“Tata Capital Limited
Q1 FY27 Earnings Conference Call”

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MODERATOR: **MR. RAGHAV GARG – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Tata Capital Q1 FY27 Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone.

I now hand the conference over to Mr. Raghav Garg from Ambit Capital. Thank you and over to you, sir.

Raghav Garg: Thank you. Good evening and on behalf of Ambit Capital, I would like to thank the Management of Tata Capital for the opportunity to host their Q1 FY27 Earnings Call.

Joining us from the Management today, we have Mr. Rajiv Sabharwal – MD and CEO, Mr. Rakesh Bhatia – CFO and Mr. Sandeep Tripathy – Head of Strategy and Investor Relations.

We can now begin with the opening remarks from Mr. Rajiv Sabharwal and post that we can open the floor for questions. Thank you and over to you, sir.

Rajiv Sabharwal: Thank you, Raghav and thank you everyone for joining this call.

Let me start with the macro environment:

FY26 was a strong year for the Indian economy with the real GDP growth at 7.7%, amongst the strongest in recent years, driven by robust domestic consumption and fixed investment. Inflation stayed largely contained through the year, though headline CPI crossed the midpoint of RBI's band for the first time since January '25, coming in at 4.38% in June, led mainly by crude prices. We are watching this closely, especially given monsoon trends and rural demand.

Credit growth stayed strong through Q1 FY27. Bank credit growth touched 18.6% in June, a two-year high, with broad-based traction across segments. However, part of this growth reflected funding substitution as elevated bond yields pushed Corporates and NBFCs towards bank borrowings. NBFC credit also accelerated, growing at 14.2% year-on-year in May versus 11.4% a year ago, signaling sustained demand across both bank and non-bank lending channels.

MPC held the repo rate steady in June, retained its neutral stance, citing global macro uncertainty. Even though the transmission of last year's rate cuts by banks has moderated in the recent months, bank credit continues to remain a preferred funding avenue for Corporates relative to bond markets.

Liquidity conditions remained favorable during the quarter, supported by RBI's proactive liquidity management measures. While advance tax outflows led to a temporary liquidity deficit in June, timely RBI interventions helped restore surplus liquidity. Recent measures to encourage foreign currency inflows are expected to further support system liquidity and funding conditions and we will continue to monitor their impact.

Looking ahead, we expect GDP growth to moderate from FY26's strong base as elevated energy prices from prolonged geopolitical tensions start to weigh in.

That said, the underlying growth environment remains resilient, as high-frequency indicators for Quarter 1 of FY27 continue to point to sustained domestic and industrial activity. We remain watchful on energy prices and geopolitical developments, watching them closely for their impact on inflation and external conditions, and we are also monitoring the impact of El Niño and monsoon-related risks given their potential effect on food inflation and rural demand.

Now let me turn to the key highlights for the quarter:

Quarter 1 FY27 was a good start to the year, an another quarter of healthy growth, stable asset quality and continued profitability, reflecting disciplined execution across our core businesses. As of June '26, our consolidated AUM stood at Rs. 2.91 lakh crores. We have seen sustained momentum across our core businesses and the AUM has grown at 28% year-on-year, excluding Motor Finance business and 22% including Motor Finance business.

Our consolidated profit after tax for the quarter stood at Rs. 1547 crores, up 56% year-on-year and 3% sequentially. Consolidated ROA stood at 2.3%, and excluding Motor Finance, it was 2.5%, and consolidated ROE stood at 13.7%.

Our Housing Finance business had a very strong performance trajectory in Quarter 1 of FY27. Our AUM grew 24% year-on-year to reach Rs. 89,416 crores, and PAT increased 29% year-on-year to touch Rs. 532 crores, reflecting both scale expansion and sustained earnings quality.

Our strategic focus on Affordable home loans, Affordable LAP and Prime LAP enabled us to drive margin expansion, portfolio diversification and scale business. Net AUM of Affordable Housing segment grew by 23% year-on-year. We now operate through a network of about 350 branches enabling deeper market penetration while maintaining a healthy cost-to-income ratio of 30%.

Asset quality continues to be our core strength. Credit cost remains stable at 0.05% while net NPA stood at 0.3%, positioning us among the best-performing players in the Housing Finance sector. Our ROA in the Housing Finance business for Quarter 1 stood at 2.5% and ROE at 18.4%, highlighting the strength and sustainability of our earnings profile.

Before I deep dive into the operating performance for the quarter, let me share two key developments:

- First being our proposed acquisition of Yogloans, which marks an important step in expanding and diversifying our lending franchise. With an AUM of approximately Rs. 708 crores as of March '26, a network of 162 branches and nearly 32,000 customers, Yogloans brings strong expertise in the gold loan segment. Combined with Tata Capital's brand, capital strength, technology, and risk management capabilities, this acquisition positions us to capture the significant growth opportunity in secured lending while strengthening our full-spectrum financial services platform. Tata Capital will acquire approximately 88.6% in Yogloans through a combination of capital infusion and purchase of shares from existing shareholders. The transaction values Yogloans at a pre-money equity valuation of up to Rs. 318 crores and envisages a Rs. 93 crore primary capital infusion to support future growth. This transaction is subject to regulatory approvals and customary closing conditions. Refer Slides #13 to #15 of our investor presentation.

- Secondly, Tata Capital has successfully raised a USD 400 million fixed-rate senior unsecured Reg S bond for a 3.5-year tenor at an interest rate of T-Bill plus 107 basis points. The bond received strong demand from investors with the final order book oversubscribed by 4x. The transaction witnessed broad participation from investors in Asia and EMEA, including asset managers, insurance companies, banks and other institutional investors. We are grateful to global investors for the strong response to our second USD bond issuance. It is our first issuance following our S&P BBB rating upgrade and successful equity listing, and is an important step in further diversifying our funding mix and extending our access to international capital markets. Our foreign borrowings now constitute 12.6% of our total borrowings.

