



“Tata Capital Limited  
Q3 FY '26 Earnings Conference Call”  
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**MODERATOR:** **MR. VIRAL SHAH – IIFL CAPITAL LIMITED**

**Moderator:** Ladies and gentlemen, good evening and welcome to the Tata Capital Limited Q3 FY '26 Earnings Conference Call, hosted by IIFL Capital Services Limited. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Viral Shah from IIFL Capital Services Limited. Thank you and over to you.

**Viral Shah:** Thank you, Swapnali. Good evening, everyone. This is Viral Shah from IIFL Capital. Welcome to the Q3 FY '26 Earnings Conference Call of Tata Capital Limited. On behalf of IIFL Capital, I would like to thank the management team of Tata Capital for giving us this opportunity to host the call.

From the management team today, we have Mr. Rajiv Sabharwal, Managing Director and CEO, Mr. Rakesh Bhatia, Chief Financial Officer, Mr. Sandeep Tripathy, Head of Strategy and Investor Relations, and other senior members of the management team. We will have opening comments from the management team, post which we will open the floor for Q&A.

With that, I would like to transfer the call to Rajiv for his opening remarks. Over to you, sir.

**Rajiv Sabharwal:** Thank you so much, Viral. Good evening, everyone, and thank you for joining us for our Q3 FY '26 Earnings Call. This is our first call in the new year, so wishing all of you and your families a very happy and a prosperous 2026.

This is also our second call post-listing and we appreciate your continued trust and support. Our financial results and investor presentation are now available on the NSE and BSE websites. I am joined today by Tata Capital's senior management team.

I will begin with a brief macroeconomic overview, followed by a discussion on our performance for the quarter, after which we will be open for questions. India remains one of the fastest growing major economies despite global volatility from both trade policy and tariff uncertainties.

Against this backdrop, GDP growth of 8.2% in Q2 highlights strong domestic demand and resilient fundamentals creating opportunities for well-capitalized players. In December 2025, RBI reduced the policy rate by further 25 basis points to 5.25%, marking a cumulative 100 basis points reduction in this fiscal year.

This calibrated easing was underpinned by sustained moderation in inflation and reflects RBI's assessment of a durable disinflationary trend while maintaining a strong focus on financial stability. RBI has reiterated its data-dependent and vigilant stance and continued active liquidity management to ensure orderly transmission and stable funding conditions.

Credit growth has been on a slightly increasing trend during Q3, led by the retail and the MSME segments, with improved asset quality and resilient profitability across the system. RBI also mandated weekly collection and maintenance of credit information, which will enhance borrower feasibility and speed up underwriting. I personally believe this is a very significant step and will hold us very well in the long run on credit quality.

At the same time, the rollout of new labour code aims to simplify compliance and promote formalization despite some near-term cost impact. Overall, business sentiment remains constructive, supported by improving consumption, steady industrial activity and a gradual revival in rural demand. Retail loan growth is expected to remain steady, driven by the auto segment, while housing finance will continue to be a key contributor with some moderation due to high base.

Looking forward, we remain cautiously optimistic that a consumption-supportive and a tax-relief-oriented union budget could further bolster discretionary spending, particularly in the retail segment, supporting sustained credit growth. Against this environment, I am pleased to share our Q3 performance, marked by robust AUM growth and stable asset quality, operating metrics also being better across key segments.

I will highlight the quarter's key numbers from the investor presentation and cover financial performance on both a consolidated basis and excluding Motor Finance, which is the business of Tata Motor Finance, which we merged into Tata Capital.

Performance snapshot, please refer to Slide 3. Looking at the quarter gone by, excluding Motor Finance business, our AUM stood at INR2.34 lakh crores, reflecting a 26% Y-o-Y growth and a 9% sequential growth. Profit after tax for Q3 was INR1,285 crores, up 39% Y-o-Y and 14% quarter-on-quarter. Adjusting for the non-recurring item related to labour code, profit after tax grew 36% Y-o-Y to INR1,258 crores. Credit cost for the quarter was 1% as compared to 1.1% in Q2 of FY '26. Net NPA remained stable at 0.6%. Return on assets improved 30 basis points Y-o-Y to 2.3%.

Including the Motor Finance business, our AUM stood at INR2.61 lakh crores with 7% sequential growth. Credit cost for the quarter including Motor Finance was 1.2%, a 10 basis points reduction from quarter 2 of FY '26. Profit after tax for the quarter including Motor Finance was INR1,257 crores, up 15% sequentially. Excluding the labour code adjustment, profit after tax stood at INR1,290 crores reflecting 18% growth. Return on assets improved 20 basis points to 2.1% from 1.9% in quarter 2 of FY '26.

I will now take you through our performance across five key themes, highlighting progress against our guidance and providing deeper insights into the business. This will be followed by a

brief overview of our technology and digital initiatives. I will then share updates on our housing finance subsidiary and Motor Finance business.

Let us first talk about book growth. Kindly refer to Slides 4, 5, 14 and 15. I am pleased to report that we recorded our highest ever quarterly AUM growth of ~ INR16,800 crores driven by festive demand and benefits of GST reduction.

