Management Discussion

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
Thank you so much. Good evening everyone and welcome to the earning call of Aditya Birla Capital for Q2 FY 2027. Joining me today are senior members of my team: Bala, Rakesh, Pankaj, Kamlesh, Mayank, Pinky, Vijay, Deep, and Subhash. I will cover our strategy, financial and business performance, followed by discussion on the performance, uh, of our key businesses by our business CEOs. The Indian economy continues to do well despite the heightened global uncertainty, elevated commodity prices, and tighter monetary conditions.

Domestic demand remains healthy, supported by strong investment activity, robust credit growth, and continued momentum in the service sector. While a deficient monsoon and higher food energy prices have added to the inflationary pressure, the overall growth outlook remains encouraging. At Aditya Birla Capital, we continue to focus on driving quality and profitable growth by leveraging data, digital, and technology. Now coming to our financial performance during the quarter, we delivered a robust growth in the revenue and profitability.

The consolidated profit after tax was 1,288 crore, up by 38% year-on-year and 10% quarter-on-quarter. The total consolidated revenue grew by 31% year-on-year and 12% quarter-on-quarter. The quarter reflects the strength of our diversified business model, disciplined execution, and the ability of our businesses to deliver consistent performance. Talking about our growth across businesses, our NBFC AUM grew by 26% year on year, to be driven by healthy growth across all our segments. As we discussed in our previous quarter earning call, we have rolled out gold loan product and opened dedicated branches.

Rakesh will talk about this in detail. Our HSC AUM grew by 50% year on year. In insurance businesses, we continue to be among the fastest growing companies and continue to gain market share. In H1 of FY27, the individual first-year premium for life insurance grew by 25% year on year as against an industry growth of 12%, and a gross written premium of our health insurance grew by 43% year on year. In our AMC business, the quarterly average mutual fund AUM grew by 4% year on year. Talking about our profitability and quality, I'm delighted to share that NBFF business, uh, the profit after tax increased by 41% year on year to 1,008 crore.

The ROA expanded to 25 basis points year on year and 6 basis points sequentially to 2.45%. In the HFC business, the profit after tax increased by 73% year-on-year to 261 crore with an ROA at 2.12%. Despite the volatile market conditions and uncertainty in operating environment, our asset quality across both lending business remained best in class. In the NBFC business, our credit costs improved by 24 basis points year-on-year and 11 basis points sequentially to 0.92%. The gross stage 2 and stage 3 in both lending businesses continue to improve year-on-year and sequentially.

In our asset business, fund performance remains strong with approximately 80% of our equity AUM in top quartile. In life insurance business, our VNB margin increased by 450 basis points year-on-year to 16.1%. The combined ratio of our health insurance business was 107%. We continue to leverage data, data and technology as a growth, uh, growth drive enablers. AI is now becoming a core operating layer for us, and we are scaling up its use across various areas such as underwriting, sales, voice calling, audit and compliance, customer services, operations to drive better decision-making efficiency and customer outcomes.

We believe AI will help us scale efficiently, enhance underwriting and customer outcomes, and unlock productivity across our businesses. Our business CEOs will take you through select use

cases in more detail. Looking ahead, we remain confident in the long-term growth potential of the Indian economy and our ability to capitalize on the opportunities ahead. Supported by a robust strategy and disciplined execution, we will continue to strengthen customer relationships, scale our franchise, and create value for all our stakeholders.

Now I request Rakesh to talk about the performance of the NBFC business. Over to you. Thanks,

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Vishwasa, and good evening everyone. I am pleased to report yet another strong quarter for our NBFC business. In Q2 FY27, our AUM reached 1,76,557 crore, registering a year-on-year growth of 26.5% and quarter-on-quarter growth of 5.4%, with robust asset quality and a strong profit delivery. PAT for the quarter crossed a significant milestone of 1,000 crores with an ROA of 2.45%. Our new business sourcing was robust at 24,708 crores and was nearly at par with the highest ever sourcing in Q4 last year.

In Q2, we added 9,101 crore in AUM, uh, in Q2, 85% of which was contributed by retail and MSME segments. This was driven by a strong traction in retail and MSME businesses. Which is our chosen segment for growth. Put together, these segments accounted for 71% of share in total disbursements in H1, up from 67% for the same period last year. In our personal and consumer business, our growth trajectory remains robust, with disbursements growing by 18% year on year for Q2 to 5,877 crores. The AUM in this segment grew 7% sequentially and 37% year on year to 24,955 crore.

Consequently, the AUM mix improved by 108 basis points year on year to 14%. This growth was supported by scale-up of new programs introduced, consistent improvement in turnaround times driven by journey simplification and process automation. Asset quality for this segment has improved with gross stage 2 and 3 declining by 140 basis points year on year and 10 basis points sequentially. The gross stage 3 for this segment stands at 1.3% as of September 2026. I'm excited to share that we launched our gold loan business in August last quarter.

Which strengthens our offering in personal and consumer loans segment. During the first 70 days, we have opened 70 branches and our AUM stands at 1,200 crores. These are early days and our focus is on building a resilient system and processes by leveraging technology to support future scale. We plan our phased rollout of 200 to 300 dedicated gold loan branches by March '27. Across high-potential markets with the aim to scale up the distribution to 1,000+ branches over the next 3 years. We aspire to scale the Gold Loan business and strengthen our position as a lender of choice in one of India's fastest-growing retail credit segments.