I will now talk you through our performance across four key themes and updates on our digital and AI initiatives:

On Book Growth:

I am pleased to share that Quarter 1 saw continued strength in disbursement momentum with consolidated disbursements rising 33% year-on-year to Rs 46,212 crores driven by healthy growth across businesses and a 50% year-on-year increase in unsecured Retail disbursals.

Our combined AUM grew at 22% on a year-on-year basis and 5% sequentially. Excluding Motor Finance, AUM grew 28% on a year-on-year basis and 6% sequentially.

Within this, our Housing Finance segment continued its strong momentum, delivering a 24% year-on-year AUM growth.

Unsecured Retail loans also saw a healthy AUM growth of 17% year-on-year. At the same time, our Corporate and SME segments continued to scale steadily, reflecting the strength and diversification of our lending portfolio.

Our approach in Motor Finance remains measured, reflecting macroeconomic uncertainties, elevated fuel costs and a disciplined focus on portfolio quality. As a result, the Motor Finance book moderated to Rs 24,445 crores as of June 2026.

Our core focus remains firmly on Retail and SME lending supported by a granular and diversified portfolio. We also continue to selectively participate in high-quality Corporate opportunities within a well-diversified risk framework. Our stated vision is to operate with a Retail plus SME mix of between 85%-88%.

We have added a slide highlighting the scale of our high-margin products. Please refer to Slide #22 in this quarter.

In Quarter 1 of FY27, disbursements across these products view 38% while maintaining a healthy blended IRR. While disbursements growth has outpaced AUM growth, we expect the gap to narrow over the next 2-3 quarters as sustained origination momentum translates into book expansion. We continue to maintain a balanced portfolio mix across Unsecured Retail, Affordable Housing, Secured Business Loans supported by steady growth in fee-based business.

Our focus on portfolio granularity and mix optimization continues to support margin resilience as we scale the businesses. During the quarter, we added 14 branches taking our network to 1491 branches across 1091 locations in 27 states and union territories. Backed by our phygital network, a model of physical reach and digital capabilities, we continue to scale efficiently while serving a growing customer base of 8.8 million across existing and underpenetrated markets.

Overall, our growth remains consistent, well-diversified and anchored in quality. We are confident that our portfolio will remain granular and is well positioned to remain resilient across business cycles and external shocks, positioning us strongly for the next phase of expansion.

The second theme I want to cover is asset quality:

Gross Stage-3 assets improved to 1.9% as on June 2026 compared to 2% as on March 2026, while maintaining the PCR at 57%. Even with the ongoing geopolitical uncertainty, our asset quality metrics remains resilient, underscoring the strength of our portfolio, underwriting discipline and collections infrastructure. Slippages stayed benign across the portfolio, including in unsecured Retail.

Credit cost charged to the P&L declined 26% year-on-year, primarily driven by the continued improvement in the unsecured Retail portfolio. Our credit cost for Quarter 1 FY27 stood at 1%, in line with FY28 guidance, and remains well within the guided corridor.

While we continue to closely monitor the evolving geopolitical environment, we have not seen any material stress across our CV and MSME portfolios so far and remain confident in our risk-calibrated approach to sustaining asset quality over the coming quarters.

The third theme I want to touch upon today is cost of funds:

Our AAA credit rating underpins a well-diversified and stable funding profile. Through a disciplined ALM framework, we continue to optimize our borrowing mix while proactively managing liquidity.

In Quarter 1, our cost of funds stood at 7.28%, increasing from 7.15% in Q4 FY26. In line with the recent global developments, we have seen a slight uptick in funding costs on incremental borrowings. We continue to proactively manage our liability profile and remain well-positioned to maintain stability in our overall cost of funds going forward.

Total borrowing stood at approximately Rs 2.45 lakh crores as of June '26, with a diversified mix across instruments. Bank loans accounted for about 40% of our borrowings, NCDs around 33%, ECB/MTN around 11%, CP and WCDL around 8%. We carry a total liquidity buffer of approximately Rs 29,000 crores and we have ample headroom to pursue growth opportunities and absorb market volatility without compromising on financial discipline.

Lastly, on operating leverage:

For Q1 FY27, the cost-to-income ratio stood at 36.4%, representing an improvement of 190 basis points over Q4 FY26. Operating expenses grew 2% sequentially and 21% year-on-year. The year-on-year increase was mainly driven by the change in the annual appraisal cycle. Excluding this impact, the operating expense growth would have been approximately 16%-17%.

Our headcount growth remains well calibrated to business requirements, with incremental hiring primarily focused on frontline sales and collection roles. This disciplined approach enables us to support business growth while enhancing productivity and driving operating leverage.

As of June 2026, our on-role employee count stood at 30,170, up only about 5% year-on-year, reflecting meaningful productivity gains across the organization. The investments we have made over the past few years across technology, data infrastructure and distribution expansion are now translating into structural improvements in efficiency and scalability.

Commenting on our balance sheet:

Our balance sheet remains strong, well capitalized, providing a solid foundation to support our growth ambitions. As of June 2026, our capital adequacy remains robust at 18.5%, well above the regulatory requirements and is supported by a strong CET1 ratio, reflecting the underlying strength and resilience of our capital position.

On a consolidated basis, our debt-to-equity ratio remains stable at 5.3x as of June 2026, unchanged from March 2026. As of June 2026, our total equity stood at Rs. 46,237 crores.