Our diversified portfolio enabled timely opportunities, efficient disbursements and balanced growth. Excluding the Motor Finance business, our AUM grew by 26% Y-o-Y with housing finance recording 30% growth. On sequential basis, the AUM grew by 9%. Disbursement growth was broad-based across all segments, including unsecured retail.

Overall, retail and SME loans continue to account for 87% of our total AUM. While our focus remains on granular high-quality growth, the modest increase in corporate loans in quarter 3 FY '26 reflects a few strategic opportunities we were able to capitalize on during the quarter.

Retail momentum strengthened meaningfully in quarter 3 and we remain confident of sustained growth in the coming quarters. If you recall, during our quarter 2 call, we had highlighted that the asset quality challenges in unsecured retail were behind us and we expected growth to return in this segment.

Within retail, unsecured loans saw a healthy broad-based recovery with both portfolio growth and disbursements reaching a four-quarter high. We have added a Slide on unsecured retail, please refer to Slide 16, highlighting the scale-up in unsecured retail disbursements and improvement in slippages. The slide has been included in our investor presentation for additional clarity. We may keep adding such additional information in our future presentations.

We basically wanted to highlight how the disbursements have started to scale up over the last few quarters and also, we had mentioned that once the disbursements scale up, the AUM growth will follow soon after.

I am pleased to report that quarter 3 disbursements were 30% higher on a Y-o-Y basis and 13% over quarter 2. With unsecured retail exposure currently at 10.4% of AUM, it leaves us with ample runway to achieve our stated vision of increasing it to 15% of the AUM. Including the Motor Finance business, our AUM increased 7% sequentially. The Motor Finance AUM stood at INR 26,584 crores, reflecting a 6% sequential decline. I will provide an update on the transformation in the upcoming section.

Given the strong traction seen in Q3 in book growth and remaining conscious about the prepayment pressure, we are on track to meet our FY '26 guidance of 18%-20% AUM growth. As of December, we had a robust network of 1,505 branches across 27 states and union territories. Combined with our comprehensive digital capabilities, this enables us to effectively serve a growing customer base of 8.1 million.

The second theme I want to cover is on asset quality. Kindly refer to Slides 4, 22 and 23. Excluding the Motor Finance business, Stage 3 assets stood at 1.6%, net Stage 3 at 0.6% and provision coverage ratio at 64.5%, broadly in line with Q2 levels. Credit costs declined to 1%

for the quarter, reflecting a 10 basis points improvement over Q2. We witnessed lower slippages during Q3, including in the unsecured retail segment and this improvement is expected to translate into a better Stage 3 metrics over the coming quarters. The marginal uptick in Stage 3 within the unsecured retail is expected to normalize as disbursement momentum has returned and portfolio growth resumes.

Including the Motor Finance business, Stage 3 assets were at 2.2%, net Stage 3 at 1.0% and provision coverage ratio at 53.6%, again largely unchanged from Q2. Credit costs improved by 10 basis points to 1.2% during the quarter. Slippages have moderated here as well and the increase in Stage 3 is primarily attributable to the ongoing degrowth in the Motor Finance book rather than any incremental stress.

Overall, asset quality remains robust, coverage levels are strong and credit costs continue to trend downwards, underscoring the resilience of our portfolio and keeping us well on track to meet our FY '26 guidance on credit costs.

The third theme I want to touch upon is cost of funds. Our funding profile is well diversified and competitively priced, providing a strong foundation for growth. We maintain an optimal borrowing mix through a disciplined ALM framework, effectively managing liquidity and refinancing risks.

Supported by our strong credit ratings, we have access to a broad and diversified lender base across banks, capital markets and institutional investors, both in India and overseas, enabling us to secure funding at competitive terms. The benefits of the policy rate easing are flowing through steadily and cost of funds are declining each quarter since the start of this financial year. For Q3, overall cost of funds stood at 7.2%, down 14 basis points from Q2 on daily average basis.

The next theme I want to cover is margins. We continue to operate in a stable NIM plus other revenue corridor, with NIM for Q3 at 6.6%, up 14 basis points versus Q2, including a 17 basis points contribution attributable to the proceeds from the IPO.

During the quarter, while we benefited from lower cost of funds, significant portion of the easing was passed on to customers, keeping margins at stable levels. Looking ahead, we see potential for margin expansion over the medium term, supported by further optimization of our product mix, with a rising contribution from higher yield segments such as unsecured retail, affordable housing and secured business loans, as well as growth in fee-based businesses and continued benefits of lower funding costs.

On operating leverage, our continued investments in technology, data infrastructure and branch expansion over the past 3 years are steadily enhancing operating leverage. We are beginning to see tangible efficiency gains in both productivity and turnaround times across our businesses.

In Q3, our cost-to-income stood at 38.4%, improving by approximately 129 basis points versus the last quarter, excluding the one-time impact of INR 44 crores related to the recently announced New Labour Codes. The profit after tax impact of this New Labour Code has been INR 33 crores. For FY '26, we remain confident of closing the year with a cost-to-income ratio in the range of 38% to 39%, as we had communicated earlier.

