Aditya Birla Capital Ltd. (ABCL)

Q2 FY23 Earnings Conference Call Transcript

November 7, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q2 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 for Aditya Birla Capital for the quarter ended September 30, 2022. I am pleased to present the business performance and financial results for Q2 FY 23. I would also like to welcome and introduce two senior colleagues Pankaj Gadgil and Vijay Deshwal, who joined us recently.

Pankaj joins us as MD and CEO for Aditya Birla Housing Finance Limited. Pankaj will also be responsible to develop the digital channel for ABC platform and the strategy for payment business for Aditya Birla Capital. He joins us from ICICI Bank, where he has served for the last 19 years in the areas of retail assets and liabilities, business banking, SME, payments and large ecosystem.

Vijay joins us as a Chief Strategy Officer and Head of Investor Relations. He will be responsible to formulate and facilitate execution of various strategic initiatives at ABCL. He will also be responsible for communicate ABCL's strategic initiatives and it's positioning with analysts, investors, and all the other stakeholders. He joins us from Cyrus Poonawalla Group, where he spearheaded the acquisition and integration of Magma Fincorp with the financial business of Poonawalla. His two-decade experience spans across various facets of banking and finance.

I'm joined by senior members of my team, Bala, Rakesh, Tushar, Pankaj, Kamlesh, Mayank, Pinky and Vijay. Together, we will present the results and take the questions that you may have.

Let me begin by giving a brief perspective on the macro-economic environment and emerging trends in the financial service industry. The

Indian economy continues to build on the momentum gained over the last few quarters. The demand continues to be strong, which has, in turn, driven industrial activity and the service sector, which is reflected in the lead indicators - Service sector PMI at 54.3, GST collections remaining about RS. 1.4 lakh crore for 8 months in a row, passenger vehicle sales at all-time high of over 3.5 lakh units and commercial vehicle sales recording a 20% year-on-year growth to reach 70,000 units in the month of September 2022.

However, the overall macroeconomic environment has seen a continued headwind led by the inflationary pressures and slowdown in the global economy, resulting from the policy action by the central banks across the globe. Though the continued concerns remain due to these headwinds, for FY'23, the Indian economy is expected to grow at 7%, driven by strong domestic demand.

Coming to Indian financial services, we see a continuous transformation led by digital disruption, which has already changed the way India invests and makes payments. The UPI payments are touching a volume of over RS. 700 crore every month, with a total value about RS. 10 lakh crore. This has been well supported by the robust digital infrastructure initiatives by the Government of India, which are set to transform the lending and insurance landscape in the country.

The introduction of OCEN (Open Credit Enablement Network) will not only increase credit penetration by transitioning the system to cash flow-based lending, but also the potential to reduce credit cost due to the data access for multiple systems. The proposal of digital health ID will enable a unified interface and allow the customized insurance solutions to become reality. We, at ABC, are getting our digital properties to maximize the opportunity arising out of these initiatives.

I am pleased to report that Aditya Birla Capital continues to build up scale with an accelerated growth momentum across businesses. For the quarter ended 30 September 2022, our consolidated profit after tax is RS. 488 crore, a 30% year-on-year growth. The consolidated revenue for the same period grew by 21% year-on-year to RS. 7,210 crore. We added 2 million customers during the quarter and our active customer base has increased to 41 million.

In our NBFC business, we continue with a strong momentum of disbursement and granularization. The disbursement of the quarter has more than doubled year-on-year to RS. 12,488 crore. This helped the loan book to grow at 36% year-on-year to RS. 64,975 crore. The granular book across retail, SME and HNI segments now constitutes 65% of our asset book. We continue to maintain strong focus on quality of assets with the gross Stage 3 assets reduced by 55 basis points year-on-year to 3.1% as on September 30, 2022. The provision coverage ratio on Stage 3 assets improved to 49.29%.

Coming to our Housing Finance business, we disbursed RS. 1,237 crore due to Q2 in FY'23. The loan book now stands at RS. 12,455 crore with the 94% retail mix.

With improved mix, we expanded our NIM by 89 basis points year-on-year to 5.1%. The average AUM in our AMC business reached RS. 2,82,580 crore with an overall equity AUM mix improving to 42.1%. We continued our focus on building a retail customer franchise with the addition of 0.2 million folios during the quarter. The total active portfolio is 8.1 million at the end of the quarter. With our continued focus of growing Passives and Alternate asset segments, passive AUM crossed RS. 16,500 crore as on 30 September 2022.

The growth momentum in our life insurance business continued with the 16% year-on-year growth in retail first year premium and about 23% growth in our group businesses.

Renewal premium grew 14% year-on-year to reach over RS. 2,952 crore in H1 FY'23. We also continued to see the profitability profile of this business improving and we are well on track to deliver over 18% net VNB margins this fiscal year.

In our Health Insurance business, our unique and differentiated Health First model helped us to deliver industry-leading growth of over 62% this quarter. On a year-on-year basis, ABHI expanded its market share by 260 basis point year-on-year to 11% in the SAHI players.

I'm also happy to say that with this performance, we are on track to deliver ahead of our previously stated FY'24 guidance.