Commenting a little bit about our AI initiatives now:

At Tata Capital, AI is emerging as a key enabler of our "Digital First" strategy, helping us enhance customer experience, improve operational efficiency and strengthen risk management across the lending lifecycle. We have evolved from point solutions to end-to-end value-creative, transformative AI-led projects across the organization. Our AI-led transformation journey continues to scale across onboarding, underwriting, operations, servicing and collections, driving tangible business outcomes.

We have seen strong digital adoption across the customer lifecycle. 98% of our customers are onboarded via digital platforms. Our AI-led onboarding initiatives have significantly scaled customer engagement, enabling over 30 lakh customer connects. Today, nearly 90% of our welcome calls are AI-driven, while AI agents contribute about 15% of call center-led personal loan sourcing.

AI-generated multilingual creatives account for 85%-90% of marketing output, strengthening lead generation and customer engagement. In underwriting, our AI-powered document intelligence and CAM automation solutions have processed nearly 4 crore documents and are now adopted across more than 90% of our personal loan and business loan cases, resulting in over 35% improvement in processing turnaround times.

Within operations, about 70% of Retail applications are processed through AI-led workflows, delivering around 40% productivity gain, nearly 40% improvement in processing turnaround times and over 25% reduction in operating manpower cost per file.

On the servicing front, over 70% of our email responses are now AI-generated. More than 90% of email queries are resolved on the same day, significantly enhancing customer experience while reducing servicing costs.

In collections, our AI-assisted bots now manage over 95% of pre-delinquency outreach, improving efficiency and customer engagement. AI-driven early bucket collections constitute around 30% of our recoveries. AI-powered portfolio monitoring enhances risk surveillance across SME customer portfolios, enabling quicker and more targeted actions. We are now focused on building AI capabilities across the organization. Over 12,000 of our employee base have been trained on AI platforms and tools, helping create a more scalable, efficient and future-ready organization.

Now about our Motor Finance business:

Our transformation journey continues to progress as planned, with a clear focus on building a more balanced and sustainable portfolio. Amid geopolitical uncertainties during the quarter, we maintained a measured growth approach, resulting in a sequential decline in the book. The portfolio transition remains on track, with net AUM depletion in the legacy business reducing from Rs. 3,139 crores in June of 2025 to Rs. 945 crores in June of 2026, reflecting a marked moderation in run-off.

Asset quality trends remain aligned with our expectations, and business remains profitable in Quarter 1 of FY27. We also continue to expand our presence beyond data OEMs while enhancing operating efficiency through branch and workforce rationalization.

Concluding:

We remain focused on building a larger, stronger and more resilient franchise through disciplined execution, prudent risk management and customer-centric innovation.

Backed by our diversified portfolio, strong capital position and expanding phygital reach, we are confident of our ability to deliver sustainable growth and long-term stakeholder value.

Thank you for your continued trust and support. We would now be happy to take your questions.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Hi, thanks for the opportunity. I know you alluded to this in your opening comments, but maybe if we can just walk through Slide #22 and maybe if you can just highlight what you are trying to communicate over here.

Rajiv Sabharwal: Yes, thanks Nischint. What we were trying to show here is that, if you would remember, about two and a half years back, we had said that we wanted to be a little conservative because of what's happening in the economy as far as personal loans and other unsecured loans were concerned. At that point of time, we had gone conservative and had slowed down our growth rate. We reached a situation where, actually, in certain unsecured businesses, our book was de-growing. We saw an improvement in asset quality from Quarter 1 of FY26 because of all the efforts which had been put in over the last two and a half years or so. And once we saw that, we started scaling up these businesses.

But as you know, initially, we need to increase our disbursements, and the book growth follows because our runoff on the book was higher than the amount which we were disbursing. What we have tried to show here is that our disbursements are growing at a good pace. For example, in Quarter 1 of this year compared to Quarter 1 of last year, our disbursements have grown by 38%, and our book has grown by about 10%.

If I go back a few quarters, our disbursement growth was lesser and the book growth was even lower. For example, in Quarter 3 of FY26, our disbursement growth was 13% and book growth was 4%, which has now improved to 38% and 10%. What we are also seeing below is that as our disbursement growth continues to increase, our book growth will catch up with the disbursement growth, which will mean that our proportion of unsecured book in the total portfolio will increase, helping us get to better NIMs and better margins. This is what we are trying to communicate. I hope that clarifies.

Nischint Chawathe: So, 38% is essentially the disbursement of all the seven segments that you listed over there.

Rajiv Sabharwal: Correct. If you look at the book growth, it's about 10%. If I exclude the Motor Finance business, which still will take another quarter or so to start growing, this growth is about 17% if I exclude.

Nischint Chawathe: So, ideally, this is something which will be margin accretive and flows into the margins as we will grow.

Rajiv Sabharwal: Correct.

Nischint Chawathe: Now, I am trying to compare this with Slide #19, where we can see that Corporate Loan growth has also been pretty fast. And in fact, the share of Corporate Loans in the overall mix has been going up. I know you alluded to the fact that Retail and SME will be at around 85% of the book. So, how should we see an interplay of growth in high-yield kind of segments and growth in Corporate as well? And going by your opening commentary, can we say that Corporate segment has sort of maxed out now?

Rajiv Sabharwal: So, Nischint, what we have said that our Retail and SME will form about 85% to 88% of our book, and we will remain within that corridor. I do agree probably we have maxed out on the Corporate and you should see more growth happening on Retail and SME. Retail obviously also includes Housing for us. The other thing is that in each of these businesses, which I mentioned last time also, that in each of these businesses, our effort is to increase margins. So, while we are trying to increase the proportion of high margin products, but even in the other products, whether they are SME products or Corporate or other even Prime Home Loans, in each of these products, the effort is to increase margins and we have started seeing an uptick happening there for us. So, it is going to be a combination of the proportion of high margin products growing plus margins improving in each of those businesses.