Talking about the balance sheet, please refer to Slides 35 and 57. Our balance sheet remains well capitalized and highly liquid. As of December, total assets stood at INR 2,71,936 crores, with a net worth of INR 43,153 crores. Capital adequacy remains robust at 20.3%, comfortably above regulatory requirements, supported by a healthy common equity Tier 1 ratio.

We have continued to de-risk the balance sheet, with the debt-to-equity ratio declining from 6.1x in September to 5.1x in December 2025, positioning us well to fund growth while maintaining prudent leverage. In addition, we maintain a strong liquidity buffer of approximately INR 35,000 crores, comprising cash and cash equivalents, mutual funds, LCR investments and undrawn bank lines.

Together, these factors reflect a strong, liquid and well-capitalized balance sheet, providing ample flexibility to pursue growth opportunities while supporting business resilience. A quick summary of our technology and digital efforts. Please refer to Slides 42 to 46.

At Tata Capital, our digital DNA is integral to how we serve customers and build a scalable, future-ready franchise. We are a digital-first NBFC, with technology embedded at the core of decision-making, operations and execution. With a customer at the center, technology now spans the full lending lifecycle.

97% of customers are digitally on-boarded, 97% of our retail disbursements are via scorecards/BRE, 98% of our customer queries are resolved digitally and 99% of our collections flow through digital channels, demonstrating sustained value creation at scale.

Over the last few quarters, we have moved decisively from AI pilots to enterprise-wide deployment across marketing, sales, credit, operations, service and collections, delivering a measurable business volume. Our voice-based, Agentic AI platforms, deployed across sales, customer service and collections, have matured and are driving cost efficiencies through higher agent productivity, automation and intelligent call handling.

We were early investors in Gen AI-driven underwriting, ahead of the broader industry adoption. Today, AI underwriting co-pilots and AI-generated credit memos are used across business segments, improving credit manager productivity while enhancing speed, consistency and risk governance.

In parallel, AI-led automation in operations has enabled us to process significantly higher volumes with lower manpower intensity, reinforcing operating leverage. The transformation is anchored in a robust AI and data architecture, strong in-house engineering and data science capabilities and a selective ecosystem of strategic technology partners.

Together, these capabilities are enabling us to build a scalable AI-enabled operating model that supports disciplined growth, cost efficiency and resilient risk management. A little more on our housing business. Kindly refer to slide 26-28. We had another strong quarter for our key subsidiary, Tata Capital Housing Finance Limited, with AUM growing 30% year-on-year and profit after tax increasing 25% year-on-year. This is excluding the one-time impact of the labour code. Total AUM stood at INR 81,585 crores. We continue to prioritize affordable home loans and loans against property dispersals, which support better margins and portfolio diversification.

Tata Capital Housing Finance Limited also continues to make meaningful progress on cost efficiency, with cost-to-income improving by 114 basis points from 32.9% in Q2 of FY '26 to 31.8% in Q3 of FY '26. On the asset quality front, Tata Capital Housing Finance Limited remains best in class with credit costs of 0.1% and net NPA of 0.4% in Q3.

These metrics combined with disciplined operations have positioned Tata Capital Housing Finance Limited as one of the top performing HFCs in the country, delivering a stable ROA of 2.4% across all quarters of FY '26. We remain optimistic about sustaining this strong performance as we continue to execute our growth and margin strategies in the housing finance business.

Talking now a little more about the Motor Finance business, our primary focus in the Motor Finance business is on reorienting the portfolio rather than pursuing near-term growth. The integration is progressing as planned across all key dimensions. In Q3, AUM declined by 6%, reflecting this deliberate repositioning.

Importantly, our disbursements increased by 17% in Q3 over Q2 and we are confident that disbursement momentum will build sequentially from here as the business stabilizes and transformation gains traction. The commercial vehicle market showed strong growth driven by GST reforms, logistics expansion, infrastructure activity and rural recovery creating favourable conditions for CV sales.

While benefiting from these trends, we are transitioning from a captive model and reshaping the CV finance mix to align with the evolving ecosystem and improve risk-adjusted returns. We are making strong progress on Motor Finance transformation. Our non-Tata OEM share in the new commercial vehicle disbursements rose to 19%, reflecting early success in our multi-OEM strategy.

We have realigned the product mix by increasing used commercial vehicles and LCVs while reducing heavy commercial vehicle exposure. The credit costs have declined with fewer slippages supported by tighter risk controls. Operating efficiency is improving through branch rationalization, manpower redeployment and IT integration.

The business is now aligned to Tata Capital's operating model with dedicated sales, credit and collection verticals and enhanced underwriting standards and collection practices are reinforcing portfolio resilience. We are not chasing near-term AUM growth but are instead focused on strengthening the fundamentals of underwriting and process discipline.

