“Tata Capital Limited

Q2 FY27 Media Conference Call”

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MANAGEMENT: MR. RAJIV SABHARWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TATA CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Tata Capital Q2 FY27 Media Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on touchtone phone.

I now hand the conference over to Mr. Rajiv Sabharwal, Managing Director and CEO of Tata Capital. Thank you and over to you, sir.

Rajiv Sabharwal: Thank you very much. Good evening, everyone, and thank you for joining us. Let me start with the macro environment. The Indian economy continues to demonstrate strong fundamentals and broad-based momentum despite external headwinds. GDP grew by 7.8% in the first quarter of FY27, supported by healthy investment activity and steady private consumption.

Credit demand also remained resilient during the second quarter. At the same time, we remain watchful of inflationary pressures arising from food and energy prices, geopolitical developments in West Asia, and their potential implication for consumption and interest rates.

Following the RBI's 25 basis points repo rate increase in October and the gradual recalibration of system liquidity, we expect funding conditions to become less accommodative. Nevertheless, India's growth drivers remain supportive and we continue to see an environment supportive of credit growth.

Turning to our performance, consolidated AUM crossed the INR3 lakh crores milestone and stood at INR3,08,030 crores, growing at 26% year-on-year and 6% sequentially. If we exclude the motor finance business, the AUM grew by 32% year-on-year. Profit after tax stood at INR1,660 crores for quarter 2, increasing 51% year-on-year and 7% sequentially.

The return on assets stood at 2.3% and excluding Motor Finance, it was 2.5%. Our ROE crossed 14%. Asset quality remained resilient. Gross Stage 3 assets were stable at 1.9%, while the provision coverage ratio improved to 59%. The annualized credit cost declined to 0.9% in Q2 over 1.0% in Q1.

Retail and SME businesses remain central to our strategy and account for approximately 85.4% of the consolidated AUM, providing a diversified, granular, and resilient portfolio. Disbursements across our high-margin businesses grew by 40% year-on-year, while AUM growth increased to 14%, up from 10% in Q1, while maintaining healthy yields.

Tata Capital Housing Finance continued its strong trajectory. The AUM at Tata Capital Housing Finance reached INR95,098 crores, increasing 26% year-on-year and 6% sequentially. The profit after tax for quarter 2 at Tata Capital Housing Finance stood at INR552 crores. Return on assets was 2.5% and ROE was 18%.

We also added 23 locations across affordable and micro-housing during the quarter, further deepening our presence in under-penetrated markets and supporting greater portfolio diversification. Our branch network now is approximately 1,515 branches across 1,094 locations in 26 states and union territories. Supported by our digital model, we serve more than 9.2 million

customers. Our expanding distribution, digital, and data capabilities position us to deepen customer relationships, improve accessibility, and pursue growth opportunities efficiently.

Our AAA rating continues to support a diversified and stable funding profile. Total borrowings stood at approximately INR2.61 lakh crores, while available liquidity was around INR36,400 crores. The cost of funds marked increased marginally to 7.33% from 7.28% in the previous quarter. In response to the evolving interest rate environment, our ALCO approved a 20 to 25 basis points increase in prime lending rates on the floating rate portfolio. This repricing is expected to support an improving NIM plus fee trajectory in quarter 4.

Operating efficiency continued to improve with cost-to-income declining by 438 basis points year-on-year to now 35.3%. Consolidated AUM grew 26% year-on-year compared with a headcount growth of 6%, demonstrating improved productivity, scalability, and operating leverage across the organization.

Technology and AI remain integral to our operating model. Today, 99% of our customers are digitally onboarded, 98% of retail disbursements are supported by scorecard and business rule engine decisioning, and 99% of our collections take place through digital channels. AI is increasingly embedded across customer acquisition, underwriting, operations, servicing, and collections. These initiatives are helping improve turnaround times, strengthen risk monitoring, enhance customer experience, and lower the cost of servicing.

On the regulatory front, we continue to engage proactively with regulators and industry bodies. On revolving credit, FIDC, the SRO has submitted its recommendations to RBI and we are also evaluating alternative product structures to mitigate any potential impact.