Nischint Chawathe: Got it. This clarifies. Thank you very much.

Moderator: Thank you. The next question is from Shreya Shivani from Nomura. Please go ahead.

Shreya Shivani: Thank you for the opportunity and congratulations on the quarter. I have two questions. First is on the provision coverage ratio across the product segments. I just wanted to understand for some of the segments, it has picked up a bit over the past couple of quarters. That is Personal Loan, Business Loan, even Corporate Segment; I think even in two-wheeler and construction equipment segments. So, any color around, have we created any overlays or this is just a function of how our PD-LGDs move, or have we revised our PD-LGDs, when do we revise it, etc.

Second is on your gold loan book that you have acquired. If you can help us understand going ahead, what will be our strategy for FY27 on that in terms of the new geographies that you would be expanding into, with acquisition the team comes along with it. So, what would be the strategy of both of the teams in the gold loan segment?

Rajiv Sabharwal: So, Shreya, I will cover the gold loans, and I will hand over the mic to Rakesh to talk more about the provision coverage ratio.

As far as gold loans is concerned, we have made our application to RBI post the announcement and we are hoping to get the approval by the end of the calendar year. The business comes with a set of team members who are pretty experienced in this business and our effort would be to continue to grow that book. We had also, ourselves, planned to start our business organically, so that plan will mesh with this new acquisition, the two plans will mesh with each other. Obviously, the new branches which we will add will be in markets which are growing and markets which are behaving well on credit quality, that has been always our strategy. If I have to put a number to it, post we getting all the approvals from RBI, if I were to look into the next two and a half to three years, we expect to add about 500 branches and also grow our portfolio to Rs. 4000-plus crores.

Rakesh Bhatia: Thanks, Rakesh here. Coming back to your question on the PCR. PCR largely depends on the ageing of the assets which are in Stage-3. So, at Tata Capital, we follow a very prudential provisioning policy, where we do incremental provisions as the Stage-3 asset ages. So, the increase in PCR is primarily on account of the mix of Stage-3 assets based on the ageing which happens once it hits Stage-3 after 90 days. We refresh our ECL grades quarterly, so this change is purely on account of the ageing of the Stage-3 assets, not anything material change in TTC, PD or LGDs basically.

Shreya Shivani: But you revise your PD, LGDs quarterly, did I catch that right?

Rakesh Bhatia: That's right, we refresh our ECL grades quarterly. For example, when we are doing for Quarter 1, we refresh the data till March to do the calculation of Through-the-Cycle, PD and LGDs.

Shreya Shivani: And how many years do you take into the calculation of the ECL, 60 months?

Rakesh Bhatia: Yes, so it depends product-to-product, 5 to 7 years, I mean from the product life cycle perspective. And the LGD is historical-to-date.

Shreya Shivani: Right, so the point is that your GS3 is probably not moved as much, but in some of the segments, the PCRs are picking up because maybe it is including some time periods which had elevated PDs, is that correct? Will that be correct?

Rakesh Bhatia: No, so just to clarify, Shreya, what I said was suppose when an account goes into Stage-3, which is 90 days, we do a provision as per LGD. Once it ages, we do incremental provisioning and take it to 100% over a period of time. So, this mix of Stage-3 assets which are ageing within the Stage-3 causes the PCR to kind of move around 30 to 40 basis points from quarter-to-quarter. It's purely on account of the mix of the ageing of Stage-3 assets in a sense.

Shreya Shivani: Okay, all right, understood, that is useful. Thank you and all the best.

Moderator: Thank you. Before we take the next question, a request to participants to please limit your questions to two per participant so that the management is able to address questions from all participants in the conference. For follow-up questions, we request you to rejoin the queue. The next question is from Avinash Singh from Emkay Global Financial Services. Please go ahead.

Avinash Singh: Yes, good evening. Thanks for the opportunity. So, two questions. The first one is around capital. So, yes, you are going at pretty fast pace and that is kind of consuming some bit of capital. Your capital levels are pretty much above the regulatory requirement, but what would be your kind of comfort level, as far as Tier-1 is concerned, is close to 15.5%. Till what level, I mean, you are okay to operate, and then you would start to look to raise some capital. So, that's one first.

The second one partly, I guess, initially you answered responded to some kind of in question. But, if you are maxing out in Corporate, even if you were to look in this Quarter 1, typically Quarter 1 Corporate used to be weaker, but this time Quarter 1 on a relative basis, Corporate Loan book has grown strongly. Now, going forward also, there are kind of a space in Corporate where kind of a, because the large banks are very, very conservative or risk-averse, there is kind of a reasonable space available in the Corporate kind of a lending for large-scale NBFC or that lenders like you who has a cost of fund advantage. So, is this kind of a that, okay, the Corporate going to grow slower or at least not outgoing? Is this going to be the consistent strategy or there will be quarters where Corporate Loan growth can breach this 15% kind of a mark, the tactical long-term strategy on the Corporate side of it. Thanks.

Rajiv Sabharwal: So, let me answer the Corporate question, and I will request Rakesh to pitch in for the capital question. As far as our communication is concerned, I will repeat what I mentioned just sometime back that we expect Retail and SME to be between 85% to 88%, which means the balance would be Corporate. Now, obviously, there are certain quarters in which we may see better demand for Corporate. There will be certain quarters where we will see more demand coming in for Housing and other asset classes. So, the advantage of being present in all segments is that we can look at where the opportunity arises and tap it. But we are fairly confident that we will maintain Retail and SME within 85% to 88%. If we do originate more of Corporate, we will sell it down and syndicate it. But we will ensure that we keep the Retail and SME within the zone which I have mentioned.