Our MSME business achieved a significant milestone in Q2, crossing 1 lakh crore in AUM And we continue to be a category leader in terms of growth and asset quality for MSMEs. Our MSME AUM grew 30% year-on-year to 1,01,119 crore, representing 57% of our overall AUM, with a prudent mix of 79% secured and 21% unsecured exposure. So almost 80% of our MSME exposures are secured In Q2, we disbursed 11,252 crores to MSMEs, delivering a 16% quarter-on-quarter growth supported by deeper geographic penetration, a broader product portfolio, and faster customer onboarding.

Our disbursement in secured MSME grew 17% sequentially and 22% year-on-year in Q2. AUM grew at 26% year-on-year, which is faster than the industry growth. The asset quality of this segment continues to be healthy and best in class on, on back of strong cash flows and collaterals. The gross Stage 3 for this portfolio stands at 1.2% as of September 2026. In unsecured business loan segment, we saw the disbursement grow at a healthy 9% quarter-on-quarter to 1,500-odd crores in Q2. The

AUM in this segment grows 11% sequentially and was supported by scale of new product launches, which now contribute nearly 28% of new business sourcing.

Our proprietary MSME platform, Udyog Plus, further complements scale scale up by facilitating an end-to-end digitally enabled suite of trade solutions, solutions establishing a strong position among NBFCs on trades. Quality in this segment also improved significantly with gross stage 2 and 3 down 40 basis points sequentially and 170 basis points year on year. Gross stage 3 for unsecured business loans stands at 1%. 46% of the gross Stage 3 book in the MSME unsecured business is covered under government guarantee schemes, which the if we exclude that, the GS3 is at 0.6% only.

Moving now to our corporate segment, the AUM grew 3% quarter on quarter and 15% year on year and now contributes 29% of our overall portfolio. Asset quality in our corporate business also continues to improve, with gross Stage 2 and 3 declining by 40 basis points year on year. The gross Stage 3 in this segment stands at 1.6% for the quarter. Coming to the portfolio quality at the entity level, our gross Stage 2 and 3 stands at 2.31%, improving by 72 basis points year on year. The gross Stage 2 for the quarter stands at 1.03%, improving by 32 basis points year-on-year, and gross Stage 3 stands at 1.28%, improving 40 basis points year-on-year.

I further wish to highlight that about 71% of our overall loan book is secured. Our overall Stage 3 book is well provided with a PCR of 48.4%, which has improved 20 basis points compared to last quarter. Our credit cost is now sub-1% at 92 basis points, which would be our best in the last 7 years. And this has been an outcome of disciplined risk and cohort corrections we have taken over the last few years. Further, we continue to see a sustained improvement in collection intensity with technology analytics and AI capabilities driving better front-end efficiency and significant improvement in forward flow rates.

Our interest rate income for quarter has increased by 25% year on year and 4.6% sequentially to 2,488 crores. The net interest margin including fee was at 6%. Of late, the macro environment has been has seen some tightening with the RBI's repo rate action, rising interest rate, and inflation. Against this backdrop, we have increased our benchmark rates by 25 basis points effective 26th October on our variable rate portfolio, which constitutes closely, uh, nearly 70% of the overall loan book. This is done as a proactive measure which will ensure that increase in cost of borrowing is transmitted in an effective and timely manner.

Our efforts to enhance productivity in retail and SME business has started yielding favorable results. The OpEx to AUM ratio for the quarter is at a healthy 1.84%, down 11 basis points sequentially and 19 basis points year on year. This gives us the ability to make further investments in our business including Gold Loan franchise for future growth. Moving to profitability, the ROA for the quarter improved by 25 basis points year-on-year and 7 basis points sequentially to 2.45. We delivered profit after tax of 1,008 crores, registering a growth of 8.7% quarter-on-quarter and 41% year-on-year.

Coming to customer service, we have significantly improved service responsiveness through AI-led interventions enabling faster, more effective customer engagement. In Q2, self-service capabilities across channels reached 82%. 61% of contact center interactions and 71% of service emails were processed straight pass-through. Our conversational analytics module now delivers 100% automated analysis of voice, and email conversations, generating actionable insights to improve customer interaction and identify new business opportunities.

We remain confident in the long-term opportunity across the retail and MSME segments, where we

have demonstrated our ability to scale substantially, and these segments will continue to pivot our growth strategy as we continue to enhance our sourcing capabilities broaden our product suite, and leverage our proprietary digital platforms, we believe we are well placed to further consolidate our position as a lender of choice. Overall, our approach remains consistent: grow responsibly, stay close to our customers, and deliver steady long-term value for all our stakeholders.

With that, I will now hand it over to Pankaj MD and CEO of our housing finance business.

Pankaj Gadgil - Managing Director and Chief Executive Officer, Aditya Birla Housing Finance Limited

Thank you, Rakesh, and good evening everyone. I'm pleased to share that Q2 FY27 has been another strong quarter for ABHFL, marked by sustained growth, improving asset quality, and continued progress across our strategic priorities. Let me briefly take you through the key highlights for Q2 FY27. Premium stood at 57,373 crores. Registering 50% YOY growth and 11% sequential growth. Disbursements stood at 8,957 crores, growing 55% YOY and 19% sequentially. NII increased by 53% YOY to 641 crores. Profit before tax grew by 73% YOY to 335 crores.

ROA stood at 2.12% while ROE was was 11.47% for the quarter. The ABG ecosystem contributed 17.5% of retail disbursements during the quarter. Let me now provide an update on our strategic priorities. Distribution distribution continues to be one of the most important growth levers for ABHFL. Marking a significant milestone in our distribution expansion strategy, we have already launched 101 new branches in this financial year so far across metros, Tier 1 and Tier 2 and 3 markets, further strengthening our presence in the emerging markets.