I will now talk about our key focus areas and approach to maximize the market opportunity. We intend to live with the momentum we have gained across our businesses to accelerate our growth trajectory and continue to build scale and drive market share in each of our key businesses. We will adopt "One ABC One P&L" approach while continuing to focus on quality and profitable growth. We believe that strong parentage and extended ABG and ABCL ecosystem provides great opportunities to accelerate our growth. We are investing in specific and unique propositions, including the products and customer journeys for this ecosystem. In the next 100 days, we'll come out with a unified platform for MSME ecosystem with a digital first approach. It will connect existing and new customers through mobile, web and API by offering solutions across protection insurance and financing needs.

We continue granularization of our portfolio by driving customer acquisition through an omnichannel distribution approach. We will equally focus on building direct channels, creating ecosystem partnerships as well as increasing the reputation with the new markets and customer segments. Our branch expansion will be primarily driven by increasing the footprint of our lending and insurance branch network.

In the last quarter, we acquired 2 million customers, and our active customer base has now reached 41 million. We added 65 branches during the quarter and our physical footprint has now reached 1,158 branches. Our branch expansion is targeted at driving penetration into Tier 3 and Tier 4 towns and new customer segments.

Digital-first approach is at the core of our business strategy to deliver product innovation, direct acquisition and best-in-class service delivery. We onboarded 97% of our customers digitally with 12 million plus customers' introduction on the digital channels every quarter. Over 90% of our fresh customer acquisitions happens through the digital ecosystem. Over 75% of our life insurance renewals happened digitally and 87% of our life insurance customer requests are digitally self-serviced. In our health insurance business 100% of our distributors are now onboarded digitally. And 85% of the business is delivered by auto underwriting. We leverage technology and analytics at every stage of customer journey and continuously look at upsell and cross-sell opportunities backed by data outcome.

In our lending businesses, sharp use of analytics has resulted in repeat customers contributing 32% of the fresh business in digital lending portfolio. 75% of our digital lending businesses happens using machine learning scorecards. In our AMC business, it has helped in cross-sell and upsell, reaching 7% of our gross retail sales. In our life insurance business, cross-sell and up-sell now contribute 39% of our first-year premiums. In our health insurance business, 24% of the retail fresh premium originates from analytics led cross-sell.

I'm also pleased to share that we successfully raised growth capital of RS. 665 crore from wholly owned subsidiary of Abu Dhabi Investment Authority (ADIA), a globally diversified investment institution, for a 9.99% stake in our health insurance subsidiary, valuing it at RS. 6,650 crore. This demonstrates the strong positioning of our health insurance franchise which is poised to gain significant market share backed by its Health-First approach.

Going forward, we will continue on accelerated growth momentum across our businesses to build scale and drive market share. We will continue to focus on quality and profitable growth.

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

Rakesh Singh: Thanks, Vishakha, and 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 36% year-on-year, taking our loan book to nearly RS. 65,000 crore in quarter 2. Our retail and SME segment book grew 50% year-on-year. We grew faster than the competition in quarter 2. We acquired 1.2 million customers this quarter, taking our active customer base to 5.3 million. This base grew from 3.6 million in March '22, clocking 47% growth in H1 of this financial year.

If I look at absolute loan book growth, we added RS. 7,100 crore of loan book just in quarter 2, which was same as what we had added in all of H1 last year, and it pivots on investments we have made to scale our productivity in branches we launched over the last 12 to 18 months. Not only have we got to our desired retail and SME segment mix of 65% as per the guidance, which we had provided earlier, we also continue to expand our NIMs progressively quarter-on-quarter in a challenging interest rate environment and have pass on the increased income in cost of funds.

Quarter 2 was also a strong quarter in terms of profit delivery with a profit before tax at an all-time high of RS. 488 crore registering growth of 26% year-on-year and 6% quarter-on-quarter. Our return on equity expanded by 145 bps year-on-year and 32 bps quarter-on-quarter to 14.7%.

Further, asset quality has shown a consistent improvement over the last year:

a. Gross Stage 3 book has reduced to 3.1% (was 3.6% in quarter 2 of last year).
b. Stage 2 book has also reduced by 272 basis points year-on-year.
c. Our collection efficiency is at 99.2%, consistently better than pre-COVID levels.
d. We have progressively increased our Stage 3 PCR taking into a very healthy 49.29%.
e. Also, the restructured book still under moratorium is only at 0.34% of our overall loan book compared to 0.85% in the previous quarter. Further collection efficiency of the restructured pool has come out of moratorium is a healthy 95.1%.

We have provided additional disclosure by segments, products, book progression, average ticket size and asset quality trends this quarter to show how not only are we driving growth secularly, driven across segments, but have progressively seen asset quality improving, driving superior return on assets.

We disbursed RS. 12,488 crore in quarter 2, which is by far the highest quarterly disbursement for ABFL. We disbursed 2.5 times of what we did in quarter 2 last year and 1.3 times of quarter 4 of last year. 70% of our disbursement was to retail and SME segments and all product verticals contributed to this momentum. I just want to share and really throw some color on the disbursement in the key product segments.

