?

Rakesh Singh: So your first question it's line with our strategy to focus on the affordable segment. And in the prime segment, we are primarily focused on loan against property and all. So that's the strategy. In terms of yield in different, I have it, I can share that with you separately.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: You talked about our digital partnerships and the digital ecosystem, fintech ecosystem. You have already shared, what disbursement numbers were in the fourth quarter. Just trying to understand, these different ecosystems that you talked about; education, healthcare, travel, can you give us an idea around what are the typical ticket sizes? What I'm trying to understand here is, while everyone is talking about disbursing through ecosystem or fintech partners, how will you work around the collection's aspect, especially given the fact that these are all predominantly unsecured low ticket size loans?

Rakesh Singh: If you look at there are different products, which are there, especially if you look at our a product like BNPL, where the ticket size is fairly small, it's a short-term loan. The idea is once you acquire the customer, and you have the track record of the customer, we can go and cross-sell a higher ticket size and longer tenor loan to these customers. And that's the journey and that's what we have mentioned in our investor deck also that we have started selling personal loans to these customers who have been acquired over the last five, six months. So that's on the BNPL side. In terms of education, that ticket size can be Rs. 60,000, Rs.70,000, on MSME, it will be upwards of Rs.1 lakh. So for different products, different ticket sizes are there.

Abhijit Tibrewal: How are these collection mechanism setup, how is collection being done in case of a default?

Rakesh Singh: Again, with different partnerships we have different arrangements. In certain case, the partners manage the collection, in certain we manage the collections. And we have infrastructure, and we offer this wherever we have the collection infrastructures with certain partners, wherever we have the collections infrastructure, we only operate and we provide loans there. So we have our own collections infrastructure. Because we also have a large retail franchise and a large retail collections as well.

Abhijit Tibrewal: In case there is a default, you are suggesting that either the partner or you are involved in collection. Still early days, but how is collections kind of panning out, particularly in these product segments, because when we engage with a lot of, I would say fintechs who are in let's say consumer loans, education, healthcare, most of them seem to suggest that they have still not worked out collection mechanisms as yet?

Rakesh Singh: These are not early days we have been doing it for the last almost three, four years in terms of we build the digital lending capability and the platform almost in FY'16, '17 and we have experience from those days. And also, we track the performance and the flow rates of each partner, or each customer and we look at what we need to do in terms of the collection. So far, the performance on a whole is pretty decent. It's up 2% in the credit cost on this portfolio.

Abhijit Tibrewal: When I look at your Bank term loans, large part of it would be linked to MCLR or some kind of an external benchmark repo?

Rakesh Singh: You're talking on the liability side?

Abhijit Tibrewal: Yes.

Rakesh Singh: Yeah, so I think it will be and if it's ECB or something around fully hedged. As I I mentioned earlier, we have close to around 35% of our liabilities which is fixed in nature, and 34% of our assets which is fixed in nature.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference back to Mr. Ajay Srinivasan, Chief Executive, Aditya Birla Capital for closing comments.

Ajay Srinivasan: Thank you, everyone, ladies and gentlemen for attending this call. Wish you lovely weekend and week ahead.

Moderator: In case of any follow up or further details, you can reach out to Mr. Pramod Bohra, Investor Relations. Ladies and gentlemen, on behalf of Aditya Birla Capital, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.