We are very encouraged by the early traction from these branches as we continue to build our sales and partner ecosystem. The objective of this expansion goes beyond increasing our physical footprint. It is about deepening our presence in high-potential micro markets customer access and creating a scalable distribution platform for the next phase of growth. Alongside branch expansion, we are sharpening our distribution architecture through a differentiated focus on top and emerging markets. This will help enable greater localization of our product policy and sourcing approach while improving our ability to address distinct customer segments across markets.

The second strategic priority is AI, data, and analytics. Technology, data, and AI continue to be core pillars of our strategy, with 15 AI use cases now live across the customer lifecycle. These initiatives are focused on enhancing productivity, improving customer experience, improving partner experience, reducing turnaround times, and strengthening process governance. During this quarter, we continue to build on our AI roadmap with progress across several key initiatives namely FinGenius, which went live enabling AI-assisted document verification and further strengthening process efficiency and standardization.

FinShift, our offer-led journey for channel partners, has been recently introduced to enable a more seamless partner experience and strengthen digital sourcing. Collectively, these initiatives are helping us to build a more scalable and digitally enabled operating model. The 3rd strategic priority, asset quality. Asset quality strengthened further during the quarter. Stage 2 and 3 assets reduced by 45 basis points year-on-year to 0.65, while Stage 3 independently stood at 0.37. This performance reflects the discipline of our risk and collections framework, supported by early warning mechanisms, predictive analytics, digital collections infrastructure, AI-enabled engagement tools, and focused pre-delinquency interventions.

To conclude, Q2 FY27 has been a quarter of sustained momentum and disciplined execution for us.

We've continued to scale the franchise while strengthening asset quality, expanding our distribution footprint, and accelerating adoption of digital and AI-led capabilities. With sustained momentum, improving market share, and a strong execution engine, ABHL remains well positioned for its next phase of growth. As I had mentioned earlier, over the next 8 to 10 quarters, we remain focused on building a 1 lakh crore plus AUM franchise while moving towards 15% ROE and sustaining top-decile asset quality.

Thank you for your cooperation attention. With that, I will now hand over the call to Bala, MD and CEO of our asset management company. Thank you,

A. Balasubramanian - Managing Director and Chief Executive Officer, Aditya Birla Sun Life AMC Limited

Pankaj, and good evening to everyone. I'd like to share some ABC Limited highlights for Q2 FY27. Overall, overall assets under management including alternate assets crossed 11 lakh crore milestone, uh, during the last quarter and now stands at 11.06 lakh crore, a growth of 140% year on year. This includes the mandate that we received from both ESIC and EPFO. Our mutual fund quarterly average assets stood at 4.42 lakh crore. about 4 percent. Within this, our equity mutual fund average assets total approximately 2.09 lakh crore, growing about 9 percent iraniye.

Our equity mix for the quarter total 47.4 percent. Our SIP contribution for September 2026 total 1094 crore supported by these on these with new ACP registration for the quarter, approximately increased to 7.05 lakh from the earlier quarter of about 5.2 lakh, 2 lakh numbers was. We continue to show consistent and meaningful improvement across our equity and hybrid fund performance. Over the past, building momentum in overall sales activities. Turning to alternate business, various strong growth during the year.

Our PMS AUM percentages increased from 3,300 crore to 6 lakh crore, which again on account of increase in the APF ASIP mandate. our real estate And our GIFT City, we launched our retail fund offering enabling Indian and global investors to access inbound outbound opportunities through dedicated platform. With the growing product suite, we are well placed to build our scalable offshore franchisee in the coming year by offering product with a low ticket price about $500 to tap the domestic retail investors in us abroad as well as for overseas investors in us in India.

In fact, we have created a pipeline of product in addition to ABSL Flexi Cap Fund for inward remittance. We also created about another 6 funds in the retail category, both for inward and outward remittance funds in the deep city. Passive is one of the key anchors for our growth strategy. We are committed to building a leadership position in this segment. We have of course done it in the last few quarters back, and during the Q2 FY27, our passive quarterly average AUM stood about 39,600 crores. Our industrial base continued to expand with total portfolio reaching around 17 lakh crores, 17.09 lakh, sorry.

We were the first India to first in India to launch a BSE Total Market Cap Market Index Fund and the BSE Total Market Cap ETF, creating a new category in the passive investment landscape that we aim to build into a flagship product to make this the mother of all passive products to get the growing needs of the investors as well as distribution community. Our ETF has delivered particularly strong momentum ETF quarterly average AUM grew by 40% year on year, significantly ahead of the industry growth about 27%.

The new category is Apex FIB segment. We launched the Equity Long Short Fund and Equity X Top 100 Long Short Fund, and backed by our strong investment team, our FIB platform now comprises of

3 products with a 3-member team managing close to 400 crores. We now see the momentum in this space. We remain focused in terms of building our investment performance leading to a higher productivity in the coming quarter. With this, I'll hand it over to, uh, Kamlesh Rao, the MD and CEO of Baselay Business.

Kamlesh Rao - Managing Director and Chief Executive Officer, Aditya Birla Sun Life Insurance Company Limited

Uh, thank you, Bala. I'll give you some quick highlights of the life insurance business. The overall industry registered a growth of 13% in H1 of '27, the private life insurance industry growing at 12% in the same period. Aditya Birla Life Insurance clocked a premium growth rate of 25% individual life insurance segment. The growth was across both the lines of business, proprietary business growing at 10% and the partnership business growing at 31%. In the proprietary business, the growth was backed with better productivity as well as growth in the retail part of our business.