We disbursed nearly RS. 3,513 crore in the personal and consumer loans segment. This comprised 28% of overall disbursements in quarter 2 and was up 4x year-on-year taking the segment book to RS. 9,563 crore. Here, we focus largely on salaried professionals in the emerging income segment. 77% of this segment comprises of personal loans, of which nearly 50% has been sourced digitally.

The balance comprises of consumer loans, where we financed various end use such as lifestyle, healthcare, and education. Nearly 32% growth in our digital portfolio was driven by personal loans Cross-sell compared to 20% last quarter.

Next, I would like to touch on unsecured business verticals, where we disbursed small ticket business loans to self-employed professionals and supply chain solutions to MSMEs with granular average ticket size of RS. 9.61 lakhs. Disbursement in this segment was up 16% quarter-on-quarter, registering a loan book growth of 66% year-on-year, taking the overall loan book in this segment to RS. 6,508 crore.

Our secured business loan segment, which primarily comprises of LAP (loan against property) and working capital solutions to self-employed and MSME contributed the largest share with 42% of overall disbursals coming from this segment. At nearly RS. 4,507 crore disbursement in this segment was up 59% quarter-on-quarter and 2.1x year-on-year. As a result, the secured business loans segment grew 28% year-on-year and stood at RS. 27,212 crore in quarter 2.

The average ticket size of this segment is RS. 1.95 crore and we see the average ticket size continue to come down as we deepen our penetration in semi-urban markets. Lastly, the corporate segment portfolio grew by 11% year-on-year to RS. 20,836 crore accompanied by significant improvement in asset quality with GS3 coming down from 5.3% last year to 4.1% in quarter 2.

The next leg of growth for ABFL is going to be driven by our investments in enhancing our MSME proposition by building a unique and differentiated platform solutions, which Vishakha has spoken about, to on-board customers through our existing ecosystem, digital partners and open networks, such as ONDC and OCEN. This will be fully serviced through digital journeys for our product available on a unified platform and value-added services for MSMEs to transact seamlessly. We continue on our growth journey by adding 62 new branches in H1, taking our footprint to 221 branches as of the quarter end as we target 325 branches by the end of this financial year. Our investment in distribution, digital sourcing, data analytics, building platform-based solutions gives us a high degree of confidence that the strong growth momentum is going to continue through the rest of this financial year.

With that, I will now hand it over to Mr. Pankaj Gadgil, MD and CEO of the Housing Finance Business.

Pankaj Gadgil: Thank you, Rakesh. Good evening, everyone. I'm pleased to share Q2 FY'23 performance of our housing finance company.

The key highlights are as follows:

a. Disbursements of RS. 1,237 crore in Q2 FY'23, which is an increase of 24% Y-o-Y and 40% Q-o-Q, led by growth across customer segments.
b. Loan book as of Q2 FY'23 is RS. 12,455 crore, an increase of 10% Y-o-Y and 3% Q-o-Q.
c. Net interest margins was the highest ever and it has increased to 5.13%, 89 bps growth Y-o-Y and 36 bps Q-o-Q.
d. PBT for Q2 is RS. 76 crore, an increase of 15% Y-o-Y and 6% Q-o-Q.
e. As a result of this, ROE is 13.87%, 12 bps growth Y-o-Y and 19 bps Q-o-Q.

Now, I will share further details of performance in book growth, financial performance, liquidity management and portfolio quality.

First of all, momentum in disbursement and book growth.

a. We witnessed accelerated growth in disbursements across value and growth segments for the quarter. The value segment comprises of affordable housing and construction finance. The growth segment comprises of the prime business.
b. We are leveraging the depth and width of our distribution network and enhancing digitization throughout the customer lifecycle. Internally, we launched a digital index that helps us to monitor our digital penetration to provide a seamless on-boarding experience to customers.
c. Loan book as of Q2 FY'23 is RS. 12,455 crore, 10% growth Y-o-Y whereas the value segment contribution in loan book has grown to 47% in Q2 FY'23 from 38% in Q2 FY'22. Growth segment contribution stands at 53% of the loan book.
d. The customer base has increased consistently and sequentially has grown by 8% Q-o-Q to 52,000 plus customers at the end of the quarter.
e. Retail book contribution stands at 94% with an average ticket size of RS. 24 lakhs as of Q2 FY'23.

Now, I will cover the next element, which is robust financial performance and liquidity management. We continue to focus on stakeholder value through robust financial performance. Certain highlights that:

a. NIM increased to 5.13% in Q2 FY'23 on account of the increase in contribution from the value segment and our ability to pass on increase in rates to customers due to periodic hikes in the repo rate during the quarter.
b. The PPOP % increased to an all-time high to 3.14% in Q2 FY'23 from 2.86% in Q2 FY'22.
c. The company continues to have diversified and cost-effective long-term financing sources.

c.i. We have a healthy borrowing mix, the mix of borrowing from NHB has increased to 16% in Q2 FY'23 from 7% in Q2 FY'22. This has given us an advantage in optimizing our borrowing cost.

c.ii. Our long-term credit rating from ICRA and India Rating consistently stands at "AAA".

d. We have a well-managed ALM, and our capital adequacy ratio is at 23.9% as on Q2 FY'23 against a regulatory requirement of 15%.