Rakesh Bhatia: Thanks, Rajiv. So, Avinash, I will take your question on the capital. So, when we look at our capital planning and the book growth, so there are two broad contours which we keep in mind, one as you rightly said, the regulatory ratios. So, at Tata Capital our endeavor is to operate at least 200 to 250 basis point above the mandated thresholds on the capital adequacy in the CET1s. And secondly is the consolidated debt-equity ratio. Now, if you look at the current quarter, we are at 5.3x debt-equity. If I look forward, we look at a consolidated debt-equity of around 6.2x to 6.3x. And this comes if you dissect my Housing entity, which normally has a debt-equity ratio of 7.2x to 7.3x, and within the NBFC is between 5.5x to 5.6x. So, on a consolidated basis, we look at a debt-equity ratio of around 6.2x to 6.3x. And if I look at the book growth, what we have guided to the street, I think we are well capitalized till June to September of 2028.

Avinash Singh: Got it. Thank you.

Moderator: Thank you. The next question is from Avijit Tibrewal from Motilal Oswal. Please go ahead. Mr. Avijit, you may go ahead with the question. There seems to be no response from the line of Mr. Avijit Tibrewal. We will move to the next question. The next question is from Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Yes, hi. Thanks for the opportunity. Two questions. Just one is, if you can call out if at all there was any impact of the calendar number of days on the margin in this quarter, more so on the interest expense part.

And second point, Rajiv, you articulated very well that the disbursement growth is basically picking up on the higher-yielding and higher-margin segments. Directionally, when do you expect this on a book basis, the growth to say, I would say, accelerate to a 25% kind of a number? Would it be possible by end of this year? And the second point, again, on this point is that have we taken any increase in the, say, SME or Corporate book? Have we taken any rate hikes? And if not, then when do we plan to take that? And what could be the kind of reset period over there?

Rajiv Sabharwal: So, let me answer the second and third questions before I request Rakesh to pitch in for the first one. As far as the contribution of high-yield products, we expect to be there by Quarter 3 or Quarter 4 of this year, but definitely in this financial year, where our unsecured book will probably grow at a pace which is faster than the overall book growth.

The second question on rate hike, actually, we have not done any PLR hike for any of the businesses. What we have done is looked at how we can improve margin in our existing businesses. So, because our cost of funds is showing an increase, for all our incremental lending, we are looking at doing these deals at a better pricing so that our NIMs increase, which means that margins grow a little more than the cost of fund growth. So, that is our strategy. Actually, that strategy is there not only in MSME, but in all our businesses. That's the approach we have taken right from Housing to Retail to SME to Corporate. Regarding the first question Rakesh if you can.

Rakesh Bhatia: Yes, so Viral, I think there's no impact as such on number of days between Q4 and Q1, to your question. Got it.

Viral Shah: And just if I may, one more question. Can I just squeeze in one more?

Rakesh Bhatia: Yes, go ahead.

Viral Shah: On the asset quality front, so the disclosures that you give with regards to the monthly collection efficiencies, I think pretty much it is holding up across most of the segments. Just wanted to check with regards to the bounce rates. Are you seeing any change versus when we last met a month, month and a half back, is there any incremental changes over there across any of the segments?

Rajiv Sabharwal: Actually, Viral, on that we only have good news that our bounce rates continue to improve month-on-month. That's been the trend, including this current month.

Viral Shah: Got it. Thanks a lot. And all the very best.

Moderator: Thank you. The next question is from Anand Dama from Nuvama. Please go ahead.

Anand Dama: Yes, sir. Thank you for the opportunity. Sir, AUM growth is somewhere about 22%-odd. And you said that the Motor Finance book, which is shrinking at this point of time, should also start reversing from 3rd Quarter onwards. Then should we end the year somewhere about 23% to 24%? Is that the right way to look at it?

Rajiv Sabharwal: Yes, Anand, our guidance was 23% to 25% and we should be on track with that.

Anand Dama: And secondly, we have been doing Microfinance. There are other products that we are doing, but what is the right to win for particularly us in Microfinance? Isn't it too risky a book for us to do at this point of time? And if you can just also talk about like you just stick to JLG model, are you also looking at individual lending model?

Rajiv Sabharwal: Our model is JLG model. That would be 99.9% of that. As far as right-to-win is concerned, I think it is more about the whole operations of the business. I think in this business, what is very important is to do the right KYC, look at the source of income of the borrowers, ensure that you are there on time with all tools available for digital collections. And that is where we have worked on to make the whole process paperless and to ensure that we continue to stay with our good customers and also add new customers. We have also strengthened our process of evaluating the income of the borrowers. And we do believe that this business has an opportunity for us to scale up more. Today it forms less than 1% of our book. So, it's not very large. Since we intend growing this, as well as our other businesses, we do believe that for in the foreseeable future that this will continue to be less than 2% of our book.

Anand Dama: Sure. And for the credit cost guidance that you have been giving about 1%, do you believe that given the macro conditions and that you are entering into a lot of new spaces, new products, you will be able to hold on to this credit cost guidance?

Rajiv Sabharwal: Yes. So, actually, if you look at the new product which we have entered, it's probably more safer than the others, the gold business. And all indicators on portfolio quality continue to remain strong. So, we are fairly confident of keeping the credit costs within the guidance which we have given.

Anand Dama: Sure, sir. That's very helpful. Thank you.

Rajiv Sabharwal: Thank you so much.