We will continue to invest more in terms of people as well as the 400+ branches that we have in this line of business in the current financial year. The partnership growth of 31% came across all our existing 11 partner banks. In the bank assurance space, we continue having a healthy mix of private as well as public sector banks and have banks that have both a large national presence as well as the ones which dominate the regional space. The partnership business has a balanced product mix with margins going up through the year for all banks.

We have further strengthened our bank assurance franchise with the onboarding of IndusInd Bank as our latest partner and are targeting commencement of business by December of 2015. This partnership adds another important growth lever as we continue to broaden our distribution footprint even more in the bancar space. In the product mix of the individual business, traditional business including protection is at 66% and ULIP is at 34%, helping us expand margins for the year. We are seeing a healthy growth in the annuity segment with 14% of our retail new business coming from this segment this year.

In the group life insurance segment, the private industry grew by 35% and the overall industry grew by 25%. During the same period, Aditya Birla Sun Life Insurance recorded a growth rate of 90%. We continue to be at rank 2 in the unit AUM in this industry with an AUM of 17,000+ crores. Credit life business delivered a growth of about 44% during the first half of '27, supported by all partners. In the group term life insurance business, we continue doing business at 20% plus ROE on the back of strong underwriting and favorable claim experience.

Group AUM now contributes 26% of the overall AUM at 31,400 crores. Our total premium for H1 stands at 12,656 crores, up by 42% from last year, with 13-month persistency of 83.4%. And renewal premium growth of 20%. Our digital collections now account for 85% of our renewal premium. We continue to work on customer lifetime value, which is reflected in our upsell ratio of 43%. On quality parameters, our overall customer NPS now stands at 69 versus 61 same time last year. Our OPEX-to-premium ratio stands at 21%.

Total AUM is now at 1,20,736 crores with a YOY growth of 16%. 23% of this AUM is in equity and balance in debt. On YTD basis, more than 65% of our funds continue to outperform as compared to the respective benchmarks. Our digital adoption across various areas is demonstrated in slide number 48. Aditya Birla Sun Life Insurance our AI journey through saras.ai is moving from experimentation to scaled adoption. We are expanding AI across underwriting and policy issuance, sales and advisor enablement, customer conversations, employee productivity, and technology

delivery, with solutions already live across several areas.

As we scale, equal emphasis is being placed on responsible AI, strong governance, and human oversight. Our focus is to embed AI deeper into our operating model, delivering measurable improvements in speed, productivity, consistency and customer experience. Our solvency stands at 190%. Our net margins for H1 are at 16.1%, 447 basis points higher than last year of 11.6%. We observed margin expansion due to increase in annuity mix apart from healthy rider attachment. Better productivity across all channels also helped the margins apart from favorable interest rate in the first 6 months of the year.

Our guidance continues to grow the individual FIP at a CAGR of 20% plus for the next 3 years. Whilst achieving this growth, we intend expanding VNB margins above 20% in absolute numbers, double the value of our net VNB in 3 years' time. With this, I hand over to Mayank and he will give you a thorough health check.

Mayank Bathwal - Chief Executive Officer, Aditya Birla Health Insurance Co. Limited
Thank you, Kamlesh, and let me now share an overview of the performance of our health insurance business. We had a very strong Q2 and therefore H1 as we continue to build on the growth momentum Consistently in this financial year, maintaining our track record of consistently outpacing market growth. We achieved a gross premium of 4,543 crores, representing a strong 48% year-on-year growth in H1. Our market share thus increased in SAI from 13.6% to 14.2%, close to a 65 basis point improvement in the share.

We grew strongly across both retail and our group franchise. The retail franchise experienced experienced a 43% growth, and it continues to be diversified across all our retail channels. The proprietary channel, in fact, with an agent base of 2.4 lakh plus agents, registered a 51% YOY growth. Our digital alliance partners and our major banks also grew very well. Our corporate business delivered a 40-55% YOY growth, driven by a focus and disciplined strategy to create sustainable franchise in the segment.

As we had shared, our initial efforts to take the corporate wellness model to this segment is paying very rich dividend and very good feedback from the client pool. Company is at the forefront in transition to IFRS financial statements, and the financial statement for the period ended has been prepared in accordance with that principle. For H1, our reported profit was 46 crores. We strongly believe our robust growth and superior unit economics are driven by our digitally enabled and differentiated health-first business model.

We've now scaled up the impact and it is visible across acquisition, hyper-personalized health engagement, and thus business outcomes of higher persistency and lower claim ratio, as is there in the deck. Our Health First model is resonating with our consumers, with more than 50% of our eligible base now engaging with us actively, where we use an AI-driven consumer engagement engine. Close to 13% of our eligible customers earn good health-based incentives, up from 9.4% last year. Reflecting a very deep engagement.

These consumers therefore exhibit 6% lower loss ratio and 12% higher persistency, as shown in slides 59 and 60. We are progressively moving beyond traditional risk protection towards proactive health risk management. Through targeted interventions for more than 3,70,000 high-risk lives, we have been able to reduce their loss ratio by over 16%. This thus helps us in keeping our retail loss ratio in check. We will continue to scale this up across both retail and corporate portfolios to provide better health outcomes for our consumers and also portfolio quality.

Our promise of insurance is centered around delivering a superior customer experience. Continued investments in AI-powered automation are enhancing customer experience, including operating efficiency and strengthening claims management. Our AI-enabled claims platform now processes nearly 75% of cashless claims, helping improve both outcomes in terms of consumer, uh, claims outcomes and operational effectiveness. Alongside this, we also invest in data and analytics and AI capabilities across the business.