The third element is the continued focus on quality. Here, our primary focus is sustainable growth, while maintaining a quality portfolio. Some of the key highlights are:

a. Pursuant to the RBI circular dated 12 November 2021, we have aligned our asset classification in line with these guidelines. As a result of which, Stage 3 is 3.6% with a provision coverage ratio of Stage 3 of 33%. The collection efficiency stands at an ever highest of 99.3%. We continue to emphasize on quality of origination towards that, salaried and self-employment professional segment contributes 57% of disbursements in Q2 FY'23 from 47% in Q2 FY'22. 92% of our disbursements in Q2 FY'23 have a CIBIL score of more than 700, and these are also due to great customers.

To summarize, momentum in disbursal and book growth, robust financial performance and focus on portfolio quality has resulted in consistent improvement across all return metrices. To summarize, PAT for Q2 FY'23 is RS. 59 crore, an increase of 15% Y-o-Y, and PAT for H1 FY'23 is RS. 115 crore, an increase of 28% Y-o-Y. ROA for Q2 FY'23 is 1.94%, an increase of 13 bps Y-o-Y, and ROA for H1 FY'23 is 1.91%, an increase of 33 bps. Lastly, return on equity, ROE, for Q2 FY'23 is 13.87%, an 12-bps growth Y-o-Y. ROE for H1 FY'23 is 13.78%, or 160 bps growth Y-o-Y.

As I conclude, I now hand over to Bala, MD and CEO of our Asset Management Company.

A. Balasubramanian: Thank you, Pankaj, and good evening to everyone. As I presented the AMC analyst call, we continue to remain focused on building our momentum based on the 5 focus areas; one, delivering sustained investment performance; second, building a retail franchise by increasing geographic footprint; growing our passives and alternate investment; fourth, leveraging digital platforms for customer acquisition and enhance customer experience; and fifth, driving a strong and robust risk management and governance framework. On this backdrop, let me give you a quick update on Q2 FY'23 performance.

Our total quarterly average assets under management for the quarter ending September 2022 stood at RS. 2.94 lakh crore. Our quarterly average mutual fund AUM was RS. 2.83 lakh crore with a market share of 8.2% ex ETF. Our quarterly average equity mutual was at RS. 1.19 lakh crore. Our equity mix has resulted at 42.1%. We have witnessed an increase of our monthly SIP book from RS. 867 crore in September '21 to RS. 931 crore as of September '22, 32 lakhs live SIP accounts as of September '22. Customer acquisition remains an internal part of our strategy. We have added around 2 lakh new folios in Q2 FY'23. And with this, the overall folio today stands at 8.1 million.

Coming to alternate business, our passive product offering has grown 6x to RS. 16,923 crore as of September 2022. On the PMS and AIF front, we launched suit of products like India Equity Services Fund and Asset Linked PMS product, which is gaining some traction from the distributor committed response time.

On the real estate side, I'm happy to share that we've completed the second close of Aditya Birla Real Estate Credit Opportunities Fund. On the digital front, we continue to build volume and increase overall transaction. We have onboarded 75% of new customers digitally and 82% of our overall transactions are digital and 88% of the transactions come from customers who are serviced through digital platform.

Moving onto financial numbers. Our focus continues to remain on achieving robust asset mix with a high margin asset in equity and digital income assets. We have delivered strong profitability and our focus is on segmental growth. And total revenue for Q2 FY'23 is RS. 388 crore, up by 42% on a quarter-on-quarter basis. And profit after-tax at Q2 FY'23 is at RS. 192 crore, up 86% quarter-on-quarter.

With this, I'll hand it over to Kamlesh Rao, the MD and CEO of Aditya Birla Sun Life Insurance Company.

Kamlesh Rao: Thank you, Bala and good evening to all of you. The second quarter for the private life insurance industry grew at 7% in the individual segment. The trend for ABSLI was a healthier growth of 16% in Q2, and for the first half, we have grown in line with private industry as we can see in Slide number 48. The individual business for us has come with a well-balanced product mix with units now at 23% and traditional mix at 74%, which augurs well for our gross margins. We believe these margins will continue with protection share going up in the second half of the year.

The group life insurance for the private industry saw a growth of 9% in Q2 against which ABSLI registered a growth rate of 23%, and even for the first half, ABSLI growth rate of 61%, has been better than both the private industry as well as the overall industry too. In the group life insurance business, we continue to be the second largest player in the profitable ULIP segment and in the credit life business we are growing at higher than 100% for the last 2 years.

Slide number 51 demonstrates the strength of our distribution franchise, both in terms of our proprietary expanse, as well as our partnership. Our guidance areas of focus of direct business have seen a 27% CAGR over the last 2 years, and we are growing at greater than 100% in our public sector bank partnerships. With future regulation, allowing more than 3 partners in times to come, we see our ability to manage growth in both large private sector banks like HDFC, as well as public sector banks like Indian Bank, a key differentiator for our future growth strategies.

Our total premium at RS. 6,373 crore has registered a growth rate of 30% over last year and 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 77%. This overall growth is seen across persistency bucket from 13th month right up to 61st month with 13th month now at a healthy 86% due to 300 bps rise over the last year same time. Our AUM under management now stands close to RS. 65,000 crore and we have grown at a healthy CAGR of 17% over the last 2 years.