With these actions in place, we expect growth to resume from the first half of FY '27. Motor Finance business is a seasonal business typically experiencing lower delinquencies and stronger book growth in Q3 and Q4. Our performance reflects this trend with credit costs declining and business achieving break-even in Q3. This was an important thing for us. Our business and Motor Finance business broke even in Q3.

We will continue to monitor performance over the next year to assess steady-state outcomes. With this backdrop, we expect a progressive improvement in ROA during FY '27 and we remain on track to achieve our targeted ROA by FY '28. FY '26 guidance, please refer to Slide 39. Our

focus remains on quality-led growth, prudent capital deployment and sustained improvement in returns.

While staying true to our purpose of enabling inclusive and sustainable financial solutions. On a consolidated basis, we delivered 18% AUM growth and a 1.9% ROA for nine-month FY '26. Strong Q3 results and a positive Q4 outlook reinforce our confidence in meeting FY '26 guidance across all key metrics.

In the end, to conclude, Q3 reflects disciplined execution and continued strengthening of Tata Capital's fundamentals. We are encouraged by the moderating credit costs, resilience in retail and housing portfolios and early signs of stabilization in Motor Finance.

We expect this momentum to gather further steam in Q4. Thank you to all our investors, analysts, lenders, partners and all our teams for their trust and commitment. With that, we will be happy to take your questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Raghav from Ambit Capital.

**Raghav:** Thanks for the opportunity and congrats on your results. I have two questions. One, I see that there is an increase in the home loan Stage 3. I just wanted to understand which segment is this coming from? Is this the affordable piece or the prime home loan? That's the first question. And I have another question.

**Sandeep Tripathy:** Yeah, why don't you go ahead, Raghav. What's the second question?

**Raghav:** Okay. In the Motor Finance business, I see that you have about 5300 employees. I just wanted a function-wise breakup of these employees, like how many are in sales, how many are in credit and collections and so on. Those are the only two questions that I have?

**Rakesh Bhatia:** Yeah. So, in the home loan, Raghav, there has been a very marginal increase of around 2-3 basis points. On the rounding off, it shows an increase. We have not seen any stress in the home loan portfolio. Slippages also have been very minimal and well controlled. The housing book is very robust in asset quality. And you can see from all asset quality matrices. It's just a very marginal 2-3 bps increase on the rounding off, which has taken to 0.8%.

**Rajiv Sabharwal:** Yes. So, actually because of rounding off to one decimal point, it is showing 10 basis points, but it is significantly lower than that.

**Raghav:** The other question was on the breakup of the employees in the Motor Finance business, 5,300 across credit, collections and sales?

**Rajiv Sabharwal:** Yes. We will give you the breakup in just a minute. So, approximately 83%-84% are in sales and collections.

**Sandeep Tripathy:** Operations is roughly 11%. So, together sales, collections and operations would constitute roughly 95%.

- Raghav:** Understood. That's all from my side. This is useful. Thank you.
- Moderator:** Thank you. The next question is from the line of Avinash Singh from Emkay Global Financial Services Limited. Please go ahead.
- Avinash Singh:** Thanks for the opportunity. A couple of questions. The first one on credit cost guidance of below 1%. So, if we were to look, let's say 1-2 years from here onwards, motor finance credit cost will of course improve a lot. Your motor vehicle finance book, which is currently 10% odd of your overall book. But then we will have with a bit of seasoning or reversal in home finance book.
- But, of course, there will be some bit of a pickup from where it was the last year, even from here. Then from which other segment you see that kind of a turnaround that will take credit cost eventually at the aggregate level of like 1.2%. That's already a very respectable, to be honest, to be under 1%. So, that's one.
- I mean, which segments, particularly when you are growing at the pace you are guiding, say a 23-25% kind of a rate, which segments can see improvement in credit cost from here onwards. So, that's question number one.
- And on motor vehicle finance side, now, of course, the breakeven has happened and most likely the growth should start to come back. Structurally you are also going away from being captive. Will that book, I mean, match your overall guided growth of 23%-25% say in FY '28, if not 27?
- Rajiv Sabharwal:** So, two things. If you look at the credit cost in quarter 3 for us is about 1.2%. When we look ahead, our stated objective is to be at around 1% on our credit cost. The reduction from here will come from two areas, one on Motor Finance and the other on retail. And retail, more it is on the unsecured side, which we are already seeing a decline.
- As we have mentioned, quarter 2 was lower than quarter 1, quarter 3 is lower than quarter 2 and we have given some sense of guidance in quarter 4 also on an overall basis. So, the reduction will come from both Motor Finance and retail unsecured. As far as the book is concerned of Motor Finance, yes, we have started to see traction in that business built up on the new credit standards which we have set for ourselves.
- December disbursement was good and we expect Q4 should also be picking up. As mentioned, quarter 3 disbursements were 17% higher than quarter 2 disbursements and quarter 4 hopefully will be better. As far as the composition of the book is concerned, when we took over the business and merged it was about 12-13%. It contributed ~12-13% to the total book which has now come down to about 9.5%. We believe that this book of Motor Finance will grow, but not grow at the same pace as the rest of the Tata Capital book.
- So, in terms of proportion it may come down because we have stated that over the next couple of years till March'28, between March'25 to 28, we have said that we will grow at about 23% to 25%. We are sticking to that guidance and since Motor Finance will grow at a slightly lower pace than that, that proportion may come down to about 7% to 8%.