These capabilities are being embedded across key functions such as customer engagement, underwriting, claims management, and sales governance, enabling better decision-making, improved productivity, and supportable profit growth. Our consumer app Active Health continues to give us very good engagement with our consumers. Our monthly active users are 7.3 lakh customers, but more importantly, each consumer spends nearly 74 minutes per month on the app using more than 5 features at any point of time.

Looking ahead, we'll continue to invest more in our proprietary distribution franchise, scale up our differentiated health approach and even more deeply embedding AI and emerging tech in our business. And we believe we are very well positioned to outperform the market and deliver sustainable value. Thank you. And now I will hand it back to Vishakha for our closing comments.

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
Thank you, Mayank. And this concludes the remarks on Q2 FY27 performance, and we'll be very happy to take your questions.

Questions & Answers

Operator
Thank you very much. [Operator Instructions] First question is from line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg - Analyst, Ambit Capital
Hi, good evening and thanks for the opportunity. I have a few questions. One, when I look at the NBFC retail disbursements for this quarter, usually in the past we've seen that the retail Am I audible?

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
Yes, you're audible now, Raghav.

Raghav Garg - Analyst, Ambit Capital
Okay, okay, sure. Uh, so, uh, I was, uh, I was asking on the I think there is some disturbance. Uh, am I audible? I am audible, right?

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
Now you are audible, but we lost you for a second.

Raghav Garg - Analyst, Ambit Capital
Sure, sure. Uh, so my question is on the NBFC retail disbursement. Historically, we've seen that quarter-on-quarter retail disbursements in the NBFC business grow at 20% to 30%. This time the growth is, I think, about 12%. How should one read that moderation in growth versus the previous second quarter trend? Is there any screen tightening that you've done because of which the retail

disbursements growth sequentially has moderated to this number? That's my first question. Should I ask my other questions as well?

Or should I go one by one?

Nischint Chawathe - Analyst, Kotak Institutional Equities
Go ahead, please go ahead with the second question.

Raghav Garg - Analyst, Ambit Capital
Yeah, the second question is that for the NBFC business, I wanted to understand why has the employee OpEx declined quarter on quarter despite, say, the business growing and there being new branch additions. And the last question is that in the HFC business, you know, when I calculate the cost of funds Obviously, I am working with period-end averages of the borrowing number. There is a 20 basis points uptick in the funding cost quarter on quarter. So I wanted to understand why has that happened, and then is there any PLR hike that you've taken after the repo rate hike in the HFC business?

Those are my 4 questions. Thank you.

Pankaj Gadgil - Managing Director and Chief Executive Officer, Aditya Birla Housing Finance Limited
Third question, can you repeat? The first lines are not very clear. The second part of the question I understood. [Foreign Speech] right? First point, the

Raghav Garg - Analyst, Ambit Capital
first point was that when I calculate the cost of funds for the HFC business, there seems to be a 20 basis points increase versus the first quarter. So what is the reason for that?

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
I'll

Pankaj Gadgil - Managing Director and Chief Executive Officer, Aditya Birla Housing Finance Limited
take the HFC question first because you just elaborated on the question. So, Raghav, the way the cost of funds actually have changed by 11 basis points, so Q1 we were at 6% and now we are 6.11%. So it's 11 basis points, you know, increase that is there. And the large increase is also there because of the leverage. So the leverage is also increasing because, you know, we had the capital infusion which came in April. The cost of borrowing actually was 7.46%, you know, for quarter 1, and it was 7.47% for quarter 2.

So, uh, that is how the cost of fund is. So it's, uh, 20 basis 0.7 basis points. Second part of the question was the PLR increase. Yes, we have increased the PLR, you know, by 20 basis points, which should be effective from 1st of November, you know, for our portfolio. I now hand it over to Rakesh.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
So on the disbursement, especially on the retail side, you mentioned, uh, has it slowed down? No, we are looking at this segment in a very calibrated manner which fits our risk-reward and our risk appetite. So that's how we are looking at the growth. So we see a growth. And also, uh, Raghav, what happens is there are cycles and there are some quarters where the growth is much stronger

than, than other quarters. So that's one of the reasons. Uh, otherwise, if you look at the growth in terms of both personal and consumer, uh, or in terms of the AUM, is 47% year on year, and unsecured business is 53% year on year.

So very strong growth, uh, in unsecured business, uh, the supply chain business, which in, in one quarter the utilization goes up and one quarter the repayment comes in. So that must be the reason for, uh, for the disbursement. But we are looking at growing this business, uh, um, in a well, well-calibrated manner. The second question on the OpEx, uh, in Q1 we had one-off, and after that it got normalized in Q2. Going forward, it should remain in this range of 1.85 to 1.9 even when we invest in our Gold Loan branches.

Raghav Garg - Analyst, Ambit Capital
Thanks a lot for all those answers.

Operator
Thank you very much. Next question is from the line of Shreya Shivani from Nomura. Please go ahead.

Shreya Shivani - Analyst, Nomura
Yeah, thank you for the opportunity. I hope I'm audible. I have 3 questions. My first question is on the NBFC book. So can you help us understand If there are any customers from any geographies or any business lines, like maybe they are related to agribusiness in the MSME portion, where we are being cautious given the macro headwinds we are facing in terms of the drought, etc. 6 states have declared drought. So any color on that would be useful, and how are we thinking about the next 2 quarters, how we would like to disburse in these geographies?

That's my first question. My second question is on the life insurance business. Good to hear that under the new distribution reform you're still targeting another 20%. I mean, your guidance is still intact, but what would be your thought process around will your relationship with the banks, how will it evolve under the new distribution reform? And also any thought process you can give about how you will achieve your EOM caps, because you have to come down from 26% or so to 12.5%. Third question is on the health insurance.