As seen on Slide 54, we have 24% of this AUM in equity and balance 76% in debt. Investment performance seen either from a 1-year length or from a 5-year perspective, we'll see ABSLI having done better than the respective benchmarks across all three categories of equity, debt or even balanced funds.

As evidently seen on the right-hand side of Slide 52, our new product strategy continues to pay us the rich dividends, 27% of the new business came through these new products that we launched this year. Our newly launched FMP, which competes with bank fixed deposits, has seen the fastest RS. 100 crore collection for our newly launched product. Our analytics capability has helped us to 29% of our new business through upsell and helped us increase productivity through our PASA campaign, which will contribute 25% of our new business by the end of this year. Our newly launched par product will help us manage the balance in our traditional portfolio of 74% for the second half of this year.

Our digital adoption across various areas is demonstrated in Slide 55. 97% of new business is sourced digitally. We continue our guidance of 60% of this sourcing being auto-underwritten by year end; 83% of our services are now available digitally and our customer self-service ratio now stands at 87%.

We continue to manage the net margin story well, as we see in Slide 56. Last year during H1, we delivered a net VNB margin of 7.6% and closed for the year at a healthy 15% net margin. We have shown a growth of 473 basis points in our net margins as compared to last year. For the half year of this year, we now have 12.3% net VNB margins. This gives us confidence of closing the year at greater than 18% net VNB margin, which will once again be ahead of our guidance provided for this year.

Our embedded value has continued to grow at a healthy 17% CAGR for the last 2 years. And in terms of ROEV, we have grown for the first half at a rate of 15.7%. With COVID claims now at subdued levels for 2 successive quarters, our claims are in line with the plan. We however continued carrying COVID provisions of RS. 30 crore for the balance part of the year. Our journey over the last few years has been to maximize net margin expansion. We are now stacked in the top quartile for our persistency levels as well as Opex to premium ratios. We have grown top line at a rate better than the industry and we'll continue this journey of growing in a value accretive manner over the second half of this year too.

With this, I now hand it over to Mayank to give you details of the health insurance.

Mayank Bathwal: Thank you, Kamlesh, and have a very good evening. I'm very happy to now present the performance of our health insurance business. We had a very strong second quarter, which made our performance in the first half very strong on the foundation of a very differentiated health first business model that we have been setting up for the last 5 years.

We had at the beginning of the year guided that we would focus on the growth agenda having demonstrated a superior unit economics of our business in the previous financial year. And the fact that the category has tailwinds in all the steps being taken by the regulators and the government provide an opportunity for a player like us to fully leverage the growth opportunity we have demonstrated that by a 66% Y-o-Y growth in the first half of this financial year and we are the fastest growing health insurance company in the industry, well ahead of the industry growth rate of 18% and the SAHI growth rate at 27%.

The growth was powered by both our retail and corporate franchises. The retail franchise grew at 37% Y-o-Y whereas our corporate business franchise grew at a staggering 160%, powered by a huge focus on cross-sell and upsell to our existing clients and also the continued effort on creation of a new category of corporate OPD offering. And both of these now together constitute 38% of our business in H1 in the corporate business of our company. We now believe that we are the most profitable corporate franchise in the health insurance industry in India.

We acquired 5 million net new customers during the first half taking our customers serves to 24 million lives, 48% Y-o-Y growth for the first half of this financial year. We will now focus on expanding the relationship with this large consumer base by both upselling the health insurance products and also exploring the opportunity to sell the other ABC offerings to these customers.

We now have a SAHI market share of 10.9%, a 260-basis point increase Y-o-Y. We are also pleased to announce and confirm in fact the onboarding of a strategic partner, a wholly owned subsidiary of Abu Dhabi Investment Authority, this last month. The strategic partner has invested a sum of RS. 665 crore to acquire a 9.99% stake in ABHI. The transaction was concluded with the receipt of funds in the month of October '22. The infusion of funds by a strong pedigree financial partner is an external validation of our differentiated and a very sustainable operating model.

The health insurance market, as I mentioned earlier, continues to be of large opportunity. It is very exciting and this new partnership along with the support of our existing shareholders will continue to support our growth vision. On the profitability front, our combined ratio came down to 112% for the first half, a large reduction from the 144% in the same period last year. This has brought down our half yearly loss to RS. 149 crore from RS. 230 crore in the same period last year. We believe that the higher scale will continue to create operating efficiencies as we move ahead.

To place our differentiated model ahead, we continue to look at a newer range of offerings to cover the white spaces in the industry. Having chosen the young and or the health-conscious segment, we are pleased to announce the launch of ACTIV FIT, the industry's first comprehensive plan for the young and the millennial customers. The product is in line with our strategy of segmented product offering directed towards millennial consumers. It has industry-first face scan - based health underwriting. And is therefore very attractive for the younger consumers and we're looking forward to this being one of the major parts of our overall product mix in the times ahead. Our digitally enabled distribution mix is the most diversified distribution in the industry with the agency channel being the single largest channel mix at 23% of our retail business. We now have 70,000 plus advisers across 200 plus branches. We do this by leveraging the One ABC branch strategy to nearly double our branch network at a low cost and are also synergizing with other businesses in areas like common advisers, combination of product offering to existing consumer base. We now work with 15 banks having added CUB Bank, State Bank of Sikkim, and also activated in India First Bank in the last quarter.