Moderator: Thank you. The next question is from Anuj Singla from J.P. Morgan. Please go ahead.

Anuj Singla: Thank you. Good evening. Thanks for the opportunity and congratulations on a strong set of numbers. So, a couple of questions from my side. The first is on margins. So, Rajiv, you did call out a couple of initiatives like increasing the unsecured mix as well as higher yields in the existing segment. But also, you mentioned in your opening remarks regarding the funding environment being tight. So, when we look at the interplay of these two towards next three quarters, can you give us some color on how do you see the margins evolving maybe versus the 1Q level? How do we see the margins moving over the next three quarters?

Rajiv Sabharwal: So, if you look at what's happening today and how cost of funds are moving, our belief is this, that in this year, on an overall basis, we may see a cost of fund increase of closer to about 8 to 10 basis points. That is our expectation. As far as our margins are concerned, we are trying to improve our margins through two methods, as I mentioned to you. One is obviously the fact that you grow your proportion of high yield products. But the second one is also that in each of the existing businesses, we have identified subsegments and opportunities to grow our margins there. So, we will look at growing our margins or yields at a faster pace than our cost of fund increase. So, during the current year, we expect margins to improve by about 10 basis points.

Anuj Singla: Okay. Thank you very much. That's very clear. The second thing is, I think on the credit cost side, typically there's some kind of seasonality, which we see in 1Q for most of the players. And you have already delivered on your credit cost guidance of 1%. So, as we go through the year, do you think you can deliver much better on a full year basis? Because the starting point itself is very, very benign. So, how should we see the trajectory there? It should be much better than what your guidance has been, right? Can we see a number of, let's say, 80 basis points or 90 basis points for the whole year?

Rajiv Sabharwal: Actually, I will tell you the strategy which we are working with. We know that excluding Motor Finance, we are at an ROA of about 2.5%. And including Motor Finance, we are at an ROA of about 2.3%. We want to increase this with every passing year. And we do believe that it will come largely through a combination of operating leverage and margin improvement. And we are working on both of these. More should come from margin improvement, for example, two-thirds should come from margin improvement and one-third from operating leverage. Whatever comes further from credit cost will be a bonus. We are not factoring that in. Our effort will be to reduce, but that will be a bonus. All right.

Anuj Singla: And last question, if I may, I think a commendable job on the turnaround of the Tata Motors Finance portfolio. So, can you give us some color on your, let's say, you had a stated objective of 1% ROA. Is there a change in timeline given the stellar delivery we have done there? Thank you.

Rajiv Sabharwal: So, see, we had given a guidance of reaching a 2% ROA by FY28. And at this point of time, we want to stick to the same objective and plan of doing so, which means that in this year, we will look at, like, we became profitable in this business from Quarter 4 of last year. In Quarter 1 also, the Motor Finance business is profitable, despite some seasonal increase in credit cost. We expect to get to a reasonable ROA. I don't want to give out a number at this point of time, but we want to stay with our stated objective of getting to a 2% ROA by FY28.

Anuj Singla: All right. Thank you. Thanks a lot.

Moderator: Thank you. The next question is from Sajal Raj from Zenflow Finance. Please go ahead.

Sajal Raj: Good evening, sir. Thanks for the opportunity. My question is on the gold loan business. So, the gold loan market is already quite competitive. The established players are delivering strong growth. What differentiated opportunity do you see for the Tata Capital? And how do you plan to carve out market share, despite being a relatively late entrant?

Rajiv Sabharwal: So, Sajal, first of all, all businesses in India are competitive. Actually, I am yet to find a business which is not competitive. So, I think our advantage lies on a few aspects. One, obviously, our brand, which signifies trust. Second, we do believe that our cost of funds gives us an advantage. Third, we have been very strong on technology and operational excellence. And that is what is very important in this business. In fact, if there is one thing which I want to call out at the top of our strategy is basically operational excellence and use of technology. And that is what we will put to full use in this business. And through a combination of that and our brand and cost of funds, we do believe we can scale up well in this business. In this business also, we will follow a similar strategy. We become very confident of how this business needs to be done, get our hands dirty and get it right, and then start scaling up faster.

Sajal Raj: Thank you so much, sir.

Moderator: Thank you. The next question is from Sonal Gandhi from AMSEC. Please go ahead.

Sonal Gandhi: Hey, thank you for taking my questions. So, my first question is on disbursement accounting for your mortgage book. So, do you do it on check disbursement or at a clearance? And the second one is on the ECLGS file. So, do we expect MSME book to grow a little faster? when we talk about Retail plus MSME? Sorry, is my voice clear?

Rajiv Sabharwal: What was the second question sorry, Sonal.

Sonal Gandhi: So, my second question is on ECLGS scheme that has come. So, should we expect MSME book will grow faster as compared to the overall book? And how was your experience in the earlier ECLGS scheme?

Rajiv Sabharwal: So, one, we take in mortgages, or any product, we take basically from clearance only, not from disbursement. Second is this, that as far as the ECLGS scheme of the Government was concerned, I think the first scheme was very well executed. I should compliment the Government for the timeliness of the scheme, and also on how they have fulfilled all the promises they had made. The current scheme, we are looking at our customers, we have started made the product, started disbursing in the same. The initial numbers are small at this point of time, but they are growing with every passing month. But for each of these customers, we do evaluate every case and look at this is going to be the money which we are lending out to the customer through this scheme is going to be accretive in their business. If yes, we do extend it. And we try to make the process very simple for the customer. So, that is because it's our money also, and it's not that everything is going to come from the Government. So, we do evaluate each case.

Sonal Gandhi: Yes, thank you.