This is again on the EOM caps. So So any, any thought process around it, any suggestions that we've given to the regulator, uh, given we are relatively a younger, um, health insurer compared to some people who have been around for maybe, say, 20 years or so? So those are my 3 questions. Thank you.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
So I will start with the NBFC question on agri-related business and impact because of the drought. So just to share with you, we don't have any exposure or any business which is in the agri segment across our NBFCs. But yes, there might be some impact on the inflation and all, which we will have to watch out and see how do we manage the interest rates and all. Otherwise, uh, no direct agri-related business which we have in our books.

Kamlesh Rao - Managing Director and Chief Executive Officer, Aditya Birla Sun Life Insurance Company Limited
So the question on, uh, life insurance, uh, some numbers first, because you mentioned somewhere that our FX-to-premium ratio is 26, so that number is closer to 21. So 21.2 is the OPEX to premium

ratio that we have. Obviously from there, whatever is the regulation saying, consultation paper I, I wouldn't comment too much on where this consultation paper would go because right now it's consultation. It will have to get into, uh, draft guidelines, and then of course after that it will become a reality, uh, in terms of whenever it gets, uh, applicable.

But if you look at our various models, if you look at some of the large banks that we are present in, currently our coverage ratio is not as high as it needs to be. For example, one of the largest banks where say 10,000 branches are present, we do our business and we are growing by being present in maybe about half of them. A lot of this, when the regulation spans out next year, will provide opportunities for us to actually do more than what we are doing. So that's one, and that will help the expansion for us.

If you look at all our expansion in the last few years, we've been growing at about 25 to 30%, has come on the back of large amount of partnerships. And if you look at what we are doing now, as I spent time last quarter to say, we are investing in our proprietary business significantly higher, and relative change of regulation as and when it comes will be lesser there because of the differentiation they have done between IDEs and IDPs. And last is our direct business, which used to be about 2-3%, is already about 8-9% of our business.

And for whatever we have invested, we see that going up, and that has no dependency on, uh, the regulation because that's more direct. In fact, it provides more opportunities in the direct business because the regulation now says that whatever we do in the branches, we can do more. Typically, the first one at least, it says that we can do both life and health if it is in the same group together. So some of these will provide opportunities. And also, if you take a breakup of the net VNB that we reported last year, 98% of that net VNB comes from our individual business and not from the credit life business.

For a lot of other players, the 20-30% 23-24 would have roughly about 3-4% from credit life and the individual would be at 20%. For us, largely it is based on the individual life insurance business. So impact for us would be lesser and the ability to be able to expand margins would still be there over the next 3 years. And that's why we have kept our guidance intact both on growth as well as on expansion of our net premium.

Mayank Bathwal - Chief Executive Officer, Aditya Birla Health Insurance Co. Limited
Yeah, on the health insurance side, Shreya, I think more than the tenure of the business. I think our feedback has been to make sure that there's no arbitrage in favor of any one category of player, especially keeping in mind that monoline versus multi-line player economic nuances and the environment in which we operate has to be kept in mind in the way the final regulations emerge. And we're hopeful that that will be kept in mind when we see the final shape and form of the regulation.

Shreya Shivani - Analyst, Nomura
Right, okay, that's a valid point. Uh, just to follow up on the life insurance, uh, the 20 you're right, it's 21.2. So the maths probably I was coming at was couple of percentage points, maybe 3 to 4 percentage point reduction will naturally come because of the commission caps, but you will still have to do, uh, 3 to 4 more. Uh, would that just come from scale for you all, or you would have to make some structural changes to your Uh, other OpEx ratio? Any color on that would be useful as well.

Kamlesh Rao - Managing Director and Chief Executive Officer, Aditya Birla Sun Life Insurance Company Limited
Yeah, like I said, uh, I mean, we'll have to wait and see what the final regulation turns out to be. But like I said, the strategy is to focus on saying, can we grow, uh, uh, well to make sure that the denominator growth will hopefully take care of, you know, where we want the OpEx-to-premium ratio to go, rather than at this point of time look at anything structural. We will be actually more keen to make investments to make sure that the growth happens, which will hopefully take us take the OpEx-to-Premium ratio in the direction in which the regulator is looking forward for it to happen.

Shreya Shivani - Analyst, Nomura
Right. And just one more sorry, one more follow-up on the NBFC bit. You did mention about the inflation-related impact, which is very much possible and can hit our personal loan customer segment. So any moderation we are making in disbursals, any underwriting tightening, this This question is on the NBFC bit.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Yeah, look at through the door on a monthly basis, and whichever segment we see any risk emanating, we take a corrective call. So that's a continuous basis, and we will continue to be focused in terms of onboarding customers in this environment.

Shreya Shivani - Analyst, Nomura
Right. Okay, this is useful. Thank you everyone. Thank you so much.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Thank you.

Operator
Thank you. Next question is from Nishant Chawade from Codex Securities. Please go ahead.

Nischint Chawathe - Analyst, Kotak Institutional Equities
Hi, uh, thanks for taking my, uh, questions. Uh, you know, first is for, uh, you know, for, for Rakesh. Uh, you know, what is the, uh, outlook on margins? Uh, I know you mentioned that you raised lending rates on the asset side by around 25 basis points. You know, what is the view in terms of how the borrowing cost is playing out and hence on margins? And for last 3-4 quarters we have been quite nicely increasing the share of personal consumer and unsecured loans. So when does that sort of start feeding into margin expansion?