On the digital front, our business, including through alliance partners, grew 131% Y-o-Y and has become a sizable 15% of our total retail mix. We will continue to invest extensively in our tech and digital capability with a clear focus on superior consumer experience, but more importantly, scale hyper personalized engagement, given our health first model. We will continue to enhance our digital health and wellness ecosystem, which now has 60 plus partners, and we now working with multiple insure-tech and health-tech players to enhance consumer value and operational efficiency and at the same time, make the ecosystem very valuable for our consumers.

At 96%, we have the highest claims settlement ratio in the industry, a testament to our focus on the key moments of growth for our consumers. Additionally, digitally powered scale engagement helps us to know our consumers better with much wider access to consumer dataset, including the health and lifestyle profile and we're using high end analytics tools to create much better business outcomes as we have explained in the deck

Looking ahead, we will continue to grow the franchise aggressively with a clear eye of best-in-class unit economics. We are expecting to well surpass our guidance of 40% growth that we gave at the beginning of the year and will be powered by a focus on getting more out of what we already have, fresh capacity both in agency and other channels, and also looking at exploring offerings for large pool of white spaces not yet addressed by the industry. Efforts by the government to national digital health mission and also the regulator to open up the industry, will continue to open up the market more and more for players like us. I would now like to thank you and pass it back to Vishakha for her closing remarks.

Vishakha Mulye: Thank you, Mayank. This concludes our comments on our Q2 FY'23 business performance. We are very happy to take if there are any questions.

Moderator: Thank you very much. We will now begin the Q&A session. Anyone who wishes to ask a question may press down '1'on your touchtone telephone. If you wish to remove yourself from the question, you may press down '2'. Participants are requested to use handsets while asking a question. Ladies & gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Hi. Good evening. Good set of results. A couple of questions, particularly on the insurance side. The first one that if I see more or less, I mean in terms of profitability and growth target, looks all right on the life side. But the market has changed, particularly in the retail protection. I mean you had certain protection mix targets. So, I mean what sort of your expectation from here onwards that how are you going to achieve these protection targets? And how overall growth because, I mean, on the life side, the industry is going through a sort of a challenging phase. So that's the question of life. I mean the protection in the product mix and the growth outlook?

And the second question is on the health side. Yes, the business is shaping up quite well. If you can just help us understand your mix in terms of how it is retail, corporate, thirdly kind of a group retail that you sell via banks that mix. And how do you see your combined ratio target of 100% or breakeven kind of a thing being achieved by FY'24? Thank You.

Kamlesh Rao: Let me take the question on Life Insurance first. So, protection, we do in 3 buckets. So, if you look at the group side, on the OYRT we are amongst the largest players in the market. On the credit life side, we do, and we've been growing at more than 100%. In the last call, we had stated that protection business because of reinsurance premium pricing. We were absent in a particular segment, and above which is basically RS. 1 crore plus sum assured because it didn't make, I mean technically the reinsurance premium was common whether you paid it for the RS. 5 lakh income guy or RS. 7 lakh income or RS. 10 lakh guy, which is the reason we muted our aspirations on protection. However, all the product mix generates final gross margin and we've actually met higher than the expectation of both the gross margin as well as I told you on the net margin perspective.

In the month of September, the second half, we've been able to get changed pricing because the scenario is changing, and we've got a differentiated pricing for our protection products above RS. 1 crore. And we've just launched that product. And therefore, in the second half of the year, like I said in my commentary, we are very hopeful that the margins will actually remain for the same or even go up because the protection part of the business will start going up in the second half of this year. For the health insurance, Mayank will answer that question.

Mayank Bathwal: Before I come to the mix, let me just share what is our approach. So, as I mentioned that our retail franchise grew to about 37%, well ahead of even the total industry growth, which was at 18% for the overall industry. And our effort is that we continue to look at opportunities where our health first model makes sense. In the corporate side also, as I mentioned, we are looking at corporates, which are profitable and also these segments like OPD, which actually helps us get more health data for our consumers, because that's very important to get into scale engagement. Additionally, because of our margin, corporate is actually a good consumer profile because our ability to do scale engagement given the fact that we know that consumers much better in a corporate area works very well for us.

Our key thing is that whatever business we write must be profitable. Broadly, if I you like to give you a sense, we would like to keep our retail franchise anywhere between 65% to 70% - 75%, and over the period of the entire year, you will see that in that range. And growth of corporate business in areas, which we feel are profitable, but at the same time, which helps us promote our business model, which is a health database and that's the way we look at our business mix.

Avinash Singh: And does a 100% combined ratio by FY'24 looks achievable?

Mayank Bathwal: No. Our guidance was not 100%, right. If you refer to our guidance, our guidance was business volume. And guidance was the first quarterly breakeven in the previous financial year of quarter 4. And that we've already demonstrated. As I mentioned, there are a lot of tailwinds for the category, and we would like to continue to explore the full growth opportunity because of the various enablers that are present for the category today.

Avinash Singh: Okay. Thank You.

Moderator: Thank You. The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.