Moderator: Thank you. The next question is from Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yes, sorry for the last time. I think there was some technical difficulties. Rajiv sir first thing on the OPEX. In the opening remarks, I think we mentioned a cost-to-income ratio of 36.4, which is a good sequential improvement. But there's also that component of your non-interest income, basically net gain on fair value changes, which I am assuming which are investments on investments in mutual funds. So, to that extent, if I look at the YoY growth in OPEX today, it's still at 21% versus, let's say, an overall even growth of 22% for us. And this is on the back of stronger growth that we are seeing in Corporate, stronger growth that we are seeing in SME, which I am assuming are inherently lower OPEX businesses, lower margin and lower OPEX businesses as well. So, when do you think this OPEX growth that we are seeing at 21% right now, it's lower than the even growth? So, you remember, you just mentioned that the ROA improvement, two-thirds of it will come from operating leverage and one-third from margin expansion. So, when can we start seeing this stronger operating leverage or OPEX improvement?

Rakesh Bhatia: Yes, so Abhijit, this is Rakesh. I will take your question. So, I think, I mean, as Rajiv mentioned in the opening remarks, that Q1-to-Q1 is not comparable because we have changed our appraisal cycle. To that extent, you see a growth of OPEX by 21%. If we normalize for that, the YoY growth will start at 16%, not 21% what you alluded to. And as Rajiv alluded that we have been investing on AI and digital initiatives across our underwriting collections and sales. We see the benefits accruing every quarter and going forward, you will see this cost-to-income ratio coming down. And we have guided that by FY28, we will be at 33% to 34% on cost-to-income ratio. And as Rajiv mentioned that from the current ROA of 2.3% to the guided ROA of 2.6%, two-thirds will come from the margins and one-third will come from the OPEX optimization which will happen basically.

Abhijit Tibrewal: So, two-thirds come from margins expansion and one-third comes from OPEX.

Rakesh Bhatia: That's right.

Abhijit Tibrewal: Well, that's useful. Thanks for that clarification. And Rakesh, again, the other thing is on the cost of borrowings. I think Rajiv mentioned earlier we are expecting 8 to 10 basis points increase in the cost of borrowings this year. So, let's assume that the cost of borrowings will be higher in the first half and then lower in the second half. I am just trying to understand, have you already seen some signs of that because the last quarter basically was very, very volatile, whether it was bank borrowings, whether it was debt market borrowings. I think everywhere, wherever you borrowed, the costs were higher. So, have you seen anything in the last one, one and a half months, which is giving that confidence that maybe second half borrowing costs should turn lower?

Rakesh Bhatia: As you rightly said, the first half of or last week of March and first half of April was quite volatile. Things have settled now. And whatever incremental borrowings are happening, we are able to kind of judge the rates. And as Rajiv mentioned, across all businesses, we are increasing our disbursable IRRs to make sure that we protect the margins. So, we don't see that anything on the cost of funds which can disturb our margin expansion story and will grow the book in a calibrated way and it will be guided as per the margin which we quoted on the call.

Rajiv Sabharwal: So, just to add, I don't think so there is any upfronting or otherwise. If you look on a daily average basis, what will happen is whatever is coming due for repayment, when you are raising fresh money there, they are coming at a slightly higher cost than what they were coming at a year back or two years back. So, that is a change. So, when I am telling you 8 to 10 basis points, this is basically an average increase for the year calculated on a daily average basis.

Abhijit Tibrewal: And the last question I had was on the Motor Financing business. For the last three quarters, the disbursement mix that you put out in slide 34, the Used proportion is around 40%. So, I mean, are we finding some resistance there in terms of the market to competition or is it just temporary? And I think one of the points that you mentioned in that same slide is that price difference between new and initial price have narrowed after the GST rate rationalization. So, just trying to understand your thoughts around the Used proportion in the mix. Does that inch up from here after stabilizing for some time or this is like the max that you have from this business?

Rajiv Sabharwal: So, our strategy there is to keep Used at about 40-42% in that range. As far as the mix between HCV and ILMSCV will change. The proportion of ILMSCV will increase and the proportion of HCV will reduce. So, that is what will happen. So, that is one because of mix. The second thing which we are saying is that in each of these segments also we have increased the rates and we will get better yields from each one of them. So, a combination of better yield from each one of them and the mix change is what will get us better margins.

Abhijit Tibrewal: So, in this one last clarification, after we receive RBI approval for the acquisition that we have done in gold financing, as you mentioned on the slide, this will be a subsidiary of Tata Capital. So, after that, any plans of renaming, rebranding it or will gold loans continue to be offered under the brand of Yogloans?

Rajiv Sabharwal: So, actually speaking, the moment we get the approvals for it to become our subsidiary, it will become a Tata Capital company and that is what it will be known by. And as far as the long-term plan is concerned, we will finally consolidate this within Tata Capital.

Abhijit Tibrewal: You got it. That's absolutely useful. Thank you so much, sir, for answering all my questions and I wish you and your team the very best.

Moderator: Thank you. Next question is from Vijay Sharma from Laxmi Capital. Please go ahead.

Vijay Sharma: So, on Slide #22 where we have mentioned Affordable, Micro and LAP, so that is referring to the Affordable Housing and Micro Housing?

Rajiv Sabharwal: Yes.

Vijay Sharma: So, the rates that we have mentioned for Affordable and Micro, so Affordable specifically is 11 and 12, so which is slightly lower than what the listed peers are there in the Affordable Housing space. Is this a conscious decision taken by us, leveraging the lower cost of borrowing? Is that the way to think about it?