- Avinash Singh:** Yes, so quickly on Motor Finance piece, I mean just like now you are also going into open market incrementally. So, how is your sense, I mean there have been a kind of I would say mixed data point and talk around the long-awaited CV and ILMSCV cycle recovery where some comment is suggesting that okay after many years of muted there is a growth bouncing back for many reasons. So, how do you see overall sort of that segment of growth? Are you experiencing growth returning or is it still sort of a bit mixed?
- Rajiv Sabharwal:** No, clearly we are seeing growth returning. The GST cut was a significant cut, brought down vehicle prices in a big way and that is also brought in viability for a lot of vehicles. We are seeing good demand on both medium, small as well as on the heavy side, the demand has improved.
- In fact, if you look at the used, that was a little muted in this quarter because when the GST cuts happened, while it could immediately reflect in terms of a lower price for new vehicles, for used there was some uncertainty because that those prices logically should have gone down, but people were holding on not sure what change will come to those prices.
- So, for a month or two there was some subdued business on that side, but it is now started to pick up again and we saw this momentum building up in December and we are seeing the same momentum continuing in January. So, I would say growth was good, coming back on new vehicles. Used vehicle a little muted, but now it is picking up.
- Avinash Singh:** Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Bank. Please go ahead.
- Nischint Chawathe:** Hi, this is Nischint from Kotak Securities. Congrats on a good set of numbers. I actually have two or three questions. You know, one is on loan against property, what is giving you confidence for such high growth in this business? I have one or two more questions, I will follow-up.
- Rajiv Sabharwal:** We have seen this business for a very long period of time within Tata Capital. We have seen this business for now about 14-15 years and the team which manages this business has over 22 years of experience. I have seen this business for about 25 years or so. As long as you have got your valuations right and you have funded it based on the cash flows which the borrower has, and not relied only on property as security, this portfolio has continued to deliver.
- And we are seeing the same trend here. We are not seeing any increase in delinquencies or any challenges on bounce rates happening in this business. So that is what is giving us confidence. Basically, we have got vintage data on ourselves plus the people who have seen this business for a much longer period of time. We have got a dedicated credit team for this business and that is what gives us confidence.
- Nischint Chawathe:** Is it something that you are gaining market share, maybe some other players or banks are slowing down or is it something that the market itself is growing at 35%-40%?
- Rajiv Sabharwal:** I think it is very tough to get market numbers on this, but when we talk to leading players in this industry, everybody is showing a strong growth in this business.

- Nischint Chawathe:** Sure.
- Rajiv Sabharwal:** What also happened, when some bit of people went conservative on the unsecured side, a lot of business did move to the secured side. So maybe that is also helping. These loans are largely taken by self-employed people, people in the MSME segment who are basically using this collateral to draw money at a more competitive price than an unsecured loan. And I would believe that whenever there is tightening on the unsecured side, you will see a slightly better growth rate happening on this side.
- Nischint Chawathe:** Is this similar for SME loans as well, which is classified separately for you, where you are getting almost INR10,000 crores in the last two quarters?
- Rajiv Sabharwal:** SME business always has been strong in Q3 and Q4. I think this year it got a major boost in Q3 post the GST cuts. You know, our supply chain business is also a part of SME business and it has seen a huge spurt during this period. In fact, quarter 2 became muted because though GST cuts were announced, but they were announced from a later date. So, in fact, quarter 2 became more muted. So, quarter 3 over quarter 2 looks even more stronger because quarter 2 was muted and quarter 3 was very good.
- Nischint Chawathe:** Got it. And just finally, I think as you mentioned in your remarks, there is a spurt in corporate loan book. So is it something that these are kind of episodic facilities, these are any specific loans and does it have any implication on the margins?
- Rajiv Sabharwal:** No, actually what we try to do in every business is to ensure that we don't chase growth for the sake of margins. You would have seen this for us over the quarters. While we do pass on the benefits of what we see coming to us in terms of lower cost of funds, we have certain minimum spread targets for each business and average targets for each business, which we ensure are met.
- So it is not at the expense of margins, but we felt that there were opportunities and some of these opportunities were also arising because of some spurt in demand happening on account of GST cuts.
- I would say we felt there was an opportunity for us and we did take that opportunity. This is something which Nischint, we have always said that our approach is to be well diversified. We want to be and we are strong players in each segment. We don't consider any business to be the most important and others around it to serve as the next in line business. Each business for us is very important. We have business leaders in each business who have seen multiple business cycles and are well entrenched in the market. In each segment, we want to be best in class. That is what we aim for.
- Nischint Chawathe:** Got it. This is very helpful. Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Sucrit D Patil from Eyesight Fintrade Private Limited. Please go ahead.
- Sucrit D Patil:** Good evening to the team. I have two questions. My first question to Mr. Rajiv is, as Tata Capital builds on this momentum, how do you see the company balancing expansion with asset quality?