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Clearly we are focused on building a high-quality book and we look at how do we really optimize the risk-adjusted return on our portfolio. And to the previous answer, which was, which I mentioned, that we look at onboarding and through the door on a monthly basis and look at high-risk segments and keep eliminating those segments on a regular basis. So we are quite focused on building a resilient book over a period of time with So, and to answer your question, yes, our product mix, if you look at, has the unsecured has gone up by 1% over the last quarter.

And, um, so yeah, but whatever benefit which we saw, uh, was mitigated by the increase in cost of, uh, funds and all of that. So that's the reason we didn't see any expansion in margins. So few quarters, I think that's what have been saying, but we will stay focused on building a risk-adjusted profile rather than just growing the margin. And we had committed and guided the market that we

will be closer to 2.5% ROA by Q4 of this financial year. We already are there, almost there, 2.5% ROA in quarter 2.

Nischint Chawathe - Analyst, Kotak Institutional Equities
Got it. But on a share margin front, I mean, I mean, the benefit comes in more from the OpEx and the credit cost is what one is really trying to say.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Yes, and margins will come over a period of time. Um, we are saying yes, we are see, again, we are not in a hurry to onboard high-risk customers to improve the margins. So whatever fits our risk profile and is within our risk appetite is what we are looking at building the portfolio. So but it will happen, I think few more quarters is what we are looking at.

Nischint Chawathe - Analyst, Kotak Institutional Equities
Sure. Just taking this forward, even in the housing finance business, Pankaj mentioned that you have raised lending rates by 20 basis points. I know you operate across segments, but, you know, given the competitive scenario, you know, do you really see competition also raising rates and this kind of going through smoothly, or do you expect BT-outs to increase?

Pankaj Gadgil - Managing Director and Chief Executive Officer, Aditya Birla Housing Finance Limited
So I think the competition also has already increased. So all the, all the vendor players in the HFC space anyways have announced, be it the Vajrages, Tata, and all the other relevant organization. So I think there should be a level playing field. And I think the BTODs for us, like, you know, mentioning earlier, I think we have been always very proactive, you know, in serving customers appropriately, repricing them also appropriately. So I think our BTOD has always been in the range of about 5 to 5.5%.

BTIN has always been higher than that. It's always been about 2x BTIN. So we don't see BTIN outs you know such challenge currently [Foreign Speech] sure.

Nischint Chawathe - Analyst, Kotak Institutional Equities
Got it. And just one on the health insurance side, you know we have seen the CSR ratio increasing 500 basis points year on year. So how should we read that?

Mayank Bathwal - Chief Executive Officer, Aditya Birla Health Insurance Co. Limited
CSR is 104 percent. [Foreign Speech] last year same quarter was

Nischint Chawathe - Analyst, Kotak Institutional Equities
[Foreign Speech] round number [Foreign Speech] last

Mayank Bathwal - Chief Executive Officer, Aditya Birla Health Insurance Co. Limited
year CSR for IFRS it was 103, it is 104 this year. OK OK OK. or and last year in absolute or you have any followup on that?

Nischint Chawathe - Analyst, Kotak Institutional Equities
no no that's fine maybe I I I problem looked at it wrongly that's that's fine. thank you thank

Operator
you Thank you very much. Next question is from Naina Farhanish from ICICI Securities. Please go

ahead.

Naina Farhanish - Analyst, ICICI Securities
Yeah, hi sir. Congrats on a good set of numbers. So my question is on lending business, right? So especially on the NBFC. So when we look at the, you know, ROA at 2.45% in Q2, and when we look at the improvement over last maybe 3 to 4 quarters, it's been driven by and the OpEx improvement, also the credit cost moderation. But now when we look at, you know, credit cost being already settled at 1% below 1%, uh, what are the levers available, you know, on the ROAT, which would drive ROE expansion from here on?

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
We have multiple levers through which we really operate, uh, growth, margins, operating expense, credit cost. And across all these levers is what we drive our ROEs and profitability. So we will continue to focus on each one of these levers and drive the efficiency and improve the ROEs, including

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
the product mix,

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
and including the product mix as we go. And I think the retail and personal and consumer should increase. So that also should drive the margin expansion and profitability.

Naina Farhanish - Analyst, ICICI Securities
Got it. So, uh, again, on, on the same question what, uh, Nitin was asking, right? So when we look at the, uh, AUM mix shift, uh, you know, towards unsecured BL and PL, and obviously these products are high-yielding product than LAP in corporate book. So given, you know, pretty high growth rates in both these 2 products, unfortunately asset yields are not moving up. So I can understand maybe on the book basis it might take some time before it shows up. But if one has to look at on the disbursement yield side, is it fair to assume that disbursement yields are actually better than the book yield, or at least disbursement yields are improving quarter by quarter?

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
So disbursement yields are much, much better than the portfolio yield at a company level. But, uh, you are right in terms of saying that it will take some time to reflect on a company level because that is almost, uh, 1,80,000 crores is the loan book and personal and consumer portfolio is much lesser. So I think it will take some time. But within that segment, because our choice of customers and our focus is on better risk profile customers, uh, there's always, um, I think the repayment of the old portfolio which was there at a slightly higher rate, that's going away.

And the new disbursement in that segment is slightly lower because we are looking at a risk-calibrated approach. And building a portfolio which is more resilient and stable over a period

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
of time.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
But yes, I think we are focused on ROEs, and it will be ROE accretive. We are looking at expanding our ROEs as we had guided. We are almost there at 2.5%, and we want to sustain this, um, over the

coming quarters as well.