Rajiv Sabharwal: So, Vijay, there are players who operate at even lower than this and there are players who operate at slightly higher than this. I think our approach is to get the customers of the credit profile we are comfortable with, which do not give much of delinquency. And that's the reason we have chosen this segment. So, we obviously have the advantage of cost of funds, which helps us get to a better ROA, but it is also a choice of the nature of credit we want. Within this, Micro gives us a better yield. And in terms of our growth of business, while we are growing both of them, we will be growing the Micro more than we will be growing the Affordable in terms of growth rate.

Vijay Sharma: I mean, the Micro Is evident. I mean, QoQ, there is a 14% increase and that has increased quite faster. But on an overall basis, because as you mentioned that in the 22nd slide, that it is a high margin business and therefore you want to scale that. Because the ticket size also that is mentioned in Slide #30, 18 lakhs, is approximately slightly higher, not almost equivalent to the listed players in the Affordable segment, but the rate was slightly lower. So, that was just a clarification. In the Micro Housing but is the ticket size then significantly lower than 18 lakhs or what would be the, then because if you are saying interest is at 15 lakhs to 16 lakhs.

Rajiv Sabharwal : It's half of that, about 9 lakhs.

Vijay Sharma: Okay, understood, understood. So, what would be as a percentage of the total book or maybe of the Tata Housing book that you would be targeting this to take say two years down the line or is there a AUM or numerical target where would this whole book of which is at approximately 17,000 to say two years or three years down the line?

Sarosh Amaria: Yes, so this is Sarosh here. So, currently this book is around Rs. 1200 crores and we plan to grow it by 100% for this financial year and maybe another 50% to 60% for the subsequent year. So, that will be our growth plans for the AUM growth for Micro Housing.

Vijay Sharma: And the Affordable?

Sarosh Amaria: Combined, we will be growing at closer to around 30% in this segment between Affordable and Micro.

Vijay Sharma: Thank you. Thank you.

Moderator: The next question is from Viral Shah from IIFL Capital. Please go ahead.

Viral Shah: Yes, hi, thanks for the opportunity to allow me to get me back for the questions. Just one clarification I wanted, Rajiv, you highlighted with regards to the NIMs that you expect a 10-bps kind of an increase in NIMs from here on. So, is this basically on a full year basis or basically from say 1Q level that we are at? And secondly, does this factor in any benefit that we may get from say the potential repo rate hike if it happens given that we would be a net beneficiary with a 70% kind of a floating rate book?

Rajiv Sabharwal: So, on floating rate, things are clear that in case the rates increase, we will pass on the increase. If they drop, we will obviously pass on the drop in our cost of funds. So, we are targeting a 10 bps NIMs increase for the whole year.

Viral Shah: Okay, and you are not baking in any policy rate actions in your guidance, right?

Rajiv Sabharwal: So, we are saying that policy rates, we will be neutral to them. In case they drop, we will pass on in case they go up, we will increase. Because of the mix, we get any benefits. Again, we will we will enjoy that benefit.

Viral Shah: But isn't that typically somewhat of a lead lag effect that you typically see, right? If there is a policy rate hike, of course, you will be repricing the book, whereas your cost of funds will take time for it to inch up to the extent of the policy hike. Just I was reflecting on that.

Rajiv Sabharwal: You are right Viral on that point. It's just that it's very difficult to pencil in an increase when you don't know whether it's going to happen or not, or how much increase will happen. So, since that has not happened, we have not penciled in that in our calculations.

Rakesh Bhatia: And Viral just to supplement the other thing on our bank loans, we moved away from MCLR to Repo and T-bills largely. And our assets on the asset side, all our floating loans are linked to our PLRs basically. So, to that extent, we time it and we make sure that there's no negative drag which comes on this.

Viral Shah: Got it. That clarifies a lot. And just a second clarification, Rajiv, I just wanted. On the OPEX front, you did call out that adjusted for the appraisal cycle change, it was a 16% kind of an increase. What is the kind of, say, operating leverage that we anticipate, I would say, for this year? I know you have given FY28 guidance. And if you could give that on more on, say, the cost-to-asset basis, that will be quite helpful.

Rakesh Bhatia: I think for, as Rajiv mentioned, from here to FY28, the incremental ROA delta will come one-third from OPEX Viral and two-third from the margins. From here on till for the year end, I think it'll be like 3 to 4 bps, which will come on the OPEX as we look at reducing cost income sequentially.

Viral Shah: Got it. And that's very clear. Thanks a lot.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference over to the Management Team for any closing comments.

Rajiv Sabharwal: Thank you so much. I think the year has started off very well with the 1st Quarter. If you ask me, usually we do not see such a good 1st Quarter. It's been good on all aspects, on growth, on operating leverage, and on credit costs. I think on all fronts, it's been a very good quarter. And a good quarter is helpful in many ways because that book, if you are able to create a good book growth in Quarter 1, it remains with you for the whole year. So, it's accretive on the income side.

The second thing, I think we have started seeing a very good advantage from the deployment of AI in a number of projects which we have done. We have this time tried to list out the benefits which we are getting in our Investor Presentation. We also believe that the addition of gold loans is the right product which will help us in both on the growth side as well as on the margin side.

With things looking very good on all segments, Housing, Retail, SME and Corporate, we are fairly, I would say, optimistic on meeting our guidance which we have given to the market.

We would like to thank all of you for all the support which you have given us. I would also like to thank a lot of you who, when you meet us, tell us what more we can do and how we can become better. All of this is beneficial to us.

And I would like to thank Ambit for arranging this call and everyone here for joining in and supporting us. Thank you very much.

Moderator: Thank you very much. On behalf of Tata Capital, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

Note

This transcript has been lightly edited for clarity and accuracy.

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