Over the next few years, what opportunities do you see mostly in terms of digital transformation, customer experience and financial inclusion? How will Tata Capital differentiate itself against the peers in the NBFC space? That's my first question. I'll ask my second question after this. Thank you.

**Rajiv Sabharwal:**

So, as we have always stated, Sucrit, that for us risk comes first and that's embedded clearly in every business leader's mind as well as how he or she will be evaluated. We will never chase volume at the cost of asset quality and this will be our strategy going forward too. If we find in any segment there is a challenge, we will pull back, set things right rather than chase growth. We will not try to use denominator as a means to lower ratio. That is not what we do.

In terms of digital transformation, I think digital is key to what we've been doing. In the past few years, we have digitized all asset journeys for ourselves. We have embedded digital in every function within the organization. Going forward, I think the bigger benefit to us will come from this early adoption of AI and Gen AI which we have done.

We have spoken about our projects which we have implemented in these areas. The good part is the ones which have gone into production are showing us good signs in terms of the benefits which they can create. Equally, we have identified new areas in which we want to invest in this area and we are working on the same which hopefully should see the light of the day during the following financial year.

**Sucrit D Patil:**

Thank you. My second question is to Mr. Bhatia. With profitability improving and investments in technology underway, how are you planning to build on this success while keeping the margins healthy? As new products and platforms scale up, what steps are you taking to ensure financial strength and efficiency so that the growth remains sustainable and profits remain on a higher end? Thanks.

**Rakesh Bhatia:**

Thanks. I'll take that. Just as a backdrop, we've made deep investments in expansion of our branches and digital assets three years back. We've seen the benefits of that coming into our operating leverage. If you see cost-to-income ratio across businesses has been coming down on YoY and sequentially also. We have stated guidance of 33%-34% cost-to-income ratio by FY '28, which is in radar across all expense lines and business lines.

As we expand our products and as we do digital journeys, we have a very robust mechanism of making sure that we budget for IT costs and differentiate between run the business and change the business spends. We also look at optimizing each spend in terms of whether it brings in customer efficiency, and operational efficiencies.

So with that, I think we kind of look at each business and each trade very carefully and make sure that each spend which we do on the IT and digital is returning something either on the customer delight side or benefitting the operative leverage.

**Sucrit D Patil:**

Thanks for the guidance and I wish the entire team best of luck for the next quarter.

**Moderator:**

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

**Abhijit Tibrewal:** Yeah, good evening, everyone and thank you for taking my questions. Rajiv sir, first thing, just trying to understand, third quarter obviously there have been some tailwinds from the GST rate cut. I'm sure the festive season had its role to play. So are there any segments in vehicle financing where you have seen things tapering off in the months of December and January and likewise on the consumer durable side while we saw a good spurt immediately after the GST cut. How have things trended in the months of December and January?

**Rajiv Sabharwal:** So GST benefits were a big plus in Q3 and that momentum in certain areas is continuing while there is some moderation in the other areas. Consumer durables is not a segment which we are present in or have any significant presence, so I won't talk much about it except for the fact that we still see continued demand from the supply chain side. We are there in financing the supply chain of consumer durables and that seems robust for us.

But individual products I won't have as much clue to talk to you about. As far as the vehicles are concerned, we are seeing strong demand continuing in PV, we are seeing strong demand continuing in commercial vehicles. We have seen some amount of moderation in two wheelers which is happening in terms of sales. In tractors, we don't have any significant presence. So I do believe that two wheelers, PV as well as CV will continue to be strong in Q4.

**Abhijit Tibrewal:** Got it. So the second question I had was around asset quality and basically two sub parts to this question.

**Moderator:** Mr. Abhijit, you are not audible.

**Abhijit Tibrewal:** Am I audible now?

**Moderator:** Yeah. Please proceed.

**Abhijit Tibrewal:** Yeah. I was trying to understand the strength in asset quality that we are typically used to seeing in Q3 and particularly the second half of the fiscal year somehow seems to be absent in this third quarter. So what is your view on that? I mean, asset quality obviously holding stable, the headline stage 3 numbers.

But other than that, do you think that things are improving on the macro front which would help in asset quality improvement not just in Q4, which is a seasonably strong quarter, but even when we move into the next fiscal year?

**Rajiv Sabharwal:** In fact, Abhijit, we have seen a very strong quarter in terms of asset quality and kindly look at asset quality from few data points. For example, gross NPA is just one indicator which is a function of assets which have moved to Stage 3. You should also look at how the proportion of assets is in Stage 1, Stage 2 and Stage 3.

If you look at it, you will notice that the proportion of assets in Stage 1 have grown and within that we have seen a much better growth on ones which are at 0 DPD. So consequently, it is leading to lower credit costs. On a consolidated basis, in one quarter our credit costs are down by about 10 bps. In fact, excluding Motor Finance, they are down by about 20 bps. So, there has been a significant reduction there.