Manoj Bahety: Hi. This is Manoj here from Carnelian. So, first of all, congratulations to the ABCL team for a great set of numbers. I have a couple of questions. One is on your One ABC and One P&L strategy. So just wanted to understand, how ABCL under this strategy will be different vis-a-vis earlier? And secondly, how whether this will require some kind of cultural change, when like you are running so many diversified businesses. So, what kind of cultural changes, what kind of incentive structure, which you have to design to achieve One ABC, One P&L? So, this is my first question. I will come back with my second question.

Vishakha Mulye: Yes. So, Manoj, I'll take that question. If you look at our organization structure, we are today organized product-wise. So, every of our companies is a product from a consumer perspective. So, whether you take financing, which is NBFC and Housing, protection which is both life and health and then, of course, we have investing, which is AMC. And we do also have a broking franchise. So clearly, we have all the products across our various companies in the form of PIFA, which is what typically the consumer looks for, which is protecting investing financing and advising.

When we talk about our One ABC, One P&L, what we mean by that is that we will own the customer jointly and centrally and together, which will have 3 facets to it. One is, one experience; the second is, one customer; and the third is, one team. When I talk about one experience, we are today omnichannel, which means that we have both physical and digital channels and our endeavor would be that we want to give the choice to our customers as to how he wants to deal with us, by ensuring that the experience across the channels is consistent and exactly same.

The second is one customer, as I said that all of us together will own the customer centrally, which means that we will look at the profile of the customer and we'll try to give him a solution that is suited for their lifestyle. And not only at his level, but probably giving them a solution for the entire ecosystem of that particular consumer. And that while doing that, we need to work together as one team to deliver the full solution to our customers and its ecosystem.

While doing as you rightly said, it will require a mindset change, it will require a cultural change and we are working on that to ensure that all of us own the customer centrally together. Yes, it will also require a change in terms of our incentives and the way we look at the entire compensation within ABC. We have recently rolled out our long-term incentive plan and our performance will have a weightage for this kind of behavior, which is owning the customers and really aligning the performance metrics to the overall philosophy of One ABC and One P&L.

Manoj Bahety: Great. Thanks for such an elaborate answer. And my second question was mainly on one of the accounting parts. When I see the provision coverage ratio of our NBFC and compare it with a provision coverage ratio of banks and all because LGD is not that high, I understand, but is 45% - 47% is a good PCR to have or is there any target to take this ratio up going forward?

Rakesh Singh: So, if you look at our PCR on Stage 3 is 49% for the quarter. And as we have declared this time, also 73% of our portfolio is secured. So, if you look at a lot of other businesses, the NBFCs and some of them, they have a lot of unsecured business in their portfolio. We have secured portfolio, here provision coverage is quite healthy, 49% of provision coverage on a 73% - 74% secured book is very healthy. And I don't think there is a risk on that front.

Manoj Bahety: Okay Great. Thanks for taking my question and wish you all the best.

Moderator: Thank You. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Thanks for taking my question. Firstly, with respect to housing finance in terms of the strategy, I think the overall presentation has been changed with respect to the focus on affordable. So would there be any change in terms of the strategy because this time, we don't see maybe the clients on that aspect. And as you mentioned, like both value as well as the growth segments and that includes the one construction finance, prime everything put together. So how do we look over there in terms of the housing finance business strategy?

Pankaj Gadgil: Hi Kunal, Pankaj here. So, I think if you see the slide that we have shown, like you're rightly picked up the trend on disbursement and book growth, it has, in fact more generically as far as the contribution of each segment is concerned. And what we are trying to do is, we try to put a value segment and the growth segment. We are tracking affordable separately, the LAP affordable separately and we also have a line on construction finance.

So, if you look at affordable in itself, today 41% of books continue to be affordable. What we're trying to say is that there will be opportunities, in Prime, in loan against property, as well as the informal segment. And I think we want to maximize those opportunities by leveraging our width and depth of the entire distribution. But our focus right now clearly continues to be to build value businesses and leverage the cost of funds that we've got. And I'm sure you would've seen in terms of the benchmarking on cost of funds as well. So, I think that also augurs well for us to take care of the opportunity that we have across the segments. The focus really continues on maximizing the contribution on the value segment and look at opportunities in the other segment as well.

Kunal Shah: So, then with respect to margins, how should we look at 5.13%, because I think affordable is a segment, wherein we can still sustain. But if we get into prime and the other segments, do we see margins sustaining at this level?

Rakesh Singh: I think Kunal, since this is very market dominated, I think the critical thing is going to be how do you manage and maintain the mix, which is the appropriate mix. And I think, since the focus is on added ROA and ROE, I think the mix will have to get managed. And of course, as I mentioned, it's going to be a function of the opportunities that we had. And we will keep shapping it as the market starts to evolve there. Right now, which is showing a tougher month, it will be range bound in that sense.

Kunal Shah: Sure. And second is with respect to GS2 in corporate and mid-corporate, almost 110 bps kind of increase, which is equivalent to more than RS. 200 crore odd kind of an exposure. So, is this one single exposure which is leading to this kind of a rise or there are a few accounts, which have actually got into GS2?