Naina Farhanish - Analyst, ICICI Securities
Got it, got it. And just the last thing, uh, on the credit cost front, uh, so now given, uh, you know, the way macros are, how confident we are about sustaining the credit cost at this level, at least in near term?

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
So if you look at our Stage 2, which is the reflection of the quality, and Stage 2 definition is 30+, any account which goes above 30+, that is just 1% of our overall portfolio of 1 lakh 76. So that's a clear reflection on the quality, and we are very confident. And that's the reason I said we are the it's a question and choice of customer segment, uh, and what pricing you really attract. So we want to have a balanced approach, and we want to have a better risk profile customer so that the portfolio is much more resilient over a period of time.

So yeah,

Raghav Garg - Analyst, Ambit Capital
not only

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Stage 3 Stage 3 is a much later, uh, I think, outcome but Stage 2, if you see, is, is 1%, which is best in class, uh, in the industry.

Naina Farhanish - Analyst, ICICI Securities
Got it, got it. So you're absolutely right, sir. Uh, congrats and best of luck, sir.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Thank you. Thank

Operator
you. Thank you. Next question is from line of Sameer Bise from Diamond Asia. Please go ahead.

Sameer Bisht - Analyst, DAM Capital
Hi, uh, thank you and congrats on the quarter. Uh, just wanted to ask, uh, uh, like after the recent rate hike, uh, what is the cost of funds on a book basis versus incremental basis? Like what gap are we seeing right now? And how should one think if, say, another rate hike follows through on an overall basis?

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
So if you look at between the incremental cost of borrowing between Q1 and Q2, it went up by 11 basis points. In Q3, if it continues, we are expecting another 5-10 basis points. Uh, but as you know, our borrowing on the borrowing side, we have 53%, uh, is, uh, is fixed, and, um, 57-43 is, uh, in terms of, uh, 57 is floating in nature and 43 is fixed. On the asset side We have 30% fixed and 70%, uh, which is floating. So we are in we have an advantage there that if the, uh, the cost of funding goes up or cost of borrowing goes up, we should be able to transmit this through repricing.

Sameer Bisht - Analyst, DAM Capital
Sure. And, uh, while you kind of explain on the, on the, uh, quality of customer segments, just a thought, uh, Like, did you consider some macroprudential or a management overlay kind of a

situation given the way macro is moving, or would it be prudent to kind of consider it in the coming quarters? I think, yeah, so some thoughts there would be useful. That's from my side.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Yeah, so when I think the war started, Iran-US war started, we had looked at Uh, what is the segments which is coming under stress. So it's an ongoing exercise. We look at that, we created some management overlay, but that's part of the overall credit cost which you see here. So we keep reviewing, uh, the macro environment and the customer segments, and if anything needs to be done, we do it.

Sameer Bisht - Analyst, DAM Capital
Sure, sure. Uh, okay, so that's all from my side. Uh, thank you and all the best.

Operator
Thank you very much. Next question is from Nanok Sobranchu Mishra from Philip Capital. Please go ahead.

Subhranshu Mishra - Analyst, PhillipCapital
Hi, good evening. Thank you for the opportunity. 2 or 3 questions. The first one is, a large part of our unsecured loans, both business as well as personal, is being originated by DSAs and digital mode. So how do we ensure our pricing power remains intact with the rate hikes? That's the first part. Second part is, uh, uh, what is the, uh, DA income as a percentage of PBT in our housing finance business? Third is, what is the proportion of revolving credit lines as a percentage of our AUM in the NBFC?

Thanks.

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
Your first question was that in the personal and consumer, uh, segment, a large part is DSA, 17%, but 17% is digital because in today's age the consumer is looking at a seamless customer journey. So, and this has got nothing to do with all these loans are short-term loans and are fixed in nature, so there is no, there is no transmission of increase in cost of funds here. So that happens only in the floating rate loans, which is a slightly longer tenor, and primarily the SME customers and all those are on floating rate loans.

SME, mid-corporate, and corporate, those customers on floating rate loans.

Pankaj Gadgil - Managing Director and Chief Executive Officer, Aditya Birla Housing Finance Limited
For the housing finance business, the off-book for us overall is about 8.9%.

Kamlesh Rao - Managing Director and Chief Executive Officer, Aditya Birla Sun Life Insurance Company Limited
No,

Pankaj Gadgil - Managing Director and Chief Executive Officer, Aditya Birla Housing Finance Limited
I'm just coming there. I'm saying off-book for us is about 8.9% overall, and DA, you know, as a proportion of the PBT, the ROE will go at 40 basis points and post-ROE will go 33 basis points.

Unidentified Participant - Analyst
Okay. And the third question, what is the proportion of revolving, uh, as a proportion of AUM? So

Rakesh Singh - Executive Director and Chief Executive Officer, Aditya Birla Capital Limited
that's very, I think, um, very small. I think, uh, We have been, uh, we have been building new products and all of that. And those revolving products also are primarily in supply chain and loan against shares, which, uh, which is in a way end-use driven and is fixed. And our supply chain is either 90, 120 days. Uh, last also is loan against shares where the mark-to-market is done on a daily basis. So we don't have anything which is material in line of credit.

Operator
Thank you very much. Ladies and gentlemen, due to time constraint, we'll take that as the last question. And now hand the conference over to Ms. Vishakha Mule for closing comments.

Vishakha Mulye - Managing Director and Chief Executive Officer, Aditya Birla Capital Limited
Thank you very much all for joining us today, and a very happy Diwali to all of you and your families. If there are any more questions, please feel free to reach out to us, and all of us are available. Thank you so much.

Operator
[Operator Closing Remarks]