The other thing which we are also seeing is that the missed payment rates have also improved in Q3 over Q2. So, collection efficiencies are also showing a better trend. If you notice in our presentation on slide 16, we have also shown the slippages in the unsecured retail business and they also show a significant improving trend. We have given the numbers there. So, I would say we definitely have seen on asset quality, Q3 being very good.

**Abhijit Tibrewal:** So, the confidence in unsecured business is pretty much there, right? Basically, like you mentioned on your slide number 16? Yes. So, the trend of acceleration in unsecured business should continue.

**Rajiv Sabharwal:** See, the other point we have also stated there, besides slippage, the trend on disbursements has improved. There is a lag always between seeing that impact on AUM. So, that impact on AUM will become visible in the next few quarters and as the AUM grows, because disbursements precede AUM growth and you will see AUM growth happening in the subsequent quarters and as and when that happens, you will see the gross NPA ratio also dropping.

**Abhijit Tibrewal:** The last question I have was.

**Moderator:** Sorry to interrupt in between. Abhijeet, your voice is not audible.

**Abhijit Tibrewal:** Is it better now?

**Moderator:** Yes.

**Abhijit Tibrewal:** Yes. So, the only last question I am going to ask when we discuss why we have such strong growth in the industry. But the only thing which I wanted to understand here is that you remember just two quarters back, we were talking about some stress in terms of unsecured business loans.

And then at that same point, we heard that a lot of these unsecured business loans are now getting consolidated into LAP, which is obviously good win-win for everyone, for the lender as well as for the customer, because for the longer tenure, could ask more rate. So, what are your thoughts on this part? Do you think this could really be the case or do you think this is just organic demand coming into LAP?

**Rajiv Sabharwal:** Actually, I am not able to get your final question. Sorry. Your voice is somehow breaking off in between.

**Abhijit Tibrewal:** Maybe I can take it offline.

**Rajiv Sabharwal:** Okay.

**Abhijit Tibrewal:** Thank you so much.

**Rajiv Sabharwal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Himanshu Taluja from Aditya Birla Sun Life Asset Management Company Limited. Please go ahead.

**Himanshu Taluja:** Thank you, sir. Thanks for the opportunity and congrats on the quarter. Just one question at my end. If I can just help me understand, how is the margin profile of the Tata Housing business, given I could not see the margins. But when I look at when the AUM growth is around 30%, your total net income growth is around 29%.

Can you just help me understand how the margin profile is and are you not seeing any competitive pressures given you also have a prime book, both prime housing and the prime LAP, where rate transition is also there. Second, competitive intensity also remains high. And so overall how should one expect these trends over the coming quarter? Yes, that's it from my end. Thanks.

**Rajiv Sabharwal:** So, you are absolutely right. There is competitive intensity in this business and more so it is there in the prime business. What we have seen over the last two quarters, let's say Q2, Q3, our margins have been stable at similar levels. So, we did get some benefits of a lower cost of funds, but they have actually got translated into them being passed on to the set of borrowers.

So, to that extent we have seen stable margins in this business. Competitive intensity remains high, but equally important is the fact that the market continues to grow and there are opportunities to lend. We are investing a lot more in the affordable market and also looking at expanding our distribution in those markets. So, to that extent we believe even if there is competitive intensity, we should be able to retain or improve margins.

**Himanshu Taluja:** Okay. So, one should expect your stable margins even in the coming quarters as well from this portfolio of housing?

**Sarosh Amaria:** Yes, that's right. As Rajiv alluded, the growth is not just in prime, but also we are focusing on the affordable as well as micro-housing. So, all our branch expansion in the last one year has been in the affordable and the micro-housing. So, along with prime we are looking at near prime, affordable as well as micro-housing to see that our margins are protected.

**Rajiv Sabharwal:** This was Sarosh, the MD of the Housing Finance.

**Himanshu Taluja:** Yes, sure. Just one small, if I can just ask one more question. On the personal and the business loan which is put together close to 9% to 10% of the book, how you are seeing the incremental business momentum? Sorry, I joined this call late. If you have already answered, so if you can just highlight a brief, how you are seeing the incremental trend from a momentum perspective both in personal loan and business loan and how is the asset quality also panning out in these segments? Thanks.

**Rajiv Sabharwal:** So, Himanshu, if you would just also look at the slide 16 of our presentation, we have stated here the momentum which we have seen on disbursements. As you would remember, we had gone conservative in this business last year where we had slowed down and made our policies tighter, more so in personal loan as well as micro-finance business, because that's where we faced more stress. However, as we had mentioned before, we started seeing things improving from Q2.

So, Q2 was better than Q1, Q3 was better than Q2 plus all early indicators of the new business booked over the last 15 months were showing better metrics which gave us the confidence to again invest in distribution and grow our business, and that's the trend which is visible on slide 16 on all our unsecured businesses.

Parallely, we also have seen slippages go down, that data also we have stated on that slide. So, we are clearly seeing improving trends on quality as far as slippages are concerned or bounce rates are concerned and we have been able to build momentum for growth.