Pankaj Gadgil: So, Kunal, these are a few accounts. But I think the resolution and the customers are paying for in October itself, few of them have been resolved and we look at resolving this in quarter 3. So, we don't see a big impact there.

Kunal Shah: Okay. But this would be spread across a few accounts not one single account or double?

Pankaj Gadgil: No. It's spread across few accounts.

Kunal Shah: Sure. And lastly, in terms of getting classified as upper layered NBFC, any thought process with respect to how the operating structure could be and maybe with respect to the listing of that entity over a period?

Rakesh Singh: So, Kunal, if you look at it, we have lot of time. The next 3 years, it has to be till April '25 is what the timeline is. So, at this point in time on most of the parameters, we have complied being an upper layer whatever the regulations, which has come from RBI on most of the regulations, we are already complied, and listing is one condition, which we will assess and evaluate as we go along.

Kunal Shah: Okay. But there is no, and maybe we are not falling short in any of the parameters as far as the upper base layer is concerned?

Pankaj Gadgil: No. Most of we have already complied with, and we are in the process to close on anything which is open right now.

Kunal Shah: Okay. Sure. Thanks, and all the best.

Moderator: Thank You. The next question is from the line of Vinay from JVR Investments. Please go ahead.

Vinay: First of all, congratulations on the great set of numbers. Madam, this is for MD and CEO. Madam, when can we expect a dividend, we are retail shareholders starting to start for the last 4 years?

Vishakha Mulye: So, as we articulated, we see growth in each of our businesses. So, we will keep evaluating as we go forward the requirement for capital we serve in the business and I'm sure the decisions appropriately will be taken by the board.

Moderator: Mr. Vinay, does that answer your question.

Vinay: Yes. Thank You.

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

Sahej Mittal: Hi. Thanks. So, one follow-up on the health insurance business. So, mean, firstly, what's the claims ratio for this quarter?

Mayank Bathwal: It's close to about 56% - 57%.

Sahej Mittal: And Mayank, where are we in terms of achieving a breakeven, you said that we achieved something in the Q4 FY'22, and can you just restate that?

Mayank Bathwal: Yes. So, the important point for us was to demonstrate the superiority of our unit economics given the differentiation in the model that we have vis-a-vis industry. And, therefore, it was, as I mentioned, probably the fastest ever quarterly breakeven that any health insurance company has had. Now as we look forward, that entire category has very large growth opportunity. If you track that, you know that from what government is trying to do through the universal healthcare coverage and the national digital health mission and the opportunities throws up the regulator itself has given a clear ambition. So, we are continuing to explore those growth opportunities and what that could imply in terms of profitability etc. But I think the core is unit economics must be profitable. And we must leverage the growth opportunity to its fullest.

We are, of course, very encouraged by the fact that our model has been liked by large players like the Abu Dhabi Investment Authority and not just the reduction of capital, but the fact that the valuation that they gave us is amongst the highest in the industry is a testament to the core economics of our model. And therefore, we would not like to let go any growth opportunities that there before us, as we look at the health insurance category.

Sahej Mittal: Got it. But, I mean, in terms of our claims and combined ratio, where do we see the claims and combined ratio in the next 12 and 24 months?

Mayank Bathwal: I'm happy to have a separate conversation with you to get into those details, if you want.

Sahej Mittal: Sure. And one question on the life insurance side for Kamlesh. Given that we are already in a rising interest rate environment. So how are we looking at the non-par products? I mean are we re-pricing that product to make it equally attractive for the FD customers, if they go out to a bank, if you could throw some color?

Kamlesh Rao: As far as non-par mix, we have the ability to reprice this based on the market scenario. So, if you look at over the last 3 months' time, I think we've got significant opportunities in our new products to reprice. Like I said, the SME product, which was an opportunity, we did the faster several RS. 100 crore acquisition there. As I'm speaking to you, in the second half, we'll have an opportunity to reprice that product, too. So, we follow a reasonably active strategy on that. And from a risk management point of view, we've always stated this and the expected majority benefits whatever we have to do of our guaranteed products, we fully hedge it through, so that's what we do on risk management philosophy and rightfully like us value, we've actually repriced at different points of time when the interest rates have gone up.

Sahej Mittal: Got it. And in the traditional business, if you could give out the split for par and non-par business, I guess that's not there in the presentation.

Kamlesh Rao: No. It's there in one of the slides on details of the product. But we will follow the active non-par strategy for the first 5 - 5.5 months of this year. But I think that was an opportunity in the marketplace and we didn't have a product of the par kind, which would have garnered share. But I could state that we launched that at the fag end of September and the 65% levels of non-par contribution that we would have got in the first 5 months of this year, you will see that number come down to roughly around 50% or 51% for the second half of the year. Because the par product that we have launched in traditional have already started giving us 14% to 15% contribution in the traditional mix. And like I mentioned, in the beginning, we are hoping that the protection part of the business in the second half of the year will be higher than what it was in the first half.

Sahej Mittal: Sure. Thanks.

Moderator: Thank you. Ladies and gentlemen, considering the time constraint, this was our last question. I would now like to hand the conference over to Mr. Vishakha Mulye, for closing comments.

Vishakha Mulye: Thank you so much all for joining the call. Look forward to more interactions as we go forward. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Aditya Birla Capital, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.