On insurance, the proposals are still at a draft stage and industry consultations are ongoing. It is therefore premature to quantify the impact. Insurance remains an important risk cover for our customers and integral to our underwriting, and we will have greater clarity once the final regulations are issued.

To conclude, quarter 2 FY27 delivered healthy, diversified growth, resilient portfolio quality, and disciplined execution, supported by strong capital, diversified funding, and continued investment in distribution, technology, and AI. We remain focused on building a larger, stronger, and more resilient financial services franchise and are confident of delivering on our guidance and creating long-term value for our stakeholders.

With that, we would be happy to take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Shrishti Sharma from ET BFSI. Please go ahead.

Shrishti Sharma: Thank you. Good evening, everyone. Mr. Sabharwal, while you have already addressed the revolving credit part, I would request you if you could elaborate more on, what is the path you would be taking in case the draft norms come out the way they are. To add, your peers have already announced launching of some new loan variants, as a backup to the fact that revolving credit might be re-banned by RBI given your exposure is somewhat below 5%.

Rajiv Sabharwal: So, first of all, we continue to engage with the regulator on this. They have also been seeking feedback from everyone on the nature of products, the markets which they are serving, and the benefits to the customers. Actually, an overdraft product is something which is very beneficial to the customer because it allows the customer to pay only to the extent he or she borrows. We looked at a lot of products which do come here and some of these products, for example, supply chain, loans against securities, have been in existence for more than 30 years in the industry.

So our belief is this that the regulator is taking into consideration all of these aspects and then will come out with the necessary guidelines. Obviously, whatever guidelines they come out with, we will be fully compliant with the same. As far as we are concerned, we have looked at some alternate products which can help meet the needs of the customers.

Some of these products we have already piloted in the market and the others we expect to do in the coming month. we do believe this will not have any significant impact over a period of time, but we will wait for the regulations to come in and we do believe that the regulations will take into account the needs of the customers as well as the necessary regulations the regulator has to adopt.

Shrishti Sharma: But would you already be cutting down on your exposure to revolving credit since you said you are already piloting some of the products and more would be going live very soon. So, does that mean you will be cutting down the exposure even before you hear on the final norms?

Rajiv Sabharwal: So, as far as we are concerned, this is not a very large proportion of our business. we have looked at complying with the regulations and since it's not a very large proportion of our book, we have not cut down on anything. However, we have also looked at what alternate products could exist in the market to take care of the impact. Like for example, in personal loans or business loans, they are not a dominant portion of our disbursements.

Shrishti Sharma: Sure. You already talked about IRDAI's distribution norms and that you cannot quantify the impact. while that's there, could you talk about what could be your alternative source of fee income in case these norms also pan out because one would really think about what the strategy could end up being in case something of this sort comes in the final place as well.

Rajiv Sabharwal: Thank you. So, we have looked at different possibilities. Number one, we look at how we can also look at selling the retail product in insurance. That is something which will, be good for the customer and also give us the relevant margins. The second point, but before that, I just want to say that insurance is a good product for a customer who's taking a loan. It protects him or her in any eventuality or loss of income or in case there are challenges on the health side.

So, it is a good product and we always advise customers that in case they do not have, an existing insurance, they should look at the possibility of taking an insurance and evaluating the pros and cons. And we have seen so many customers who have benefited because of the fact that they had an insurance.

So besides looking at retail lines of business, we do believe there is an opportunity for looking at how we can, mitigate the impact of this loss of income through our NIMs and fee income. So we will look at the possibility of using NIM, fee income as well as becoming more efficient on

cost to mitigate the impact of this. However, as I mentioned before, it is too early to talk about this. The engagements are on and we do hope that the final policy will be something which will look at not only the benefits of the person who's looking at the insurance, but also consider the costs involved in selling this insurance so that it balances on both sides on the distribution cost as well as the benefits for the customers when the final policies come out.

Shrishti Sharma: Sure. Thank you.

Moderator: Thank you very much. The next question is from the line of Manju from Financial Standard. Please go ahead.

Manju: Good evening. Can you hear me?

Rajiv Sabharwal: Yes, Manju. We can hear you. Good evening.

Manju: Yes. just wanted to ask you like what portion of your credit book would be gold and what is the LTV ratio and since the gold prices are falling, is there some new underwriting norms that you are putting in place in case, there are some delinquencies. Of course, there is no it's a stable book only, but in case.