**Himanshu Taluja:** Sure. Thanks a lot.

**Rajiv Sabharwal:** Thank you.

**Moderator:** The next question is from the line of Shubhranshu Mishra from Philip Capital. Please go ahead.

**Shubhranshu Mishra:** Hi, good evening. Three questions. The first one is what is the FEMI rates in personal loans and business loans?

**Management:** What rates?

**Shubhranshu Mishra:** First EMI bounce rates. The second is on the housing piece. What is the LTV and the FOIR on prime, near prime and affordable? And the third is when we talk about the transformation in Tata Motors, sorry, the Motor Finance, my bad. The used vehicle presently that we have is of Tata Motors vintage and when we are talking about new OEMs, non-Tata OEMs, this would be in commercial vehicles as well as passenger vehicles. That's a little hazy if you can speak about the Motor Finance transition in these two aspects. It will be really great. Thanks.

**Rajiv Sabharwal:** So, when we talk about Motor Finance, we are referring only to the commercial vehicle business. And when we say that non-Tata proportion for quarter 3 for new commercial vehicles is about 19%, it is all about commercial vehicles and not PVs. On the other point on Motor Finance was.

**Shubhranshu Mishra:** See, used vehicles in that is.

**Rajiv Sabharwal:** Used vehicles, yes. So, used vehicles as a proportion of Motor Finance was about 30% and we have tried to increase that proportion on incremental sourcing and we were close to about 45%-47% in quarter 2.

In quarter 3, as I stated earlier, there is some moderation on that because we have seen a better demand in new vehicles consequent to the GST reduction and some amount of going down in demand in used in October-November, which is again picked up in December. And so, going forward, we have stated that we will increase the proportion of used commercial vehicle in our total disbursements.

As far as your question on FEMI is concerned, we have not stated FEMI numbers, product-wise, but I can only tell you this that FEMI numbers have been coming down over the last, I would say, 14-15 months. We have seen gradual reduction happening because we had tightened our credit policies and increased the number of checks which have helped us in getting the credit quality better, which is now showing in terms of lower slippages.

If you would also notice on slide number 24, we have also stated collection efficiencies for different products. And if you would notice, collection efficiencies for personal loans have also been inching up as well as for business loans. So, all that has been positive for us. So, both personal loans and business loans, we are clearly seeing, the bounce rates on FEMI continue to come down. I would request my colleague Sarosh to talk a little bit about LTVs, which you asked for.

- Sarosh Amaria:** So, LTV depends on what is the size of the loan, but on an average, the LTV is below 60% on most of our loans. In the prime segment, it is slightly higher, but in the affordable segment, as well as in our home loans, our average LTV is 62%. And as well as home equity, average LTV is around 45%. So, that's for the housing finance business.
- Shubhranshu Mishra:** Affordable housing is how much you said, 60%?
- Sarosh Amaria:** Affordable is much lower. Here we have a classification of for home loans as well as home equity, but when home loans is 62%, the affordable will be much lesser than 62%.
- Shubhranshu Mishra:** Just one follow-up question on used vehicles, that is presently also Tata Motors OEM used vehicles?
- Rajiv Sabharwal:** No. Actually, even when Tata Motors Finance was doing used commercial vehicles, they were agnostic to the brand.
- Shubhranshu Mishra:** So, used vehicles is agnostic to OEMs?
- Rajiv Sabharwal:** Correct.
- Shubhranshu Mishra:** And the FEMI is now in single digits?
- Rajiv Sabharwal:** No, we have not stated FEMI numbers.
- Shubhranshu Mishra:** No. Don't give the number. Just say if it is in single digit or double digit. That's all.
- Rajiv Sabharwal:** I will have to get back to you. I don't have it ready in front of me, but I will try to get back to you.
- Shubhranshu Mishra:** Right. No worries. Thank you so much. Best of luck for ensuring quarter.
- Sarosh Amaria:** Yeah, just as we spoke about our affordable business, the LTV is 57%.
- Shubhranshu Mishra:** Right. Thank you so much. This was really helpful.
- Moderator:** Ladies and gentlemen, that will be the last question for today. I would now like to hand the conference over to Mr. Viral Shah for the closing comments.
- Viral Shah:** Hello. Thank you, Rajiv, Rakesh, Sandeep and the Tata Capital team. Rajiv, do you want to make any closing comments?

**Rajiv Sabharwal:**

Thank you so much. I have covered most of the things. I would just like to say that we have started to see good momentum all across in all segments and we expect it to continue in quarter 4. In fact, as we are planning for the next year, we do believe the momentum will continue. As far as credit cost is concerned, we are coming close to what our guidance is and in terms of what guidance we had given for FY'28, I think we should be able to reach there much before than what we had stated.

We are seeing the benefits on operating efficiency play out and as more of our AI and Gen AI projects come into play, I think the benefits will become even more stronger. So, we remain bullish as we move forward and we would be performing as per the guidance we have stated.

**Moderator:**

Thank you very much. On behalf of Tata Capital Limited, that concludes this conference. Thank you for joining us today and you may now disconnect your lines.

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**Note**

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