Rajiv Sabharwal: So, Manju, we do not have a gold portfolio at this point of time. Our organic business should start in the coming month with the launch of that business. So currently, we do not have a portfolio in this.

Manju: Okay. And I just wanted to know the revolving credit would be what portion of your total book, the revolving credit?

Rajiv Sabharwal: So, we had mentioned earlier that revolving credit, based on the interpretation, has a number of products in it. We had looked at this portfolio and when we had done an evaluation to look at what could be the impact in case the guidelines come as they are and what we will not be able to convert into a standard term loan, that impact for us was coming at 3% to 4% of our AUM.

Manju: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Ram Kumar from Hindu Business Line. Please go ahead.

Ram Kumar: Hello. sir, you said that your ALCO has approved the increase in lending rates by 20 to 25 basis points. what is the reason for this? Is it because banks are increasing their MCLR, that is kind of, you are trying to pass it on? What is the outlook actually for the interest rates, lending rates and borrowing costs?

Rajiv Sabharwal: See, if you look at what the market has been talking about, the market has been saying that besides this the 25 basis points repo increase which has happened, there could be an increase of about 50 basis points in the rest of the year. But obviously, we will need to watch as things play out. For us, part of our liabilities are linked to repo rates and other floating rate benchmarks and when those benchmarks increase, then to that extent our cost of fund also goes up.

Just to give you a sense of our liabilities and assets, our floating rate liabilities are 48% of our total liabilities and floating rate assets are about 66% of our total assets. So structurally, we are very well positioned so that in case there is any increase in interest rates, we will be able to look at its impact on our cost of funds, change the PLR and pass on the impact because of which it will not in any situation be a drag on our cost.

Ram Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Subhana Shaikh from Mint. Please go ahead.

Subhana Shaikh: Hi, sir. Good evening. I wanted to ask what is the sense that you are getting on festive demand right now? Are you seeing, what kind of signs are you seeing on festive demand and on the rural side, are you seeing any stress there? Some of the lenders have flagged concerns on the rural side because of the drought situation. I wanted to understand what is your sense on that?

Rajiv Sabharwal: So, actually, if you look at the demand it is quite buoyant, I would say. We do get a sense from a few areas. First of all, in this period, you see very good two-wheeler sales and PV sales happening and we are clearly seeing that demand on the vehicle side, similarly on the commercial vehicle side also there is a strong demand. We are also seeing the impact of increased demand from dealers in their supply chain requirements.

So I would say the festive demand is strong in all of these products. and obviously, we will be we continue to watch this, but that that is what the sense which we are getting. As far as rural markets are concerned, I think at this point of time, there is some bit of lag or let me say, growth rate which is slower in rural markets compared to the urban markets.

However, we have very limited presence in the rural markets. We are not into tractor finance or agri farm loans. The only business which we have in the rural markets is microfinance, which is actually showing an improving asset quality trend and an improving growth rate. So we are not seeing any challenge on the rural side. It's also because of the fact that we have very limited presence in the rural markets.

Subhana Shaikh: Sir, can you give a guidance on your loan growth for FY27?

Rajiv Sabharwal: So, we have communicated in the past that we should be growing at about 23% to 25% for the year as well as, over the '25 to '28 time period. So we do believe that we will be within the range which we have stated of 23% to 25%.

Subhana Shaikh: Okay. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I now hand the conference back to management for closing comments. Over to you, sir.

Rajiv Sabharwal: Thank you very much. I think it's been an excellent quarter for us. We have seen very strong growth of 26%. The good part is that this growth has been across segments, whether it is housing, retail, SME, or corporate, it's been across all segments. Since we have created a model which

has a very balanced outlook on liabilities in terms of our composition, we have seen minimal impact in quarter 2 on the cost of funds.

Our operating leverage and our investments in digital and AI is playing out very well with cost to income dropping significantly. And as always, our credit quality remains the best across the NBFC industry and it has only got better in this quarter. So overall, an excellent quarter. We are looking at very positively towards growth for the rest of the year too.

Moderator: Thank you. Ladies and gentlemen, on behalf of Tata Capitals, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note

This transcript has been lightly edited for clarity and accuracy.

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